PLATINUM CAPITAL LIMITED

ACN 063 975 431

Half Yearly Report

31 DECEMBER 1999

FOR MORE TIMELY COVERAGE OF INVESTMENT MARKETS, WE HAVE SEPARATED THE INVESTMENT MANAGER'S REPORT FROM THE HALF YEARLY FINANCIAL STATEMENTS. THESE SHOULD FOLLOW SHORTLY.

Performance

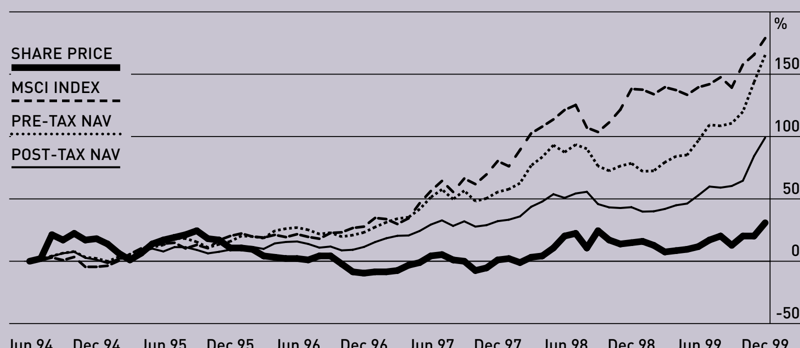
World share markets had a dull start from July through to September, suffered their "traditional dip" in October but then recovered to end the year on an exceptionally strong note. A notable feature was the performance of the emerging countries such as Brazil and India - which rose over one third in A$ terms in the six months, indicating investors' willingness to assume greater risk in recognising these countries' improved prospects in a strongly growing world. Among the large markets, Japan again excelled rising by 36%, followed by Canada 32%, France 30%, Germany 28%. Led by its heavy weighting in Information Technology shares, the S&P managed an 8% gain.

Platinum's investments have done well in this period rising by 24% and outpacing the MSCI World Index by 7%. This strong performance was achieved, despite a 25% short position on Wall Street and was a function of concentration on specific industries and the geographic distribution of assets.

NET ASSET VALUE	
31 October 1999	123.61 cps*
30 November 1999	138.42 cps
31 December 1999	149.58 cps

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

PCL NAV (PRE & POST-TAX), SHARE PRICE VS MSCI INDEX (CUMULATIVE RETURN)



Currency

Presently 48% of assets are hedged into A$, 21% remain in the Euro, Pound and Swiss Franc, 16% in Yen and the balance, 15%, in US$ and related currencies.

Changes to the Portfolio

GEOGRAPHICAL DISPOSITION OF ASSETS (%)

	31 DEC 99	30 JUN 99
Japan	36.6	40.7
Western Europe	25.0	32.7
North America	14.2	6.8
Other Asia	11.2	8.0
South America	0.5	0.9
Australia	0.5	1.9
Russia & Eastern Europe	0.4	0.3
CASH	**11.6**	**8.7**

BREAKDOWN BY INDUSTRY as at 31 December 1999

CATEGORIES	EXAMPLES OF STOCKS	% HOLDING
Software and Media	Nippon & Tokyo Broadcasting, Novell, JD Edwards, PeopleSoft, i2	19
Telecoms	NTT, DDI, DoCoMo, SK Telecom	16
Technology	Toshiba, Samsung, Kyocera	12
Consumer Brands	Lotte Confectionary, Unilever, Pernod	5
Consumer Durables	MEI, Citizen Watch, Nippon Electric Glass	7
Financials	Lippo, Toro	6
Engineering	Sekisui Chemical, Siemens	8
Medical	Acuson, Draegerwerk	5
Commodities	Great Lakes Chemical, RMC, Akzo	4
Retail	Douglas, Hornbach	3

The challenge over the period was to take advantage of the exponential rise in share prices of "new technology" stocks whilst at the same time not loosing sight of the need for companies eventually to establish fundamental value. Fortunately PMC has been well represented in the Information technology and telecommunications sectors from an early stage. As the share prices of many of these companies have doubled or more over the past twelve months, often on changes of perception rather than corporate development, PMC has gradually taken profits and reduced its exposure to companies such as Do Co Mo, DDI, Ericsson and Alcatel. A particular case in point is i2 where the share price has risen from $34 last July to its present level of $200 per share and PMC has been steadily selling since it rose above $90.

