PLATINUM CAPITAL LIMITED

ABN 51 063 975 431

Half Yearly Report

31 DECEMBER 2003

Performance

Share values have been buoyant world wide. The usual country-by-country variations were significantly magnified in US dollar terms, depending largely on whether individual currencies floated freely or were fixed against the weak US dollar.

Investors rediscovered their pro-cyclical appetite for risk after fears of war and a SARS epidemic subsided at the end of March. This benefitted both volatile industries and emerging country markets. Latin America and Asian indices advanced strongly with extremes like Brazil rising by over 97% in local currency and 142% in US$ terms. The overall MSCI was up by 33.1% for the year in US$ terms, though actually down in A$ by 0.5%. For the last quarter, the respective numbers were 14.3% and 2.7%.

The adjacent table shows the performance of the MSCI by industry categorisation. The figures are expressed in US$ to remove the flattening effect that would result if expressed in the strong A$. Staples, Health Care and Utilities were regarded as uninteresting as investors went careering after areas like Telecommunications and Industrials. The expansion of Chinese-led consumption of raw materials boosted both the mining component of the Materials category and Energy.

Platinum Capital did reasonably well for the quarter rising by 3.0%, while for the year it rose by 17.6%. We partially ameliorated the adverse consequences of a rising Australian Dollar through our currency positioning.

Our stock selection was sound and the volatility of markets enabled us to take good profits on some shares which rose unreasonably sharply and to reinvest in laggard areas where we see good value.

Our share hedging activity cost money but the damage was limited as our major shorts were against US financials that were market under-performers. We continue to be deeply suspicious of what we categorise as "earnings manipulators".

NET ASSET VALUE (CPS)

31 October 2003	162.08
30 November 2003	162.67
31 December 2003	164.96

Source: Platinum

MSCI WORLD INDEX – INDUSTRY BREAKDOWN (US$)

SECTORS	QUARTER	1 YEAR
Materials	22.8%	35.9%
Energy	17.4%	22.9%
Telecommunications	16.4%	22.8%
Financials	14.9%	35.5%
Industrials	14.7%	35.9%
Consumer Discretionary	14.4%	35.7%
Information Technology	12.1%	47.7%
Utilities	11.9%	23.9%
Health Care	10.1%	18.0%
Consumer Staples	10.1%	14.7%

Source: FACTSET

Currency

As the quarter progressed we reduced our hedge into the A$ in favour of Yen and Euros. We continue to have close to zero US$ exposure, though we are mindful of the fact that it has virtually no supporters.

Shorting

We added cautiously to our existing positions and introduced shorts on very highly priced tech names such as Intel and PMC Sierra.

Changes to the Portfolio

Platinum Capital's overall geographic weightings have not changed much but the market sector emphasis has shifted. We used the recent weakness in the Energy sector to build positions in oil stocks such as Shell, Suncor and Yukos. Some believe that the oil price will slide very sharply once Iraq's production is up to full capacity, but we take a more moderate view and suggest that the often quoted base price for crude of US$16 is too low. All our work points to production disappointments and many companies failing to replenish their reserves.

Suncor offers an interesting alternative to the majors on account of it extracting oil from the oil sands of Alberta. It fully covers its costs at around US$16 per barrel and produces huge cash flows at higher prices.

Shell has now been relegated by the market to "has been" status which we find intriguing given the company's pioneering work in liquefied natural gas (LNG) and its ability to exploit its considerable reserves. It is also at the beginning of the development of a 140,000 barrel per day gas to liquids project in Qatar.

The feud between the Kremlin and management of Yukos severely dented its share price and offered us opportunistic exposure to some significant Russian fields. We accept that the risks are difficult to assess on account of the political content of the dispute; quite apart from tax fines there is the prospect of some licence forfeiture. The upside, however, is enticing.

We have sold our successful investment in Inco (nickel) and have built in its place a holding in Noranda. This Canadian-based mining house has a chequered history but attracts us on account of its low valuation, its recent change of emphasis and its exposure to base metals including unfashionable zinc.

In Japan we exited Matsushita Electric Industries and reduced NTT to acquire interests in Ajinomoto, Fuji Photo and OKI Electric. Building off a base of a strong domestic branded foods business, Ajinomoto is now the dominant global player in feed-use amino acids.

