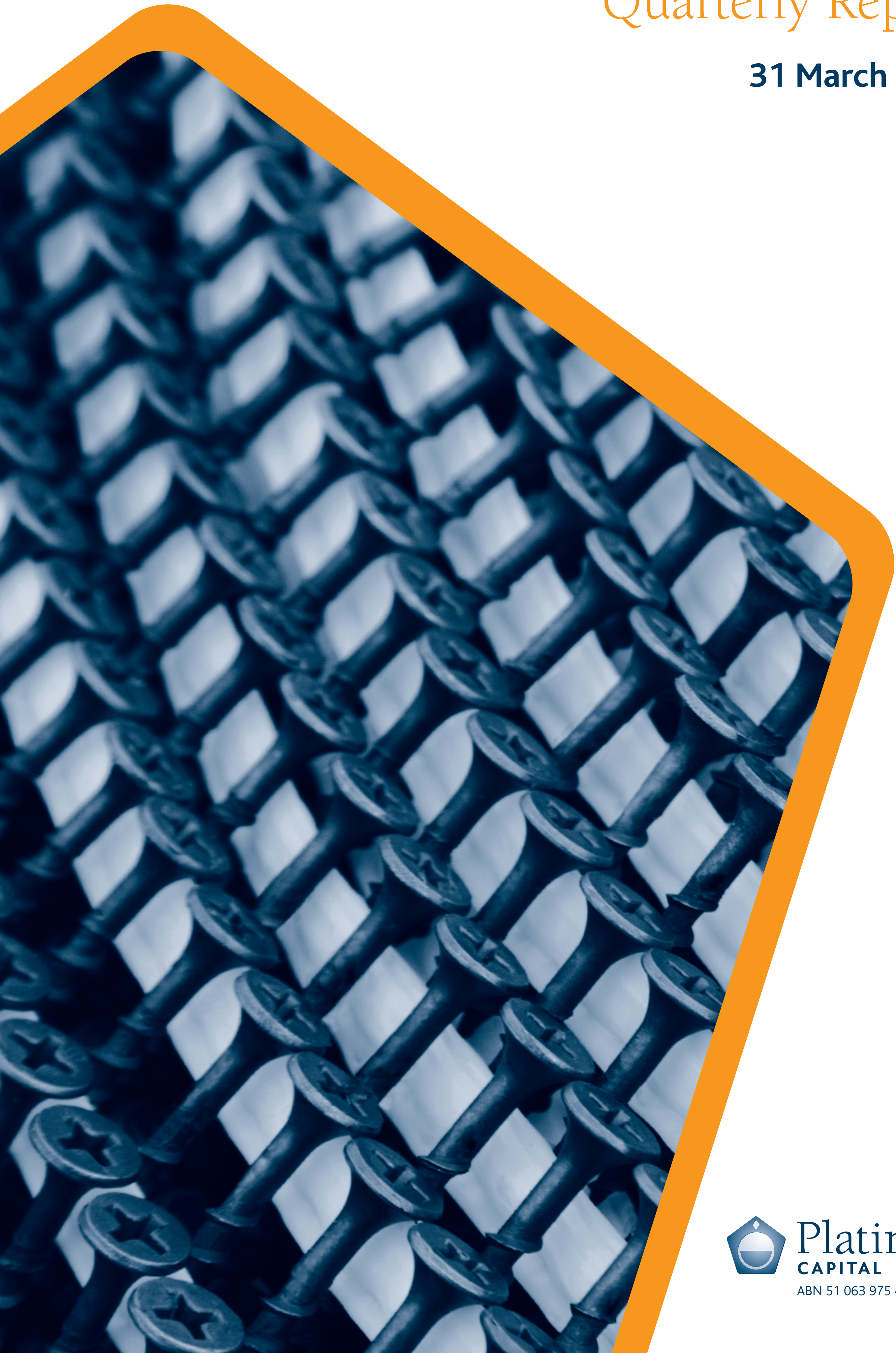
Platinum Capital® Limited Quarterly Report

