Platinum Capital® Limited Quarterly Report

30 September 2005

Platinum® CAPITAL LIMITED

ABN 51 063 975 431

PERFORMANCE

The portfolio has had a welcome change of pace this quarter as several of the "themes" which influence the balance of our investment policy have proved their worth and as some under-performing holdings have come to life. Most notably, the Japanese market exploded out of the blocks with a clear shift of investor sentiment in response to the re-election of Junichiro Koizumi and further evidence that economic recovery there is self-sustaining. A similar shift in sentiment has helped our German holdings, while the desire to lay-off bets on the gold price has seen our gold shares have one of their biggest quarters for a long time. Even our short book and currency positions, areas of concern recently, have started to at least break even.

The Company outperformed the MSCI World Index for the quarter with a return of 11.1% pre-tax, versus 7.4%, and for the year it has now grown more or less in line at 13.6%.

The accompanying tables reveal the extraordinary dispersion of returns over the last three and 12 months of important share indices, on both a country and an industry basis. This serves to alert readers to the magnitude of opportunities, as the achieved returns of both the MSCI and our portfolio are significantly influenced by weighted exposure.

MSCI* WORLD INDEX
COUNTRY PERFORMANCE (AUD)

COUNTRY	QUARTER	1 YEAR
BRAZIL	37%	81%
KOREA	22%	51%
JAPAN	19%	20%
INDIA	16%	51%
AUSTRALIA	11%	34%
GERMANY	10%	20%
FRANCE	9%	20%
HONG KONG	8%	18%
UK	6%	14%
US	3%	7%

Source: Factset

*Morgan Stanley Capital International All Country World Net Index

MSCI* WORLD INDEX
INDUSTRY PERFORMANCE (AUD)

SECTOR	QUARTER	1 YEAR
ENERGY	19%	43%
MATERIALS	15%	19%
INDUSTRIALS	8%	13%
UTILITIES	7%	27%
FINANCIALS	7%	14%
INFORMATION TECHNOLOGY	6%	9%
CONSUMER STAPLES	6%	13%
TELECOMMUNICATIONS	5%	9%
CONSUMER DISCRETIONARY	4%	7%
HEALTH CARE	4%	9%

Source: Factset

*Morgan Stanley Capital International All Country World Net Index

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

NET ASSET VALUE (CPS)

31 JULY 2005	159.54
31 AUGUST 2005	162.90
30 SEPTEMBER 2005	169.43

Source: Platinum

SHORTING

The clear under-performance of US markets suggests that our policy of concentrating our short sales in US indices and shares has been technically correct albeit still not helpful to performance. The introduction of puts continues to give some protection from upside spikes but at the inevitable cost of premium decay.

CURRENCY

The revaluation of the Chinese yuan by 2% in July was the beginning of a significant change in the currency markets. Yet after a busy few days, the initial excitement subsided and participants settled back to the daily grind. We indicated in the annual report commentary that any temporary weakening of the A$ would be used to increase our hedging out of the US$ and the Japanese yen and this we did.

This manoeuvre is of course not without risk, mainly because of Australia's predilection for foreign debt, two thirds of which is owed in currencies other than our own. The case to be made for the A$ relies on world growth being maintained at current levels which should sustain the country's improved terms of trade*. In addition, there is sufficient buoyancy in the domestic economy to ensure that short term interest rates do at least hold at present levels. With the continuing quest for yield this should allow the country to remain relatively indebted yet still attract incremental foreign flows.

* This concept compares the value of a basket of our typical exports against a basket of our normal imports. After several decades of weakening relative prices, our commodity exports have been gaining in purchasing power against our manufactured imports.

CHANGES TO THE PORTFOLIO

We have been most active in the Japanese market this quarter. Out went NTT and NTT DoCoMo, Tokyo Broadcasting, Mitsubishi Chemical, Mitsubishi Tokyo Financial, Sumitomo Corp, and some Aiful, TDK and Fuji Electric. The funds raised were used to bolster existing positions such as Sumitomo Mitsui Financial, Toyota Industries, Nikko Cordial, Mitsui Corp and MHI. New positions are being assembled in some regional banks, Omron and Dai Nippon Printing.

The companies disposed of were not in our view over-priced but the sale proceeds provided an opportunity to position the portfolio more aggressively in what we believe to be the early days of a major bull market in Japan. For example, the switch into Sumitomo Mitsui Financial from MTFG is based on the improving quality of Sumitomo's profits as the company replaces carry-trade earnings with traditional financial service margins. Moreover, Sumitomo Mitsui is doing more to prepare for the inevitable battle for consumer loyalty.

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS

REGION	SEP 2005	JUN 2005
Japan	**33%**	**31%**
Western Europe	**27%**	**31%**
North America	**18%**	**18%**
Emerging Markets (including Korea)	**14%**	**12%**
Cash	**8%**	**8%**
Shorts	**36%**	**33%**

Source: Platinum

In Korea we reduced Samsung Securities and Seoul Broadcasting after strong runs, and have switched into Samsung Fire and Marine, and Kookmin Bank, both of which remain relatively neglected.