Growth in these feed supplements is being accelerated by pollution and disease considerations in intensive farming regions like Europe, and by cost considerations in emerging markets. In the very short term the rise in the price of Soya beans has a large impact on the attraction of Lysine, for which Ajinomoto is the leading supplier in terms of both cost and volumes with a 35% world market share. This company is a quiet achiever that has gradually built a stranglehold in its key areas of operation, a fact not recognised in its share market rating.

Fuji Photo we have owned before. Currently its share price is back to levels seen in 1986 due to fears of the demise of silver halide film. We like its growing business in industrial films, electronic components (CCDs and camera modules) and 75% ownership of Fuji Xerox (the copier/ printer maker with sales of US$10 bn). Film now accounts for only 15% of its business.

OKI Electric is emerging from a difficult past. It was close to bankruptcy which resulted in a remarkable 29% personnel slimming exercise and a major refocus. It now has interesting positions in Voice over IP, logic ICs, an ATM upgrade cycle, and the resurgence in PHS (an ultra low-cost mobile phone system).

DISPOSITION OF ASSETS

REGION	DEC 2003	SEP 2003
Western Europe	33%	32%
Japan	26%	27%
Emerging Markets (incl. Korea)	15%	16%
North America	14%	11%
Australia	1%	1%
Cash	11%	13%
Share Shorts	36%	37%
JGB Shorts	10%	10%

Note: cash includes deposits on shorts
Source: Platinum

BREAKDOWN OF PCL'S LONG INVESTMENTS BY INDUSTRY (% of assets)

CATEGORIES	EXAMPLES OF STOCKS	DEC 2003	SEP 2003
Cyclicals/Manufacturing	Schindler, Siemens, Bayer, Linde, Océ	23%	19%
Financials	Nordea, Alleanza, Munich Re	12%	12%
Retail/Services/Logistics	Veolia Environ., Deutsche Post, Hornbach	10%	8%
Gold and Other	Shell, Barrick Gold, Newmont Mining, Gold Fields	8%	6%
Medical	Yamanouchi, Schering, Novartis, Merck KGaA	8%	10%
Technology/Hardware	Agere, Samsung, AMD, Infineon Tech	8%	11%
Consumer Brands	Henkel, Citizen Watch, Adidas Salomon, Lotte	8%	7%
Software/Media	Sky Perfect Communications, Seoul Broadcasting	8%	8%
Telecoms	Hellenic Telecom, Ericsson, NTT	4%	6%

Source: Platinum

Commentary

Looking back, with a view to plotting forward, at the matters which have concerned the investment community in the recent past one thing only is clear: the number of false signals with which we are constantly bombarded. It is hardly surprising that some of the great investors pay scant regard to so-called macro inputs. In this past year we have had unusually large helpings of disasters, including disease (SARS), war (Iraq), famine (Africa), earthquake (Iran) and a pattern of weird weather. On the economic front we have witnessed trade disputes verging on protectionism and seen the financial system endure remarkable stress as the burden of excessive leverage is shared around. Yet, for all this the markets have celebrated an excellent twelve months, with equities soaring ahead, bonds being remarkably resilient and property booming in most places. There has been only one major casualty, the world's reserve currency, the US Dollar. Yet, this is a most serious matter for it tells us that some of the fundamental issues that were adversely affecting share markets when prices were variously 20% to 50% below present levels just 9 to 12 months ago, have not been resolved.

The cost of borrowing is low and the mainstream view is that it will not rise in the near term. This has contributed to a willingness among investors to take risks which in turn, and very importantly, has provided the opportunity for a major corporate refinancing. The performance of emerging markets and the pricing of derivatives demonstrate this increased appetite for risk. The pricing of volatility has fallen by 40% over the year. Over the last twelve months companies have moved with alacrity to consolidate their finances by placing (selling) convertibles and equity amounting to some US$600 bn world-wide. At the same time the strong have bought back some US$400 bn of their shares and retired US$280 bn of debt. These figures compare with the market capitalisation of the MSCI of US$18 trillion.

