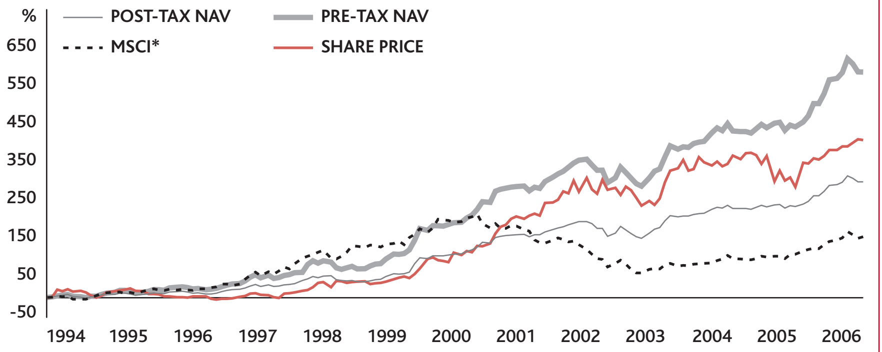
INVESTMENT MANAGER'S REPORT

PCL NAV (PRE AND POST-TAX), SHARE PRICE VERSUS MSCI INDEX (CUMULATIVE RETURN SINCE INCEPTION)



* Morgan Stanley Capital International All Country World Net Index

Source: Platinum and Factset

PERFORMANCE

A sudden surge of fear flooded markets during the last quarter of the year washing away a lot of previously untroubled confidence. The most punished markets in the sell-off were those that had risen the swiftest. Fortunately, we had become concerned earlier about the uninhibited enthusiasm for the higher-risk emerging markets and had reduced holdings in and introduced shorts against both the Indian and Korean indices. To our disappointment, the US small cap index and the Russell 2000 index sold off relatively sedately so our shorting of these gave us less protection than we had hoped.

As you will be aware, we have been puzzled by the historically rare experience of the lesser quality and smaller companies being priced at large premiums to their historic ratings and being expensive against large, superior companies. We anticipate that the end of the bull run will see small, illiquid companies significantly under-performing the large capitalisation stocks. Running defensive shorts throughout 2005/06 unavoidably involved a cost but nonetheless, the Company gained 26% pre-tax for the year even after a negative last quarter of 4.8%. By way of reference, the MSCI rose by 21.1% over the last 12 months and also fell by 4.8% in the last quarter.

Areas of activity that are sensitive to growth remained investors' favourites, particularly materials, energy, and industrials. Out-of-favour segments were health care, information technology and telecoms. Not surprisingly, it is in these depressed areas that we are now finding the more interesting prospects.

MSCI WORLD INDEX INDUSTRY PERFORMANCE (AUD)

Sector	Quarter	1 Year
Materials	-3%	45%
Energy	-1%	31%
Industrials	-5%	27%
Financials	-5%	26%
Utilities	1%	21%
Consumer Staples	-1%	17%
Consumer Discretionary	-6%	15%
Telecommunications	-3%	11%
Information Technology	-12%	11%
Health Care	-5%	10%

Source: Factset

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

30 April 2006	31 May 2006	30 June 2006
175.10	171.18	171.15

Source: Platinum

INVESTMENT MANAGER'S REPORT

continued

CURRENCIES

The quarter was characterised by US$ weakness but also accompanied by a sell-off of several emerging country currencies as questions of growth and risk became prevalent. It is interesting that these concerns did give more support to the US currency as money was channelled home. Our positions were left unchanged, with very little exposure to the US$.

SHORTING

We did creditable work in closing some of our emerging market shorts close to the bottom of the decline. As mentioned earlier, however, we were disappointed at the persistent commitment of investors to the smaller stocks in Wall Street. From top to bottom these declined by no more than 14%, not really all that much greater than the S&P 500 index fall of 8%. There will always be an "insurance premium" cost to running defensive shorts in what is judged to be an overvalued but turns out to be a still rising market. Over the full twelve months our shorts have not paid off, even though they were concentrated on the US which we were right to identify as the least attractive area. Stocks in America have typically risen by only one quarter to one half as much as those in the UK, Europe or Japan.