Kookmin benefits from its leading position in the highly oligopolistic banking market. Its history as a quasi-Government entity has kept investors cautious about the sustainability of its earnings although from reading the Bank of Korea's policy statements it is clear that the Government has stepped away from using the banks as instruments of state industrial policy.

Samsung Fire and Marine is also in a leading position being the country's best capitalised provider of long term health and welfare insurance policies. The nature of this business is that earnings will grow quickly for several years whereas mistakes, if any, will not be apparent within our normal investment horizon of five years.

In Europe, we have sold out of Merck KGaA and adidas, and have reduced Linde significantly. We have trimmed Deutsche Post, Carrefour and Alleanza, while initiating positions in Norske Skog, and UPM. These two paper makers are unpopular with investors as the industry is beset with chronic over-supply, exacerbated by reductions of newsprint usage as advertisers shift more to the Internet. However, the shares trade

BREAKDOWN OF COMPANY'S LONG INVESTMENTS BY INDUSTRY (% OF ASSETS)			
CATEGORIES	EXAMPLES OF STOCKS	SEP 2005	JUN 2005
CYCLICALS/MANUFACTURING	**TOYOTA MOTOR, SCHINDLER, SIEMENS, OCÉ**	**29%**	**29%**
FINANCIALS	**CREDIT AGRICOLE, SUMITOMO MITSUI INSURANCE**	**16%**	**14%**
RETAIL/SERVICES/LOGISTICS	**HORNBACH, MITSUBISHI CORP**	**11%**	**10%**
TECHNOLOGY/HARDWARE	**AGERE, INFINEON TECH, SAMSUNG, AMD, SUN MICROSYSTEMS**	**10%**	**11%**
GOLD AND OTHER RESOURCES	**SHELL, BARRICK GOLD, NEWMONT MINING**	**7%**	**5%**
CONSUMER BRANDS	**HENKEL, LOTTE**	**5%**	**8%**
SOFTWARE/MEDIA	**SEOUL BROADCASTING, NEWSCORP**	**5%**	**6%**
TELECOMS	**ALCATEL, SK TELECOM**	**5%**	**5%**
MEDICAL	**TAKEDA, SCHERING, GLAXOSMITHKLINE**	**4%**	**4%**

Source: Platinum

at around book value, UPM pays a good dividend and we can identify reasons why these businesses may perform better than is reflected in their current share prices.

We were disappointed in adidas' purchase of Reebok and took advantage of the market's enthusiasm to off-load. Deutsche Post is following a similar course in acquiring a British-based logistics company, at what we regard as an extravagant price, even before it has fully digested all the acquisitions made in the last several years. The thesis for Carrefour as a force in global retailing seems intact but the miserable consumer environment in their home market, France, is arresting their progress.

In the US we sold Agilent, too early it transpired, and added to Mosaic and some biotechs. Potash prices have been very strong and the longer-term demand for phosphatic fertilizers suggests that the restructuring and commodity play, Mosaic, will be highly rewarding.

COMMENTARY

Among the important political events of the last three months are the outcomes of the Japanese and German elections and the decision by the Chinese to float their currency.

The decision in July by the People's Bank of China (PBOC) to set upon the path of a managed float for the yuan is in our view of unusual importance. Goldman Sachs* have produced a thorough review of the subject and make some valuable observations. Following the lead of the Japanese the central banks of Asia have favoured using an undervalued currency as a mechanism to promote economic development. The process of intervening in the foreign exchange markets and sterilising the resultant liquidity build-up via the central bank issuing bills to domestic investors works well for a while. In the longer term, however, it encourages over-investment in export industries at the expense of domestic consumption which, in turn, leads to a climate of booms and sharp slowdowns. Moreover, the undervaluation of the currency tends to spill over into inflation as seen in bouts of land and property speculation.

The limitation of these policies becomes particularly evident once economies become large and more complex eg. Japan, or, now, China as its trade account represents a large proportion of activity: exports plus imports being 75% of GNP. Further, when there is the prospect of higher inflation the situation becomes alarming with the outstanding pool of sterilisation bills becoming ever more costly to rollover as banks seek other uses for their funds. Attempts to ameliorate the situation via administrative controls hurt the good as much as the bad and ultimately the regime is forced to fall back onto the price mechanism to bring order and balance to its system.

This is approximately the position most Asian central banks find themselves in today. Currency intervention to impede the appreciation of their currencies has seen their balance sheets