31 March 2008



Platinum® CAPITAL LIMITED

ABN 51 063 975 431

PERFORMANCE

The value of your company's portfolio is down by 8.8% (pre-tax) for the quarter versus -12.7% for the MSCI. For the last 12 months the figures are respectively -7.5% (pre-tax) and -12.5%, an outperformance by the company of 5%. While acceptable in a relative sense this is not most clients' main interest. By way of further comparison, an aggregation of 15 global fund managers returned -15% over the last 12 months to 31 March 2008. Unlike the experience of the tech bubble, when there was a great disparity in values between expensive tech stocks and cheap 'old world' alternatives, this downturn began with much more clustering of values and fewer cheap extremes of which to take advantage. We successfully avoided exposure to the financials and other "hot" areas, and derived some protection from shorting specific indices.

The following Platinum Net Asset Value figures (cps) are after provision for tax on both realised and unrealised income and gains, and after provision for a 5 cent interim dividend paid 4 March 2008.

NET ASSET VALUE (CPS)

31 JANUARY 2008	143.07
29 FEBRUARY 2008	140.37
31 MARCH 2008	139.29

Source: Platinum

CURRENCY

There are reasons to believe that the US dollar is in the process of bottoming out versus the Euro. It is interesting to see how the yield on the sovereign debts of some of the peripheral Euro countries have widened versus the Bunds, highlighting concerns within the Euro block. With this in mind we have added US dollar exposure and at the same time cut the Australian dollar position to 13%. We sense that the Australian currency is in the process of losing upward momentum after its commodity-induced bull run. We continue to favour the currencies of Asia and they now constitute 57% of the company's currency exposure.

CHANGES TO THE PORTFOLIO

There have been relatively few significant changes in the portfolio. We no longer hold any Indian shares having disposed of HDFC after a long and highly profitable innings. In Japan we consolidated holdings in companies that have demonstrable global leadership or very large market shares such as Murata, Tokyo Electron and JGC. Admittedly they will experience the negative impact of the appreciating Yen but their prices have contracted 30% to 50% in the last 12 months so that they are now priced as inferior companies which they are not.

MSCI* WORLD INDEX SECTOR PERFORMANCE (AUD)

SECTOR	QUARTER	1 YEAR
TELECOMMUNICATIONS	-17%	-7%
INFORMATION TECHNOLOGY	-17%	-12%
FINANCIALS	-16%	-27%
CONSUMER DISCRETIONARY	-13%	-23%
ENERGY	-12%	7%
HEALTH CARE	-12%	-17%
UTILITIES	-12%	-6%
INDUSTRIALS	-11%	-8%
CONSUMER STAPLES	-7%	-3%
MATERIALS	-6%	8%

Source: MSCI
* Morgan Stanley Capital International

The share prices of Bank of China and of SinoPac in Taiwan fell sharply when the market was made aware that they were involved in the sub-prime mess. They have already made substantial write-offs and we do not believe that their core operations would be materially damaged even if they were obliged to write-off the whole remaining book value of those assets which, particularly in the case of Bank of China's holdings of AAA sub-prime paper, is highly unlikely. We have taken the opportunity to increase our positions at prices which clearly ignore both companies' good growth prospects.

A disappointing company we have held for quite a while is SK Telecom. It ran up 30% on speculation early in the quarter and we have now almost eliminated the holding using the proceeds to add to Samsung Electronics. Samsung, along with its leading position in mobile phones and flat panel TVs, is also the world's largest producer of DRAMS. Other, smaller, manufacturers of this semi-conductor storage device are suffering severe losses as the price of a standard 512 Mb DRAM has fallen from $4 to $2 in a single year. The closure of those fabricating plants that convert 200mm wafers, accounting for some 25% of world output, should shortly reverse prices in the industry. Even though we cannot immediately identify longer-term structural changes that will improve the largely price-taking nature of the memory business, current stock market pricing of industry participants reflects total and implausible gloom.

