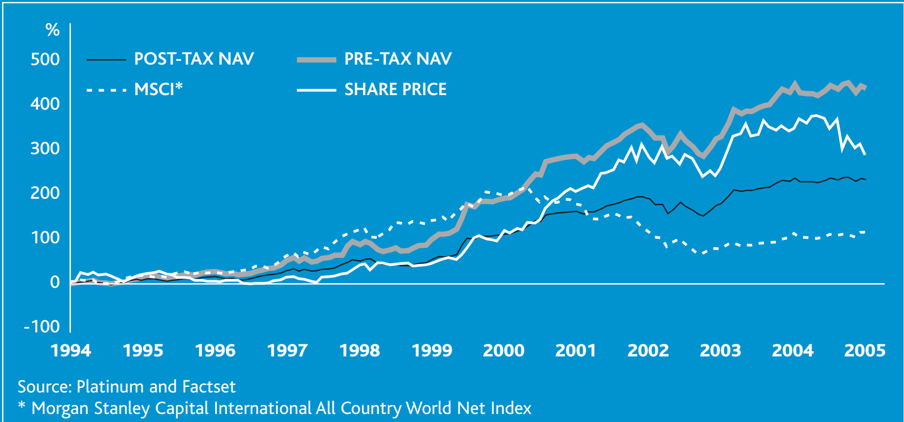
PCL NAV (pre and post-tax), Share Price versus MSCI Index (cumulative return since inception)



Source: Platinum and Factset
* Morgan Stanley Capital International All Country World Net Index

Investment Manager's Report

Performance

Our performance over the 12 months has been below par. Analysis of the key components reveals that currencies and the weighting of the disposition of the Company's assets were the culprits.

In each of the principal geographic areas performance in native currencies has been average to good except for two exceptions, the US where we underperformed a flattish market by about 2% and developing Asia where our Indian and Korean holdings outperformed the region by a massive margin. This, however, is where relative weightings play a part. Approximately a third of the Company's assets were deployed in each of Europe and Japan, which respectively rose by about 13% and fell by about 2%. In North America we had about 16% invested long but in India and Korea combined only 12% on average. Short selling of stocks and indices in positive markets was costly, sapping performance by about 3%, but shorting in a rising market is the cost of insurance. The outcome in native currencies was in aggregate acceptable but as the Net Asset Value is calculated in A$, which rose as shown in the table over, the A$ return (pre-tax) was negative at 1.5% for the year and 2.1% for the quarter.

That it would have been better to have more exposure to India and Korea is evident but in view of the relative size of these markets that was, unfortunately, not realistic. The high exposure to Japan, which was the weakest large market, was in keeping with our contrarian bias. Moreover it was supported by both our mechanistic and qualitative work which suggests that Japan was and remains the most attractive of the large equity markets.

Not hedging back into A$ from yen and euro was indubitably our largest error. This decision was tinged by concerns of national foreign borrowings which remains a problem. Our principal hedge was out of the US$ into the A$, though this position was relatively modest and was reduced as the A$ rose.

Currency Change versus A$

	Year to 30 June 2005
South Korean won	2.4%
Canadian dollar	-0.2%
Taiwanese dollar	-2.0%
Singapore dollar	-6.6%
US dollar	-8.3%
Euro	-9.0%
British pound	-9.7%
Japanese yen	-10.0%
Swiss franc	-10.6%

Source: Bloomberg

Taking a deeper look into the stocks held is helpful. Here we find that shares held in information technology (IT) companies such as Infineon, Maxtor, Sun Microsystems, Foundry and NEC, all incurred large losses, as did telco holdings such as Alcatel, NTT and NTT DoCoMo. Big winners were mainly in the energy sector such as Royal Dutch (Shell), Mitsubishi Corp and JGC.

This pattern largely corresponds with the MSCI global industry performance, see table below, which shows that energy and materials led the field, accompanied by interest sensitives like utilities. The laggards were IT and consumer staples.

MSCI* World Index Industry Performance (local, to 30 June 2005)

Sectors	Quarter	1 year
Energy	6.2%	33.9%
Utilities	7.9%	26.9%
Materials	-3.4%	12.1%
Financials	3.1%	9.7%
Telecommunications	0.7%	8.9%
Industrials	-0.9%	8.6%
Health Care	5.9%	6.0%
Consumer Discretionary	0.1%	4.3%
Consumer Staples	0.6%	4.0%
Information Technology	2.6%	-3.6%

Source: Bloomberg
* Morgan Stanley Capital International All Country

The following Net Asset Value figures (cents per share) are after provision for tax on both realised and unrealised income and gains.