* Global Economics Paper No: 127, 1 September 2005

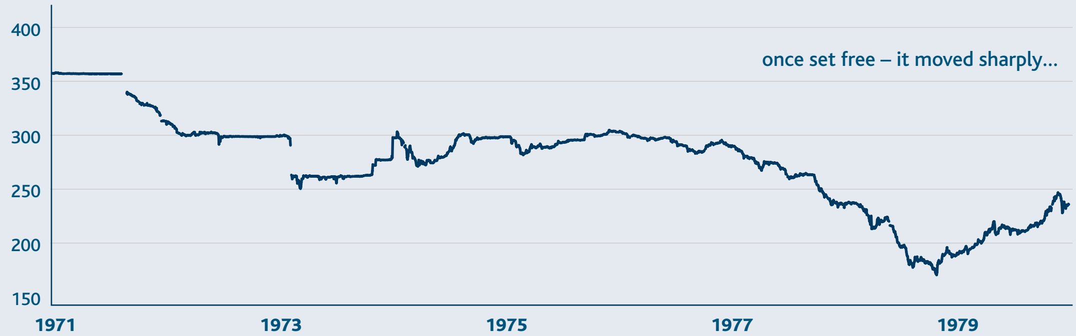
explode over the last few years; PBOC's assets have nearly doubled over the last three years, the BOJ's by 50% and the rest of newly industrialised Asia by more than this. At the same time we have witnessed a distortion in their domestic economies where they have under-invested in the service (non-tradable) sector. Since around 1996, investment expenditure in Asia, excluding Japan and China, has fallen a full 9% of GDP to around 24% which explains their relatively weak growth rates and the accumulation of foreign exchange reserves. Part of this under-investment was associated with the recovery from the IMF crises and also by the preference for investment in China, but, importantly, the situation was exacerbated by undervalued currencies which suppressed domestic demand. When China's investment figures are tallied together with the rest of Asia we find total investment in Asia has been strong.

It is important to recognise the difficulty of turning back from this process of rebalancing once it has started. Japan began to float the yen tentatively in 1971 but within 18 months it had appreciated by around 20%. This time around the whole of Asia will likely see their exchange rates lift against the US$ as the productivity gap finds expression in appreciating currencies. Significantly this will probably be accompanied by booming domestic demand and, on account of the prospect of less volatile business cycles, a higher rating being applied to risk assets. We expect also to see very strong participation by domestic investors in their own share markets as they redirect their attention. The obverse of this is the probability of the US needing to reduce its dependence on foreign borrowing.

We regard the routing of the traditional wing of the LDP in Koizumi's snap September election as setting the stage for a programme of further reforms. By disentwining from the tentacles of the post office savings system the banks and bond markets will take on the complexion of those in other developed industrial nations. The skeletons of extremely poor project finance decisions by the Trust Fund Bureau will doubtless be uncovered but hence-forward the banks will be able to pay more attention to the hitherto ill-treated private depositor and borrower. We can envisage a boom in new financial products directed at consumers resulting in a very beneficial shift in resource the within the economy. This should easily offset the effects of higher public charges and increases in taxation as the government works to reduce its fiscal deficit. Reform of the pension and health system will also give impetus to a system which is more responsive to consumer choice.

In the meantime, the election of nearly 100 new representatives to the Japanese parliament on a record voter turnout suggests that Japan is well on the way to rebuilding its self-confidence. Confirming the process are key indicators such as rising employment and real wages, improving property prices and the demise of deflation. The only ingredient missing from a "perfect bull market" is a seething lust for equities in

JAPANESE YEN EXCHANGE RATES IN THE 1970S



Source: Bloomberg

domestic investors. Rising stock exchange trade volumes and private equity purchases suggest that even this has started to emerge.

Germany

The stalemate following the narrowly run election in Germany has led to intensive talks which, as we write, have still not been fully resolved. A grand coalition between the Social Democrats (SPD) led by Gerhard Schröder and Angela Merkel's Christian Democrats will seemingly do little to help the intransigent issue of unemployment. We have in the past studiously ignored politics in Germany, relying instead on the pragmatism of business to resolve some of the imperfections in the German labour market. With the conservatives having 36% of the seats in the Bundestag compared with 34% held by the SPD, we see no reason to become more concerned now. Interestingly, the stock market appears equally unconcerned.

OUTLOOK

One of the big unknowns is how well developing markets will behave should high energy prices and other setbacks adversely affect consumer confidence and spending intentions in some leading economies. The US, the UK, Australia and Canada are in the late or mature phase of this economic cycle, while Germany, France and Japan, among the large economies, are trailing in their recoveries. We believe that inflation pressures are growing and that the higher cost of hydrocarbons still has to be reflected in final prices.

The second great puzzle is how long investors will remain comfortable with US treasuries yielding such a scant 1.25% margin over underlying inflation. This issue becomes all the more acute as Asia tentatively embarks on an upward currency adjustment. Remember, too, that without rising house prices, the bonanza for the US consumer of "cashing-out" home equity largely disappears and already the cost of adjustable rate mortgages, which account for about one third of new mortgages, have risen by 1% from a year ago. There is some tentative evidence that the heat is coming out of the US housing market. It should be acknowledged, however, that in the case of the UK and Australia, the topping-out process was quite protracted before actual declines in "average prices" were reported.

We invariably err on the gloomy side yet can identify strong growth drivers in parts of Asia, Latin America, and Eastern Europe and Russia, together with its nearby former satellites. The risk to share prices seems to lie with a reversal of capital flows to developing markets and concerns about valuations on peak profitability in some developed markets.

CONCLUSION

We are still finding a broad range of stocks that are reasonably valued. The prices of many of our holdings have risen but are still at justifiable levels. To ameliorate the risks of nasty surprises we are holding large short positions in those stocks and indices we regard as expensive or over-stretched.

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