There are times though when despite great excitement, unusual investment opportunities emerge. A case in point was SK Telecom in Korea. As Korea's leading mobile telecom carrier, it was languishing under heavy selling pressure from forced liquidation by a well-known hedge manager. This technical factor, plus well-aired concerns about the behaviour of its parent, were upper-most in investors' minds. It was our appraisal that the issues were transient and the concerns exaggerated, particularly when evaluated against its dominance in mobile, with a market share of 42%, represented by some ten million subscribers. Compared with similar businesses elsewhere, it was a fraction of its appropriate valuation. This has been partially rectified with the share having trebled in the intervening three months, though it still is not expensive. It is for this reason that our exposure to telecoms remains high notwithstanding some significant culling of existing holdings.

To the extent that we look at the portfolio on a geographic basis, it might be described thus: information technology holdings are concentrated in the US, telecoms in Asia and cyclical type of companies in Europe. As we have sold down the telecom equipment companies (Ericsson and Alcatel) we have been adding the likes of Akzo, Bayer, Linde and Stinnes. These companies are deeply unfashionable at present but nonetheless have dominant positions in parts of their various businesses, have a history of continuous growth, even through the recession of recent years and continue to work assiduously on their costs and asset utilisation.

We see Euroland entering one of the most positive cycles in recent history as increasing attention is being paid to supply-side reforms now that member countries no longer have individual control of their interest rates and exchange rates. Government retrenchment has ceased and traded goods prices are no longer falling.

Importantly the service sector faces significant price erosion with costs of electricity and telecom services falling significantly. This will keep downward pressure on general price levels. Further, credit reflation, rising optimism and surging exports, aided by a weak Euro, will allow economically sensitive companies that were on the receiving end of deflationary pressures to benefit over the next two to three years.

While investors' eyes have been attracted to the excitement of Internet and related IT stories, traditional manufacturers in Europe have languished. The expansionary phase may not be over for the tech sector but nevertheless some of the most interesting values lie in the pure price taking companies, generally commodity producers of steel and other metals. However we prefer companies such as Akzo, Bayer and Linde which have greater ability to differentiate their products and which hold major strategic positions in their various market segments.

Commentary

Investors with broad market experience will probably find this to be the most exuberant bull market in memory. The narrowness of the advance, being led by the technology shares; plentiful credit; the excitement of the new paradigm with its seemingly boundless opportunities, sufficient to dull one's critical faculties; the alchemy that allows newcomers to create fortunes almost overnight and the willingness of investors to pay up for promise, on the basis that it is different this time, all point to a classic bubble.

Consider for example in 1991 Microsoft was well recognised as an exciting company with a virtual monopoly in the fastest growing industry in the world. Its market capitalisation was $10 billion on annual sales of $1.8 billion and net profits of $462 billion. In 2000 i2 mentioned above, is capitalised at $16 billion on projected annual sales of $850 million and profits of $80 million.

Jonathan Wilmot, a global strategist with CSFB, puts it well "... factoring the technology revolution into stock-price performance is not a question of tidy, sensible valuations, but rather a chaotic discovery process that will eventually sort-out a relatively small number of huge winners from the hopeful crowd". He then takes readers through the economics of winning technology companies with s-curves and steep start-up hump curves and so-forth, which indeed is the way of the e-world. What none of us can know is when expectations exceed what is likely to be delivered.

The same sort of problem prevailed in the early 1970s during the "Nifty Fifty" bull market. This group of branded goods and information technology companies outperformed the general index for 5-6 years and peaked in mid-1970 yet their combined earnings continued to rise faster than the market average for the subsequent 17 years!! Some of the super heavy-weights of that era such as Disney and McDonalds achieved earnings growth of twice that of the S&P index over the subsequent 27 years and yet still underperformed the market over that period!! In short, it is not so much the potential of the present era that is the question, but the price we should pay for the promise.

