Platinum® CAPITAL LIMITED

23 April 2012

Dear Shareholder

Important Information on Platinum Capital Limited's Share Buy-Back Programme

Shareholders passed the capital management proposal resolution in the Annual General Meeting of 2010. The resolution was a non-binding vote to consider whether the Company should implement the capital management proposal. The capital management proposal seeks to limit the difference between the Company's share price and its net asset value (NAV) to a range of -10% (discount) and +15% (premium).

On 19 March 2012, your Company announced a share buy-back as part of the capital management programme approved by shareholders. The buy-back programme started on 2 April 2012, with all shares being acquired through the Australian Securities Exchange.

You do not need to sell your shares or take any action in response to the start of the share buy-back programme. In fact, we think that the buy-back will benefit continuing shareholders through an increase in the Company's NAV per share.

The objective of the share buy-back is to minimise the discount between the Company's share price and its underlying NAV per share.

Your Company's shares have been trading at a discount of more than 10% to underlying NAV per share for the majority of the time since August 2011. Therefore, the conditions for enacting the capital management programme are present. Shareholders can be assured that shares will only be bought-back when the share price is trading at a discount to the Company's underlying NAV per share.

Should such conditions continue to exist, your Company intends to buy-back up to 16,495,941 shares over the next 12 months, which represents approximately 10 per cent of total shares on issue. During the buy-back programme, an approximate NAV per share and the percentage discount of the share price to NAV will be published each day on the Company's website at http://www.platinum.com.au/Share%20Buy%20Back.htm

Thank you for your continued support.

Yours faithfully

Bruce J Phillips
Chairman

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Platinum Capital Limited ABN 51 063 975 431

Platinum Capital® Limited Quarterly Investment Manager's Report

31 March 2012

Platinum®
CAPITAL LIMITED

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Performance

A series of positive surprises set the equity markets off to a strong start in 2012. Favourable readings for employment and the housing market, followed by good earnings reports, fired up Wall Street. The European markets took comfort in the European Central Banks (ECBs) provision of long-term refinancing to the European banks, as this facilitation eliminated most counterparty concerns and found its way to driving down sovereign bond yields. The performance of company profits was in line or better than common consensus and guidance for the medium-term was regarded as reassuring. Lastly, the statement from the Bank of Japan (BOJ) regarding inflation targeting by way of Quantitative Easing (QE) resulted in a change in the direction of the yen and a very positive interpretation by investors for company profits.

Ironically, the emerging markets were somewhat less sure-footed as conditions proved less certain than some had come to expect. Fortunately, the threat of food inflation retreated and Central Banks began to lower their benchmark interest rates. There had been some hope that the Chinese would further ease credit restrictions but as the quarter progressed, utterances from the leadership made it clear that they regarded high property prices with grave concern and were determined to wring out the speculative excesses that had accompanied the post-crises credit boom. At the same time, the official growth target has been reduced to 7.5% and the leadership is preparing for one of the most significant shifts in the Chinese Communist Party's history just as the economy is preparing for a change in its principal growth drivers. India is also facing uncertainties with scandals inhibiting decisive leadership and fiscal issues are restricting economic flexibility. Even so, the market had sold-off fiercely late last year and has subsequently sprung back.

Brighter prospects favoured the cyclical sectors and technology, while leaving the defensives stranded after their favoured treatment during the growth scare of late 2011. See the conspicuous differences of performance both by region and sector in the accompanying tables.

We are pleased to report a significant improvement in the Company's performance over the quarter. As we bleated in our last report, cyclicals had been particularly poorly treated late last year to the detriment of our performance. These shares all turned decisively and way out-ran the markets in the last three months. While our short sales were detrimental in the strong market surge, we achieved 11.3% pre-tax for the quarter but are still down over 12 months by 4.5%. For reference, the MSCI World Index was up 10.7% for the quarter and down 0.9% for the year.