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS

REGION	MAR 2008	DEC 2007
NORTH AMERICA	24%	24%
EUROPE	23%	23%
EMERGING MARKETS	21%	20%
JAPAN	20%	21%
CASH	12%	12%
SHORTS	31%	30%

Source: Platinum

PLATINUM CAPITAL LIMITED – TOP 20 STOCKS

STOCK	INDUSTRY	MAR 08
MICROSOFT	TECHNOLOGY	3.2%
HUTCHISON WHAMPOA	TELCO/TRANSPORT	2.6%
INTERNATIONAL PAPER	PAPER	2.5%
BOMBARDIER	TRANSPORT	2.4%
SIEMENS	ELECTRICAL	2.4%
CISCO SYSTEMS	TECHNOLOGY	2.3%
SAMSUNG ELECTRONICS	ELECTRICAL	2.3%
HENDERSON LAND DEV	PROPERTY	1.8%
POLARIS SECURITIES	FINANCIAL	1.8%
HORNBACH BAUMARKT	RETAIL	1.7%
BANK OF CHINA	FINANCIAL	1.7%
PPR	RETAIL	1.7%
BANGKOK BANK	FINANCIAL	1.7%
DENSO CORP	AUTO	1.7%
BMW	AUTO	1.6%
CREDIT AGRICOLE	FINANCIAL	1.5%
SCHNEIDER ELECTRIC	ELECTRICAL	1.5%
ERICSSON	TELECOM	1.5%
HENKEL KGAA	CONSUMER	1.5%
PERNOD RICARD	BEVERAGE	1.5%

Source: Platinum

SHORTING

We were disconcerted by the sharp market recovery in August 2007 but recovered our poise to re-establish positions that partly protected us in the recent January and March sell-offs. We made useful returns from shorting broader indices such as small caps in the US, the German DAX index, the Indian market and other emerging market Exchange Traded Funds. More recently we have shifted our focus to commodity stocks and the like. We closed the quarter with 31% short.

COMMENTARY

The financial contagion added new victims to its already long list during the quarter. Particularly notable was the speed and aggression of the Federal Reserve Board's response to the "run" on Bear Stearns, which included the back-up provision of $30 billion of special financing to JP Morgan Chase to fund Bear's less liquid assets, as well as the provision of a facility allowing the Fed to lend directly to broker dealers.

This was greeted by commentators as a totally unexpected shock and, indeed, its suddenness was a bolt from the blue. On more fundamental considerations, however, one can argue that some such event was highly predictable sooner or later.

The point is that the financial innovations that accelerated following the repeal of the Glass-Steagall Act[1] in 1999 ensured that the roles of commercial banks and the broker dealers became closely integrated. While commercial banks are overseen by their regional Federal Reserve Banks, which specify capital requirements, the broker dealers, as non-deposit taking entities, are overseen by the Securities and Exchange Commission, which despite its role as the protector of investor interests has seemingly little to say about capital adequacy.

The Fed is not the only regulator to have been lulled into complacency and to have failed to keep abreast of some of the more arcane banking developments. In the UK, for example, British banks have gradually introduced hybrid equity to meet their statutory reserve ratios and simultaneously have become highly dependent on the inter-bank market. Loan to deposit ratios have risen to in excess of 150% and "real" equity ratios have fallen to say 2% to 4%. For good measure some have also engaged in the shadow banking activity of special investment vehicles (SIVs). It is our belief that in their urge to raise their return on equity some of these financial institutions have compromised their longer-term prospects. As the dust settles one can expect much tighter regulatory oversight which will be accompanied by the need to bolster equity reserves. This is likely to be dilutive to shareholders; in other words, the banks historic low PEs are an illusion.

The repetitive pattern of markets suggests discouragingly that the lessons of history are seldom, if ever, learned. When tracing earlier banking calamities, the script is always a variation on the following. Financial deregulation is followed by exaggerated credit growth, leading to an asset bubble. When this pops the system is left with non-performing loans, an asset price correction and, depending on the nature of the intervention by the government, broader or narrower economic contraction.

