PLATINUM CAPITAL LIMITED

ACN 063 975 431

Quarterly Report

30 SEPTEMBER 1999

Performance

Japan was the stand-out among the large markets again this quarter, rising by over 18% and Europe by nearly 3%, whereas Wall Street fell by close to 5%. Emerging markets fell out of favour having been strong the previous quarter. The net result left the MSCI World Index down by 0.1%. The company's large Japanese exposure and shorts paid off with a post-tax return of 4.9% for the quarter.

The following Net Asset Value figures are after provision for tax on both realised and unrealised income and gains.

NET ASSET VALUE

31 July 1999	125.92 cps*
31 August 1999	125.24 cps*
30 September 1999	126.28 cps*

* This is after making provision for the 6 cent final dividend paid 2.11.99.

Currency

Presently 49% of assets are hedged into A$, 25% remain in the Euro, Pound and Swiss Francs, 20% in Yen and the balance, 6%, in US$ and related currencies.

Changes to the portfolio

The main changes this quarter related to our holdings in the US and Europe with the increase in holdings in the US related exclusively to the purchase of a group of companies involved in Enterprise Software. This solution is used by companies to manage various aspects of their business such as accounting functions, manufacturing operations, and human resources. With one exception, each of these companies has fallen to a fraction of its former peak price on concerns of a sharp slow down in growth following the boom in preparation for the millennium bug. The reality is that Y2K related spending artificially bloated their results in earlier times, and investors are now over-reacting to the inevitable slowdown. However, if e-commerce is to be the reality many of us believe, the importance of these companies in providing web enablement is paramount. The companies accumulated include Peoplesoft, i2, JD Edwards and Baan (in Europe).

Conversely, the de-weighting in Europe stemmed from the sale of companies that had reached our price objectives, namely ICI and Deutsche Bank while drug pipeline problems at Hoechst and a change of business strategy at Scapa encouraged us to remove these holdings.

Within the Japanese portion of the portfolio, we added Nippon Electric Glass which is presently being adversely affected by the twin concerns of substitution of cathode ray tube (CRT) monitors by liquid crystal displays (LCD) and the strength of the Yen. This is the world's premier producer of the technically stringent glass shells used in CRT's with over 30% of the market. Even with substitution, its underlying market should grow by 4% per annum. We also added to our holdings of broadcasting stocks

TOP TEN HOLDINGS AS AT 30 SEPTEMBER 1999

STOCK	COUNTRY	INDUSTRY	% HOLDING
Sony	Japan	Electronics/Entertainment	3.4
Suzuken	Japan	Pharmaceutical Wholesaling	2.8
NTT Mobile	Japan	Mobile Telephony	2.7
NTT	Japan	Telecoms	2.7
Mikuni Coca Cola	Japan	Bottler	2.6
Siemens	Germany	Electrical Engineering	2.6
Peoplesoft	US	Software	2.3
Alcatel Alsthom	France	Telecom Equipment	2.2
Nikko Securities	Japan	Securities	2.1
WPP	UK	Advertising	2.0
TOTAL			**25.4**

DISPOSITION OF ASSETS (%)

	30 SEP 99	30 JUN 99
Japan	39.9	40.7
Western Europe	27.8	32.7
North America	13.4	6.8
Other Asia	6.2	8.0
South America	0.7	0.9
Australia	0.6	1.9
Russia & Eastern Europe	0.3	0.3
CASH	**11.1**	**8.7**

on the basis of their low valuations and prospects for much improved profits as the advertising cycle recovers with an improving economy. The unchanged weighting in Japan comes from sales of Tokyo Electric Power, Trans Cosmos and Intec. Several of our holdings in Korea reached very high valuations and we chose to cut our net exposure for this reason and because of concerns about the financial stresses within the economy emanating from over-leveraged *chaebols*. We established a small position in Samsung Corporation which has the prospect of becoming an important on-line shopping mall.

Commentary

The present strength of the Japanese Yen highlights the tensions within the world economic system. There is an imbalance between the savers (Euroland and Japan) who are growing too slowly, though accelerating, and the spenders (mostly the US) who are growing too fast. This however is not apparently the whole story as the Euro (currency) is not showing the strength that is apparent in the Yen. It has in fact given little corroborative support to the indicators which show stronger Europe-wide growth. One explanation for this may be the selling down of overseas holdings by the Japanese and continued investment by foreigners into Japan. The relative problem of "under-consumption" by the Japanese shows up in its still immense trade surplus where exports are holding pace in value terms with strong imports, whereas the Euroland figures are relatively less extreme. Either way, these currency pressures are causing investors to challenge earlier assumptions.