MSCI* World Index Regional Performance (AUD)

REGION	QUARTER	1 YEAR
Germany	20%	-8%
India	19%	-21%
Korea	14%	-6%
Emerging Markets	13%	-9%
Asia ex Japan	13%	-7%
Hong Kong	12%	-5%
United States	11%	8%
France	11%	-16%
Developed Markets	10%	0%
Japan	10%	0%
Europe (including Germany)	10%	-8%
China	9%	-13%
Australia	8%	-7%
United Kingdom	7%	1%

* Morgan Stanley Capital International
Source: MSCI

MSCI* World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Information Technology	19%	13%
Financials	16%	-9%
Consumer Discretionary	16%	9%
Industrials	11%	-5%
Materials	9%	-15%
Health Care	7%	12%
Consumer Staples	6%	14%
Energy	4%	-10%
Utilities	2%	-3%
Telecommunication Services	1%	-4%

* Morgan Stanley Capital International
Source: MSCI

The following Platinum Capital Limited Net Asset Value figures are after provision for tax on both realised and unrealised income and gains.

Net Asset Value

31 January 2012	29 February 2012	31 March 2012
$1.0636	$1.1177	$1.1503

Source: Platinum

Shorting

The pattern of high correlation of share prices broke down early in the quarter which gave us some opportunity to close positions with reasonable gains but such was the momentum of the market that most of our shorts ended the quarter at higher levels.

Currency

We raised our exposure to the euro, added the Canadian dollar as a proxy for commodity exposure and cut our holdings of the Chinese renminbi. At quarter's end, the currency exposure of the Company was as follows: US dollar and Hong Kong dollar 50%, European currencies 23%, Asian currencies ex Hong Kong dollar 11%, Australian dollar 8% and the Canadian dollar 6%.

Changes to the Portfolio

Geographical Disposition of Platinum Assets

REGION	MAR 12	DEC 11
North America	27%	26%
Europe	24%	24%
Asia and Other	22%	21%
Japan	16%	17%
South America	1%	1%
Australia	1%	1%
Cash	9%	10%
Shorts	17%	19%

Source: Platinum

There were some very substantial stock price rises within the portfolio over the quarter. However, to enable you to track those companies that we highlighted as purchases made in the second half of 2011, we list their moves in native currency in the table below:

Price Movement (Native currency)

STOCK	QUARTER
Bank of America (financial)	72%
TNT Express (logistics)	60%
Stillwater Mining (palladium/platinum)	21%
Foster Wheeler (plant engineering)	19%
Gilead Sciences (bio-pharmaceuticals)	19%
Deutsche Börse (stock exchange)	17%
Marvell Technology (microchips)	14%
Nexen (oil)	13%
Guess? (retail)	5%
Pepsico (beverage)	0%

Source: Factset

The market clearly warmed towards the cyclicals and in the case of Bank of America, the passing of the Fed-orchestrated stress test was taken positively. TNT Express was indeed bid for by UPS at a price of €9.50 which is close to twice our entry cost.

In the last three months, we used the spikes in prices to exit some small holdings as well as Infineon Technologies, China Life Insurance and Shanda Interactive Entertainment (which was under bid by the founders). We also reduced our positions in China Mobile, Ping An Insurance, BMW, Siemens, Allianz, Pernod Ricard and Guess? The five principal purchases were Carnival Corp, Sina Corp, Sohu.com Inc, Toyota Motor Corp and Ericsson.

As you will see, this is quite an eclectic mix with the common variable being that their share prices are low by historic standards.

Carnival is the world's largest passenger cruise ship operator claiming about 50% market share with 100 vessels marketed under different brands[1]. Each caters to a different market segment or even nationality. It has been a fast growing industry with total cruise passengers carried rising from about 15 million in 2006 to nearly 20 million in 2011. This has been encouraged by fierce price competition as operators, seduced by the improved operating economics of giant vessels, literally cities at sea[2], sought to fill their ever-growing capacity.