The Asian experience of 1998 was particularly severe because the excesses were funded in foreign currencies. The collapse of the

1 The Glass-Steagall Act was promulgated in 1933 following a series of runs on bank deposits and many bank failures. Together with an amendment to provide for deposit insurance, it segregated the roles of commercial banks from those of investment banks with the intent of protecting the savings of depositors from excessive leveraging by the banks.

domestic currencies, combined with only limited intervention by governments, exacerbated the economic upheaval. Government indecision was the hallmark of the 1989 crunch in Japan and resulted in a protracted resolution of problem loans. The two memorable US episodes were the establishment of Home Owners' Loan Corporation (HOLC), a federal agency to buy and refinance distressed mortgages, and the Reconstruction Finance Corporation (RFC) which provided liquidity to the surviving banks in the Great Depression in 1933. The Savings and Loans debacle from 1986 to 1989 saw a similar solution with the Resolution Trust Corporation (RTC) created to provide government sponsored warehousing of assets followed by orderly disposal.

Interestingly, aside from the immediate funk, it is clear that the intervention by the Central bank, as the lender of last resort, has generally brought order within a relatively short time with no great long-term cost to the exchequer, though often at the cost of economic contraction[2].

In the present crisis we are still well short of fully understanding the extent of the likely write-offs. We have yet to see what damage will be caused by the feedback loop as regards growth, employment, interest rates and housing affordability. Headline commentary about economic growth should not distract us from our own main game which is company earnings. Clearly input costs, particularly credit costs, are for the moment rising steeply and it is our view that the squeeze on margins will tend to be expressed in lower profits rather than a rise and acceleration of inflation. As we have said before the effect of over-leveraging is to create a deflationary pulse as debt is subsequently reduced. In the US, for example, the impact of the rise of the oil price has already been recorded in the CPI accounting for a full 1.5% of the increase in the last year. Even the weakness of the US dollar is still barely showing with import cost rises being relatively mild. The socialisation of the recent excesses has had the effect of spreading the burden broadly and punishing savers with negative interest rates ie. nominal rates below the rate of inflation. This could create longer-term inflationary pressures.

2 The same approach was adopted in the Swedish banking crisis of 1992 and the nominal cost to the government for supporting the banks was put at about 3.6% of GDP before some recoveries from asset sales. The economy contracted by 6% between 1991-93, even with government fiscal stimulation amounting to 8% of GDP. Housing prices were estimated to have fallen by 25% and commercial property by more.

OUTLOOK

For the time being the fear of a domino effect of a dealer/broker meltdown has been averted by the Fed and other Central bank action. There will follow a period of retrenchment with commercial and investment banks seeking further equity to top-up and prop-up their solvency. Simultaneously we can expect much tighter credit controls, accelerated asset sales and closer regulatory scrutiny.

Valuations have already fallen dramatically and our interpretation is that market participants have begun to factor in a significant drop in aggregate profits. The world market, ex the US, is perhaps on a price earnings ratio of 11 to 12 times for 2008, the lowest since 1988. Some analysts, however, remain way behind the reality curve when they forecast aggregate earnings growth in low double digits for this year and next. In a typical global earnings cycle, the profit downturn lasts for 20 to 24 months with the market tending to anticipate the peak by 12 to 15 months. The pattern has been for the market to trough at around the time when peak earnings are reported, which might be close to now, to recover for several months and then to retest low or lower ground. As we all know, the stock market is an anticipatory mechanism with each decision maker constantly revising his view of the future and balancing his portfolio accordingly. Whilst participants' views are substantially off-setting, reasonably stable price levels prevail. When unexpected events cause a sudden preponderance of views to develop in one direction or the other a significant price movement will occur before equilibrium is re-established.

We believe there is at present a strong risk of this sort of volatility. We are, however, continuing to find individual stocks with sufficiently good fundamentals to compensate for a relatively high degree of risk.

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