30 April 2005	31 May 2005	30 June 2005
155.02	157.87	156.95
Source: Platinum		

Currency

As noted previously our currency management of late has been defective. The position at present is as follows:

Major Currency Exposures

	June 2005
Japanese yen	38%
Europe – euro	20%
Australian dollar	15%
US dollar	8%
South Korean won	6%
Europe – Other (British pound, Swiss franc, Norwegian krone)	5%
Source: Platinum	

Should the A$ weakness seen since the beginning of July persist, we may hedge back into it, even though our earlier concerns have not been assuaged.

Shorting

We have been gradually reducing our shorts on the US regional banks and financials as they have reduced their interest rate carry trades and hence lowered their financial risk profile. The hottest game in town is now housing and we are completing a detailed review of this sector in a hunt for significantly overvalued companies where we might open new short positions.

Changes to the Portfolio

Geographical Disposition of Platinum Assets

Region	Jun 2005	Mar 2005
Western Europe	31%	31%
Japan	31%	28%
North America	18%	18%
Emerging Markets (including Korea)	12%	13%
Cash	8%	10%
Shorts	33%	32%

Source: Platinum

Rather than going through all the changes made during the year, many of which have been discussed in previous quarterly reports, we summarised below the main changes during the fourth quarter. The more significant movements were increases in our holdings in Citizen Watch, Nintendo, Canon, NTPC (power generator in India) and Infineon (DRAM and other semiconductors). At the same time we took advantage of strong energy prices to trim Royal Dutch (Shell), Reliance Industries (as the family squabble regarding control was resolved), and sold TransOcean (oil rig owner). We are almost out of Merck (liquid crystal supplies and drugs) and we declared defeat to our theory that a boom in hard drives would benefit Maxtor.

Later in the report we refer to a group of Japanese companies that are conspicuous for having grown profits through this past 14 years of economic sloth and/or display abnormal profitability and consequently are cash rich. Nintendo, Canon and Citizen fall into this group although in each case there is a cloud shadowing their immediate prospects.

In the case of Canon, margins are at historically high levels and there is evidence that digital camera sales growth is slowing, while in some parts of the copier and printer market, competition is intensifying. These doubts, together with the company's failure to match ASML in current generation steppers, is causing the share to trade at historically low valuations. On the positive side, one can argue that this is not the first time there have been issues with delayed product releases, while among other things the impending boom in low cost colour printers, a market that Canon dominates, will provide plenty of margin protection.

The concerns weighing on Nintendo relate to the size and supposed superior technical sophistication of Sony and Microsoft in the provision of platforms for video games. Without engaging in all the esoteria of this massive industry, which in revenues exceeds the movie market (!) we have concluded that among the game platform suppliers, Nintendo is fully competitive. It is, however, targeting a younger segment of the market. Its Game Cube sales have trailed off in anticipation of the forthcoming "Revolution", but the release of product will not be late. We suspect that it will have all the relevant features sought by its target market and the only issue outstanding is the speed at which it can produce game software (content). In the meantime, sales of its portable dual screen device are doing well and there could be some game surprises.

The share price of Citizen Watch was recently punished when it announced a buy-in of its listed subsidiaries. The increase in shares outstanding implied by this was treated by the market as a take-over defensive tactic in an environment that has become unduly sensitive to such machinations. We did not accept this interpretation.

Breakdown of Platinum's Long Investments by Industry

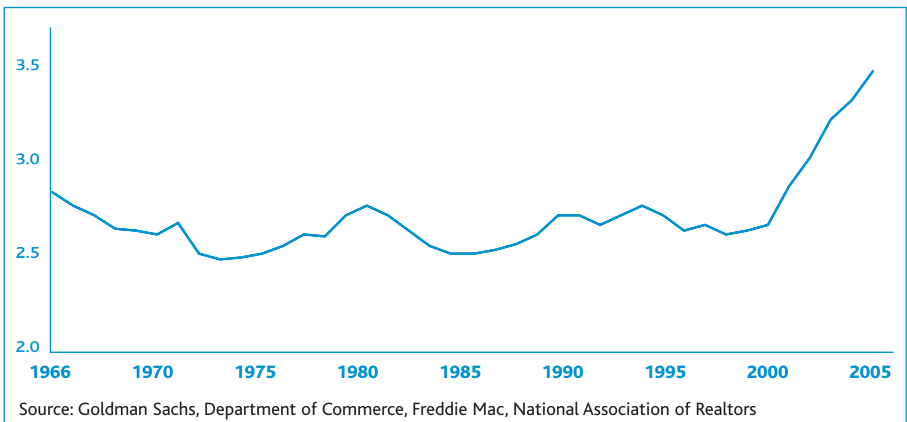
Categories	Examples of Stocks	Jun 2005	Mar 2005
Cyclicals/Manufacturing	Toyota Motor, Schindler, Siemens, Linde, Océ	29%	27%
Financials	Credit Agricole, Mitsubishi Tokyo Financial, Mitsui Sumitomo Insurance	14%	15%
Technology/Hardware	Agere, Infineon Tech, Samsung, AMD, Sun Microsystems	11%	7%
Retail/Services/Logistics	Carrefour, Deutsche Post, Hornbach, Mitsubishi Corp	10%	9%
Consumer Brands	Henkel, Adidas Salomon, Lotte	8%	8%
Software/Media	Seoul Broadcasting, News Corp	6%	6%
Gold and Other Resources	Shell, Barrick Gold, Newmont Mining, Noranda	5%	6%
Telecoms	Alcatel, NTT Docomo	5%	5%
Medical	Takeda, Schering, Merck KGaA, GlaxoSmithKline	4%	7%