We had been forming the idea along with many other participants, that the world was entering a period of converging growth with the recovery in Europe becoming more robust, Asia stabilising, and the US faced the prospect of very tight labour markets and the likelihood of rising interest rates. After the initial surge in economic-sensitive stocks back in April, they have surrendered most of those gains and continue to drift off. This may suggest that the market is less confident about this scenario. However, this weakening tendency may simply reflect the reality that liquidity is now returning to its source, Japan and Europe, and perhaps into real economic activity. Seemingly, this is removing the lubricant from stock markets, and Wall Street in particular.

On the subject of Wall Street, we can find nothing to alter our underlying view that many companies are very expensive and will probably fall short of expectations. As we have noted in earlier correspondence, the market has systematically migrated from one set of favourites to another with the last bastion of hope being the information technology sector. Two years ago we wrote about the over-valuation of the very highly rated consumer stocks such as Coke and Gillette and these indeed have subsequently been weak performers with their prices having gradually drifted down by over 35%. Likewise, we have accepted some aspects of the new paradigm but we still have immense problems with present valuations. For example, the NASDAQ 100 index, which incorporates such illustrious names as Microsoft, Cisco, Intel and Amazon, is trading on over 100 years estimated 1999 earnings. The beauty of this sector is quite clearly its growth but equally this is achieved in a highly unstable business environment where new competitors can ambush the market with complete surprise. A most interesting example of this element of opportunity and surprise comes from Cisco paying $6.9 billion for a two year old start-up, with virtually no sales, which has developed clever mathematical solutions in the field of routing.

In an environment where the leading market is under threat, investors are likely to face weakening prices in equity markets in general. Underlying economic conditions do, however, seem much more robust than this time last year when a similar risk arose and in the case of the European and Japanese markets, many of the companies we own have continued to restructure and are closer to achieving strong profit growth.

When examining developments at an industry level, it is clear that globalisation continues apace. To gain greater market leverage (critical mass) or entry into new markets, firms are merging on a grand scale. This quarter witnessed further amalgamations in telecommunications, notable were the US telecom carriers seeking to gain the full gamut of services; long distance, local and cellular. The air separation business saw Air Liquide and Air Products bid for British Oxygen Company, which was followed by Linde acquiring AGA while continuing its talks to acquire the majority stake in Messer-Gresheim from Hoechst. Volvo (now mainly a truck maker having sold its car business earlier to Ford), reached agreement to acquire its former Swedish rival, Scania, and subsequently agreed to establish a partnership with Mitsubishi – giving it better coverage in Asia.

Retailing is seeing the same transitional evolution with WalMart, having acquired Asda, one of the UK's top super-and hyper-market retailers, turning its attention to adding further outlets in Europe. This was followed quickly by Carrefour merging with Promodes to make it second in sales volume to WalMart, worldwide.

These developments suit the positioning of the company. In telecoms it is good news for the likes of GTE, NTT, Korea Telecom and OTE with their broad offerings of fixed line and mobile. It also underlines the remarkable value in NTT with its control of some 85 million phones, 25 million of which are mobile and indeed its almost impregnable position in the world's second largest economy. Further it gives a hint of the fate of local carriers like OTE with its dominant position in Greece and emerging interests in the Balkans. Likewise, Linde should benefit from fewer competitors in its air separation business, while its highly profitable related businesses will gain from stronger world growth. The WalMart move has important implications for our holdings in Rinascente, which is effectively controlled by the private company, Auchan. The latter is believed to have had talks with WalMart. It also benefits Continente and Hornbach. The latter has adopted an aloof posture to potential suitors but as the German economy continues to recover it should produce superb returns: throughout the last three years of dreary economic performance, Hornbach has continued to aggressively add to its number of stores which has burdened profits with immature stores and high depreciation. Even if the company continues to reject the advances of suitors, we believe that the share is trading at 50% of its intrinsic value.

Conclusion

We believe that the company has a sound balance of exposure both by industry and geography. There are large positions in fast growing and fast changing areas such as telecommunications and IT and yet it also has an array of companies that will benefit from stronger world growth. More importantly, these category of companies are not pure price-takers such as commodity producers. The significance of this lies in our belief that neither inflation nor growth will reach such levels as to create shortages which would reward highly levered entities such as the commodity producers. Having said that, the consolidation in many of these commodity producing industries has significant structural implications for profits. Another issue to be closely watched is the relative movement of input costs (so-called producer prices) and sales revenue. In some industries there is evidence of a growing squeeze.

We retain our short position on Wall Street on the basis that it is the market that is most susceptible to downward revaluation and that such an event would have a damaging consequence for most equities. Cash levels will oscillate according to the opportunities we find.

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