Several things have now changed. The share price has been hit by the combination of the tragic grounding of the *Costa Concordia* off the coast of Isola del Giglio, the rising price of oil and fears about yields as load factors are likely to be hurt by harder economic times. Our assessment is that while each of these factors is very real, there has been a change in the industry's behaviour about adding to capacity and for the desire to raise yields. Prices for these voyages are essentially at the same level as in 2005 and down 8% from the peak of 2008, while the oil cost per passenger has trebled to about $34 per day. Over the same time span, the price of alternative holiday destinations, such as resorts or hotel rooms, has risen by over 6% and spend per room guest by at least twice as much.

It is our contention that in view of the prospective halving of the global cruising fleet growth rate to about 3% pa over the foreseeable future[3], the industry is much better placed to at least recover prices to those of earlier years. Moreover, the principal competitor, Royal Caribbean Lines, has changed its

1 Carnival, Princess Cruises, Holland America Line, Seabourn, P&O Cruises, Cunard, Costa, AIDA Cruises and Ibero.

2 Some carry as many as 3,500 passengers and half as many again as crew.

3 These vessels are available from very few specialist yards and hence future delivery schedules are known.

incentive structure to ensure profitability is favoured over growth. During this time the industry had earned a mid-teens return on assets and importantly pays no income taxes thus bolstering its net cash flow return on funds employed. Despite these near-term concerns, we find the share at book value, with the prospect of strong earnings recovery over the next few years and collect a 3% dividend along the way. We plan to build our position slowly.

The two Chinese internet plays **Sina** and **Sohu** are also in transition. Sina is the largest internet news portal in China and owns the hugely popular blogging site *Sina Weibo*, a blend of Twitter and some aspects of Facebook with some 300 million registered users. While the portal makes about $150 million net pa, all this money is being ploughed back into its social blogging business. In China, this has particular political sensitivities but our view is that the chances of the entire site being blocked or eliminated is a low probability on account of the various factions understanding its benefits for broadcasting their own agendas. In the meantime, the company is working on ways to monetise the visits of some 11 million users a day and coping with the juggling act of keeping the site relevant while meeting the government's demands for accountability. At a capitalisation of $3.7 billion net of cash, we find this opportunity enticing but need to manage the risk by our sizing our exposure.

Sohu is less contentious owning a leading gaming portal, strong in multiplayer web hosted games, being number three in search and second place in video/TV streaming, if the merger of Youku and Tudou is consummated. Sohu had aggressively competed for content for its video streaming site to the detriment of margins but content prices seem to have now subsided, while the demand for advertisers is rising strongly at 50% pa. (At present, internet ads absorb around 13% of all advertising spend in China versus close to twice that in the US). With a relatively modern internet architecture, urban Chinese can enjoy relatively high quality online video. In addition, there are restrictions on the traditional TV stations regarding content and advertising time which adds to the allure of internet sourced content. Apparently the average family watches some six hours of internet delivered video a week and there are now over 500 million Chinese with internet access. Neither Sohu or Sina is a certain winner given the threats of substitution or regulation. However, when seen against the market potential and with an eye on what these businesses sell for elsewhere, their market capitalisations, ignoring cash held, are surprisingly modest at US$2.3 billion and US$4.4 billion respectively.

Toyota and **Ericsson** are both great companies facing transient issues and yet their market power and reach are unimpaired. Toyota is fighting its way back from a series of missteps and natural disasters and is about to launch a host of new products. Forgotten by investors is this company's technical depth, its product distribution network, quality standards etc. Current earnings are pitiful compared to its global peers and we would expect that the current initiatives, together with volume recovery of some two million extra vehicles a year, will see its margins return to levels at least similar to those of other volume producers.