Source: Platinum

Commentary

As we pull out the retrospectascope® to examine our errors, we see that for the last year or so, the best single decision would have been to bank entirely on interest sensitive plays around the world. This would have meant buying direct beneficiaries like utilities, toll road operators and REITs (Real Estate Investment Trusts) and indirect beneficiaries such as retailers and housing developers. As is mostly the case when applying the scope, we would not have credited at base date that a run-away oil price and strong commodity prices could be compatible with this *ex post* outcome. Far from damaging expenditure the oil price rise was accompanied by aggressive recycling of trade surpluses back into the debt markets and by an accommodative Federal reserve in the US, which raised short rates only tentatively. The contrasting behaviour of the various Central Banks thus contributed to the hunt for yield and may explain the strange downward rating of quality companies that has been evident for some time now.

US House Prices Ratio to median family income



Source: Goldman Sachs, Department of Commerce, Freddie Mac, National Association of Realtors

The US housing boom, which is now getting front page treatment from many high quality magazines, is, we believe, a late-stage phenomenon. US equities have been disappointing and with interest rates at such low levels as to discourage saving, it is easy for speculators to exaggerate the case for housing. Participants in the property merry-go round in the Netherlands, the UK and Australia have joined in the

fun. Americans have, however, been particularly active in treating their homes as some sort of wondrous (and tax affective) ATM for cashing out their rising "equity". With this in mind, and taking account of the sluggardly lifting of interest rates in the US, we suspect that although the dire warnings being trumpeted about the property market are probably too early, the cycle will nevertheless end in the same deflating manner that we are witnessing elsewhere. The behaviour of the shares of house builders could anticipate this change in trend. (That price falls are less evident in the super luxury category is totally consistent with the widening wealth disparity and the flow-on effect of the vogue for financial engineering.)

In China something like 40% of available resources has been directed to fixed investment which is over twice that employed in so-called developed countries. This has already led to very low levels of profit on the mainland in certain industries and may drag down foreign company profits as surpluses appear on international markets (eg. steel, aluminium and even cars). More interesting, though, is China's desire to secure long term supplies eg. Unocal for $US18.5 billion in cash, and to move up the supply chain to control distribution and to own brands eg. IBM's PC business. Depending on the level of this activity, this could have interesting implications as recycled current account surpluses are applied to real assets rather than nominal obligations such as US treasuries. Either way, there are important political implications.

Chinese and US Resources (Millions of Tonnes)

	China 2005E	US 2003A
Coal Production	2,077	1,083
Aluminium Production	7.4	5.7
Copper Consumption	3.6	2.5
Cement Production	1,148	112
Steel Production Capacity	340	110
Oil Consumption	306	1,042
Electricity Generation Capacity (GW)	506	751

Source: China Building Materials Association, Antaike, CSFB, ML, IEA, MS, Cemex

Over-investment, official policy intervention, diminishing profitability and some tightening in the labour market, portend a gradual slowing of China's growth rate over the next eighteen months. As an interesting aside to the spreading wealth

effect in China, there are now apparently 100 million internet users – largely by way of internet cafés/booths. We hear, interestingly that one of the reasons labour is conspicuously tight in specific industries is that rural workers are using on-line access to search for information regarding conditions and pay when seeking employment. Improved transparency is also facilitating a fairer treatment of the rural population who can visit official sites to check on taxes and entitlements.