The concentration of assets and flows into the hands of leading fund managers is accentuating price movements. Strange as it may seem to lay investors, once a company has a capitalisation in excess of US$10 billion, it attracts the interest of large cap managers. This factor is made all the more important when a stock is included in the index against which they are measured. There tends to follow a buying splurge as these managers seek to re-weight their portfolios to include the new entrant.

Having said all of the above it remains likely that the scale of the

opportunity, the sheer excitement of the daily announcements and the plentiful supply of credit will lead to further advances on Nasdaq, probably after a short period of indigestion. How do we participate? The nature of the present market tends to reward slow sellers but our predilection for allowing a margin for error and trying to identify factors that are not common currency does test our mettle. Hence we are re-entering segments of the "old economy" that will not necessarily surrender their share of the cake - to the benefit of the "new economy" - and indeed will continue to earn attractive returns on capital employed. Over the coming months we are likely to build these investments at the expense of those IT and telecom stocks that have risen to such extreme valuations.

Conclusion

It seems highly likely that world growth will be very strong this year even if somehow the US consumer retrenches. Interest rates will rise which together with high valuations and fluctuations of currencies will destabilise share markets. These and other factors we have alluded to in earlier notes should encourage investors to take defensive positions.

Stock Story - Linde (Germany)

As has been noted in the above text and in earlier correspondence, the glitter of the new internet world has mesmerised investors. There are swathes of companies in the "old economy" which are unlikely to be harmed by e-commerce and yet have tended to be dull stock market performers. Linde is such a company and has a history of above average earnings growth during a period of difficult economic circumstances in its principal markets.

When describing the underlying divisions, one is at a loss to make them sound fascinating. Linde's main business is industrial gases. This involves separating air into its component parts of nitrogen, oxygen and argon via cryogenic fractional distillation or, more recently, the use of clever membranes. Once separated, the gases are either piped to large customers, transported and stored in liquid form for smaller users or indeed distributed in steel bottles to smaller users still. The business tends to grow at twice the pace of the economy and as old uses such as oxygen feed to steel plants decline in importance, new uses such as the purification of waste water emerge. Other examples of new applications include preservation of food and the use of the rarer gases in the manufacturer of semi-conductors.

The attraction of this business is the global concentration that is taking place. Linde is now the second largest air-separation company in Euroland, following its acquisition of the Swedish company AGA and it is negotiating to acquire Messer which will take it to the position of number two worldwide. Though heavily concentrated in Europe these acquisitions/mergers bring considerable economies and vastly enhance the company's longer term strategic standing. Savings are made through combining depots, sharing existing pipelines, optimising research and so forth.

The merger also brings a deeper set of skills, such as a membrane technology from AGA, and broader geographic coverage. AGA for example, is the largest player in Latin America. The most important outcome from combining these companies including Messer is the prospect of reduced competition. Both AGA and Messer, who like Linde have been investing heavily, have tended to aggressively cut prices in order to improve the loadings of recently erected plants.

The group's second largest division manufactures and distributes fork-lift trucks. It is ranked number one in the world with sales 50% larger than the likes of Nacco and Toyota. This industry too has seen massive consolidation with Linde itself acquiring six companies since 1989. The business has consistently produced profits, though they are cyclical. Helping to smooth out the business cycle is the move to outsourcing. Here firms rely on suppliers like Linde to own and manage the fleet under long-term fleet management agreements. The company continues to improve its geographic reach with, for example, a joint venture in China. This factory will also target export markets in South East Asia.

Linde's other two businesses are engineering and contracting, and refrigeration. These have become less important as industrial gases now account for 75% of profits and will be even more prominent if the merger with Messer proceeds. However, they are both strong global businesses which have entrenched themselves through their commitment to R&D and global sourcing.

When investors resume the search for underlying value, companies like Linde will benefit. It is relatively inexpensively priced, in fact cheap by historic standards, especially as it now has a stronger commercial position than ever in the past. Profits are likely to accelerate as the European economy gathers momentum and as plant loadings rise and as competition diminishes.

Platinum Capital Limited
Level 21, Gold Fields House, 1 Alfred Street, Sydney NSW 2000
Telephone: 61 2 9255 7500 Facsimile: 61 2 9255 7555
Email: platinum@platinum.com.au Web: http://www.platinum.com.au

Platinum Asset Management does not guarantee the repayment of capital or the performance of the Company.