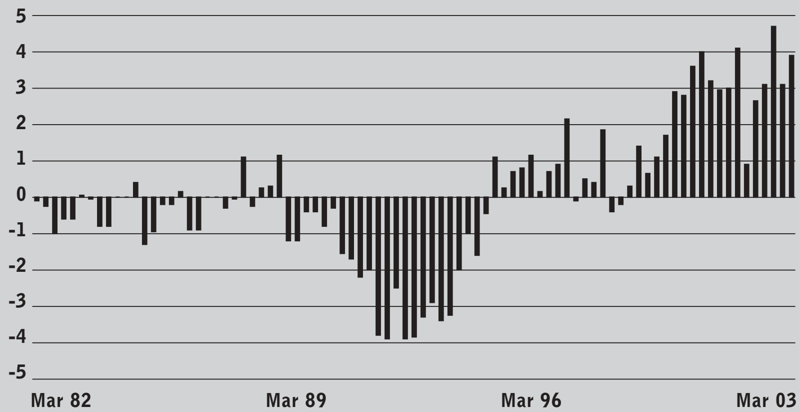
Tight control over hiring and wages, together with much reduced capital spending and take-over activity, has bolstered corporate free cash flows. For several years up to a peak in 2000, the global corporate flow of funds had been in deficit. In that year the aggregate for listed non-financial companies in the US, Japan and Western Europe was around US$400 billion. This has completely turned around with these companies now generating a surplus of some US$280 billion.

The significant positive surprise that received little attention in advance, and which contributed to world growth, was China. The flood of low-cost consumer goods from that country contributed to low inflation world wide while at the same time its increased demand for sophisticated capital equipment bolstered exports by the Japanese and Europeans.

Another positive has been the unusual willingness of foreigners to buy more of an asset, the US Dollar, even as its price has been falling. It is apparent that this dollar-cost-averaging exercise is not without cost. Purchases by the Asian central banks in the last 12 months look to have incurred a book loss of some US$50 billion versus the Euro. The US Fed has assisted by anchoring short rates at 1.00%, thereby providing a seemingly low risk interest rate arbitrage which, for the moment is keeping a cap on the long end of the yield curve. We have written in the past about this quasi subsidy provided by developing countries as they pursue mercantilist policies. Even so we were intrigued by reports of the visit of the CEO of Fannie Mae – The Federal National Mortgage Association – to Tokyo in November where he emphasised the strong Asian demand for its products – here he was referring to the company's debt instruments!

So, with these surprises behind us, we warily look to the future. The general picture is good. The consumer-led recovery in the G-7 is now spreading to include higher investment spending and restocking. Though job growth eludes most Western countries, help from tax cuts in 2004 is expected to bolster demand by 0.3 to 0.5% of GDP. Price levels seem stable and the standard view is that short term interest rates need not rise for several months. The big marginal driver, China, may face slower growth on account of central bank directives regarding speculative loans, and rising food prices could reduce the spending capacity of

JAPANESE CORPORATE FREE CASH FLOW AT RECORD LEVELS (Yen Tn)



Source: Goldman Sachs

urban dwellers. However, this helps the farmers and, besides, we are talking about a slowing not a reversal of growth.

The rest of the Pacific Basin is flourishing with countries having worked through their financial problems and now seeing good export growth accompanied by a promising recovery in domestic demand. India remains very interesting and could be a surprise in 2004, perhaps outpacing China with a growth rate in excess of 8%. The monsoon has been excellent and it is probable that a strong investment cycle will ensue. We also believe the economy is on the cusp of a consumer boom fuelled by credit. The banks are well financed and grossly under lent. This magnitude of activity will put the current account under some pressure but Foreign Direct Investment and other flows seem likely to sustain or even raise foreign reserves to new records.

There are two views on Japan. Many commentators fret about the sustainability of the recovery which they see as China-assisted and worry about the banking system's ability to lend. Having just spent time in Tokyo we are inclined to a more hopeful opinion. Though loans in aggregate are still declining, it is a fact that the stronger banks are starting to make fresh loans to smaller companies and are increasing mortgage loans. The repayment of loans by the larger enterprises is masking this. Some regional banks may struggle but we feel the leaders are well past the worst. Overall, the banking system has written off or provided for nearly 25% of all loans made which represents 100 trillion yen or 20% of GDP. Prices are stabilising and new loan growth will be an important contributor to this.