As to the other emerging giant, India, the outlook stays very positive. On the political front it is encouraging that the Federal Parliament passed legislation to promote the establishment of Special Economic Zones through tax incentives. Sadly, the left wing faction obstructed the clause concerning labour law modification but to combat this difficulty, the progressive States are delegating administrative powers to development commissioners. We suspect that the success of the prosperous reform-minded States will gradually ripple across to their more recalcitrant neighbours. Foreign investment is still modest at around $4 billion pa (a trivial 7% of flows into China) and we believe the economy is still in the early years of a credit-funded consumer boom. Bank credit between 1992 and 1999 hovered between 18% and 22% of GNP and is now on an upward trend at 34%. This is still an extremely modest level compared with its Asian neighbours of typically 80% and as high as 130% in China.

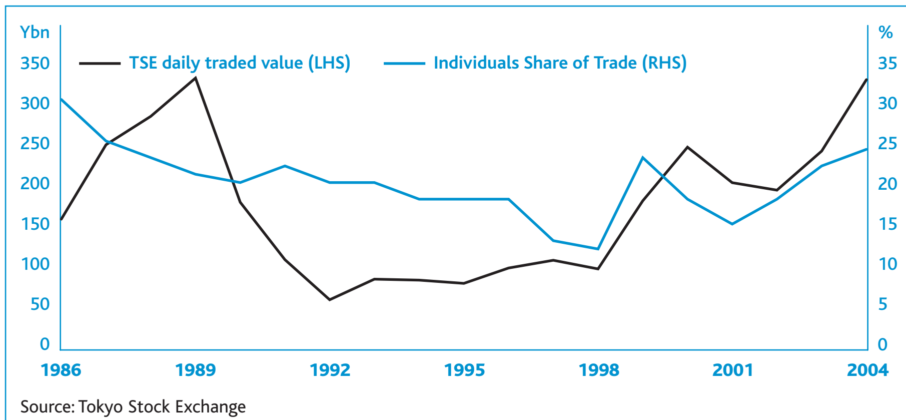
Some of our investors have trouble understanding our love affair with Japanese companies. They point to the sluggish economy and to share valuations the same or slightly lower than the US and generally higher than in Europe. Our response is that this frames the question too narrowly; insufficient weight is being given to the emphasis that quality Japanese companies place on strategic positioning, their commitment to product development and their remarkable profitability. This latter point is often masked by the high cash balances some companies have gathered, on which they obviously earn a pittance. We believe this "balance sheet inefficiency" is a hang-over from earlier, highly-regulated times which will progressively be corrected.

Even before the new threat of corporate raiders in Japan and with cross-holdings having been significantly reduced, companies had begun to specify higher dividend payout ratios, typically 30% of earnings, and have been cautiously engaging in share buy-backs. We believe this gives a category of "superior Japanese company" an unusually strong underpinning. Not only are they typically yielding twice as much

as JGBs (Government bonds), but if their cash and investment holdings are netted off from their stock market values, they are on PEs varying, typically, between 8 and 15. This may not satisfy the sceptics except for the fact that in this last 14 years of low economic growth and falling output prices this group of companies has achieved earnings growth of 6 to 7% a year in terms of yen, a relatively strong currency.

With evidence of returning confidence among Japanese investors, as demonstrated by rising share trading volume by individual investors, the enthusiasm for REITs, high dividend funds and foreign investment funds, we can see the time when these companies will be more highly valued so as to reflect their intrinsic worth and their superior business economics.

Tokyo Stock Exchange Daily Traded Value



Source: Tokyo Stock Exchange

In Europe we are pursuing our usual share-targeting approach. Even during the last few years of dull growth good companies have exploited market opportunities in Eastern Europe and elsewhere and their share prices have reflected this. The general outlook remains murky but profitability across the board is at record levels and restructuring remains the focus. The issue now for Europe relates to the precise role of the European parliament. Will the new roadmap persist with the French vision of integration or will a more federalist model be chosen?

Outlook

Company profits are at historically high levels and further advances are already reflected in current share prices. Valuations are reasonable rather than low and medium term growth is uncertain. We are watching with interest the behaviour of UK consumers to give us some hint of the delayed effects of higher interest rates. We are also monitoring the gold price in currencies other than the US$ and observe that it is beginning to break upwards after many years of relative neglect. This at a time when there are many bond aficionados perhaps believing inflation is vanquished … we wonder!

In terms of the companies that the Company owns, we are generally confident that their earnings prospects are intact and should the US$ remain where it is against the yen and euro, earnings may pleasantly surprise. This would give several sullen and indolent holdings a positive jolt.

Kerr Neilson Managing Director