Likewise, Ericsson is sacrificing margin today to entrench its position as the leading supplier of mobile telephony globally with a market share of some 42%. With the gradual change of its business from the build-out and management of mobile networks across 100 countries, Ericsson is an equal match to the likes of Huawei.

Commentary

Investors are finding the markets disconcerting. Just five months ago the problems facing the euro zone seemed inextricable. Was Greece going to remain within the euro and how were the other members going to refinance their government bonds at a reasonable price? Are we now on a rickety suspension bridge to redemption or about to experience another episode of doubt and despair?

As we have noted in previous reports, there have been many instances of **deleveraging recessions** around the world in the last 60 years. What sets this one apart is that it has afflicted several leading economies simultaneously and the degree of leverage had reached record levels. Past experience shows the importance of creating a monetary illusion which allows the economy to grow in nominal terms faster than the stock of debt (and its attendant interest costs). Falling prices, as seen in Japan for the last 22 years have prevented the burden of debt from diminishing as a proportion of the economy. So even though the economy has grown in real terms by 1.1% pa since their bust occurred in 1990 and interest rates have been low (Japanese Government Bond's averaging 2.6%), the stock of debt has grown to nearly five times GDP versus four times at the start. The composition has changed as the private sector has repaid and/or defaulted while the government has taken up the slack.

The Federal Reserve Board, the Bank of England, latterly the ECB and now even the BOJ, have each clearly executed policies to expand the amount of money available to banks, accompanied by actions to depress the long end of their bond markets[4]. This in itself will not create growth but it certainly alleviates counterparty concerns and provides the mechanism for new loans to be granted to support those healthy parts of the economy to grow. The debate circles around the action taken by the Europeans and the UK to reduce their government deficits as public retrenchment is seen as counter-productive to growth. The US has thus far chosen to run a central deficit of 10% and encouragingly, job creation in the private sector has more than compensated for state and federal job losses over the last two years.

History points to many successes where countries have had debt burdens of a magnitude now present but these have invariably been accompanied by hefty currency devaluations, which contributed to the money illusion and provided the commercial impetus for growth. **With whole economic blocs now proceeding along this route, the outcome is unclear**. However, for now, governments are succeeding in repressing real interest rates and as we have pointed out often, the emerging markets are growing and account for at least half of world economic output!

In the past, we have questioned the blithe assumption that **China** can maintain its breakneck growth rate. Our recent visit **re-emphasised the central importance of property, both as a source of funding for the provincial governments and as collateral for lending**. We strongly believe that there will be no relief for bank lending to high-end residential property and this, together with indiscriminate expansion of retail and commercial property space, points to a protracted *slowing* of construction activity. The transformation to a more consumer-led economy will face various impediments and with the change of political leadership, there is a risk that policy delays could cause mischief. Fortunately, China runs only a modest central government deficit (1.6%) and outstanding debt amounts to 24% of GDP; in addition it owns expansive stakes in State-Owned Enterprises. The purpose of this commentary is principally to draw attention to over-optimistic assumptions about raw material demand emanating from China, and by extension, the implications for resource-based economies.

Outlook

There is no shortage of concern to enfeeble one's decision making. However, even after the strong rally, we can find a large number of companies that fit our criteria for inclusion in the portfolio. As noted last December, while the temptation was to hide in defensive non-cyclical opportunities, we follow a process of valuation-led investment. At times when the market is fearful, non-defensives will be more volatile but so long as their earnings power is unimpaired, the returns over time will more than compensate. To ameliorate this volatility we attempt to identify companies or sectors that are overpriced and engage in short selling. Longer term we may engage in ignoring short-term volatility in favour of trying to insure against extreme events.

Kerr Neilson
Managing Director

4 Major Central Bank balance sheets are now almost 30% of global stock market capitalisations compared with 10% in 2008; Central Banks have printed US$8 trillion since 2007. Set against national GDPs, the Federal Reserve and Bank of England assets stand at around 20%, and the ECB and BOJ just over 30%.

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