There are several other points which we believe get less coverage than they should. Firstly, the economy has already experienced 12 consecutive quarters of consumption growth. Secondly, the overall financial surplus of corporate Japan has never been higher as shown in the graph above. For the last six years this has been mounting as firms trimmed their outgoings including capex.

This in turn has led to an erosion of manufacturing investment to the extent that there has been a net shrinkage in the capital stock. This should provide an important impetus to sustaining the recovery as long-deferred expenditure now kicks in. This point has been underlined by our experience in company meetings. We discern a gradual shift in emphasis with managements recognising that technology alone cannot protect their future. The old communist-like emphasis on the workers is being modified, assisted by the threat of low cost labour competition caused by globalisation, to accommodate greater reward for shareholders.

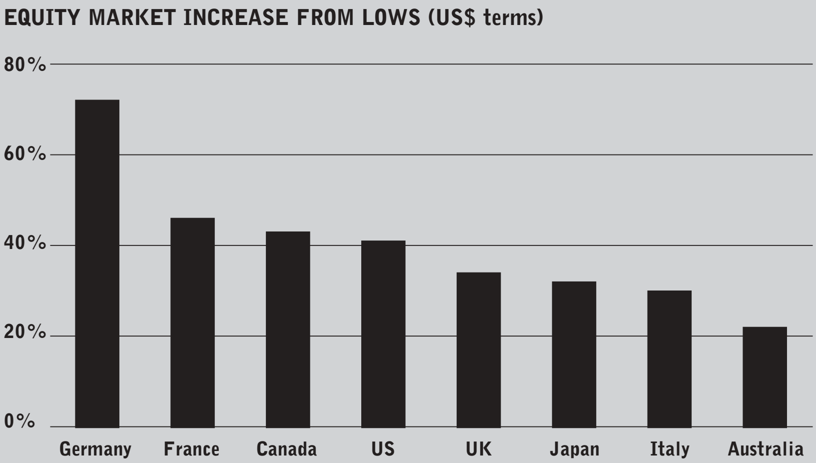
Does the buoyant global economic outlook mean that stock markets take off to the great beyond? We doubt it. As we have noted above, the degree of stress in the global financial system is demonstrated by the weakness of the US$. The idea of short rates being held at 1.00% in the context of a fast-growing economy without the build up of inflationary pressures is naïve. Share valuations already reflect much of the good news featured above. Cyclical expectations have led stock prices and earnings expectations have been adjusted accordingly. We can still compile a sizeable list of companies that we believe will be profitable investments but even these will wilt in the face of negative surprises.

Conclusion

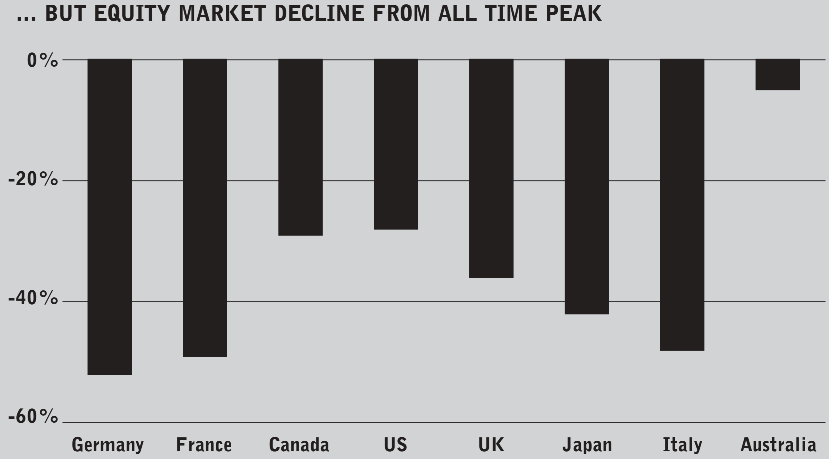
We believe that there should be at least a temporary consolidation in share prices. The pro-cyclical bias of new money entering the markets suggests a growing belief that the weaker US$ is helping to alleviate the imbalances.

The underlying trend within virtually all stock markets appears still to be upwards. Cheap money, a broad improvement in real activity and the consequent boost to confidence is causing investors to lose sight of their earlier fears. Confidence ebbs and flows, interest rates rise as well as fall.

Kerr Neilson
Managing Director



Source: Bridgewater



Source: Bridgewater

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