CHANGES TO THE PORTFOLIO

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS

Region	June 2006	March 2006
Japan*	26%	29%
Western Europe	26%	28%
North America	23%	22%
Emerging Markets (including Korea)	13%	15%
Cash	12%	6%
Shorts	34%	37%

* The Company also has a 10.3% short position in Japanese Government Bonds

Source: Platinum

Rather than going through all the changes made during the year, many of which have been discussed in previous quarterly reports, we summarise below the main changes during the fourth quarter. Early in the quarter we sold down/out of some long held positions such as Novozymes, Douglas and Metso in Europe; ITC in India; and Lotte Confectionery and Kangwon Land in Korea. In Japan we exited the last of Canon, Nintendo and Dai Nippon Printing, and reduced the housing holdings, Daiwa House and JS Group.

As the sell-off steepened we were able to re-establish holdings in economically sensitive companies like JGC (hydrocarbon and petro-chemical plant builder), Yokogawa Electric (automation controls and IC testing equipment), as well as adding to NEC, Hitachi and Mitsubishi Heavy Industries. These stocks had declined by 20% or more, as had Alcatel and Ericsson in Europe to which we also added. Given the prospect of the return of pricing power now that the Japanese economy is growing consistently, we have introduced to the portfolio food manufacturers such as Yamazaki Bakery, McDonald's and Ajinomoto which we believe will produce favourable earning surprises after years of disappointment.

Two significant new additions in North America are Bombardier and El Paso Corp. The former is an interesting amalgam of transportation businesses which has been built by the entrepreneurial founding family from its origin in snowmobiles. Following a path of clever acquisitions, Bombardier has built world leading positions in rail and regional and business aircraft. There have, unfortunately, been missteps which resulted in a precarious balance sheet and a fall from grace as the once-loved Canadian national champion. Our analysis indicates that the company has rectified its finances and is now being too narrowly classified as a regional Jet manufacturer. The rail business is about to benefit from both its internal restructuring and renewed investment in rail transport following increased energy costs, perceived pollution problems and undeniable road congestion.

El Paso (energy transmission and production) is a similar fallen favourite, having been too close to its Houston neighbour Enron. The value of its pipeline business is undiminished and now that the company has addressed its gas field development strategy, it is well positioned for continuing tight energy markets.

BREAKDOWN OF PLATINUM'S LONG INVESTMENTS BY INDUSTRY

Categories	Examples of Stocks	June 2006	March 2006
Cyclicals/Manufacturing	Toyota Industries, Schindler, Siemens, International Paper	28%	30%
Financials	Credit Agricole, Sumitomo Mitsui Insurance, Samsung Fire & Marine	14%	16%
Retail/Services/Logistics	Hornbach, Carrefour	9%	10%
Technology/Hardware	Infineon Tech, Samsung, Sun Microsystems	8%	10%
Consumer Brands	Henkel, Beiersdorf, Pernod Ricard	7%	7%
Software/Media	Liberty Media, News Corp	7%	6%
Telecoms	Alcatel, SK Telecom, Ericsson	6%	6%
Gold and Other Resources	Shell, Barrick Gold, Newmont Mining	6%	5%
Medical	Pfizer, Merck & Co	3%	4%

Source: Platinum

COMMENTARY

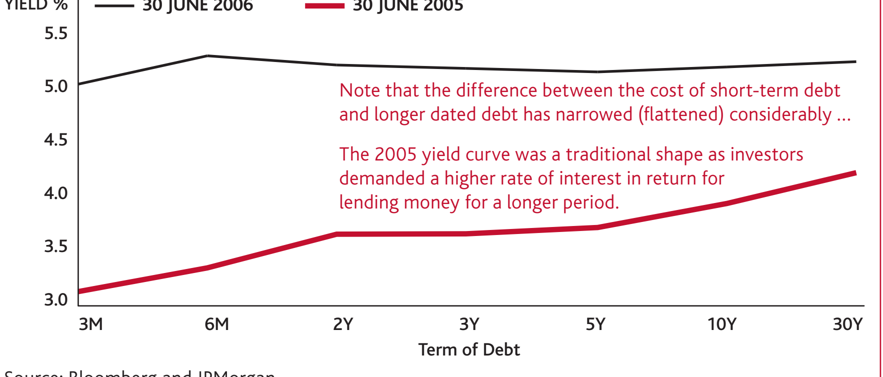
The complacency we noted last quarter received a jolt in May as market participants paid greater attention to the rising cost of money and to the actions of the Bank of Japan in rapidly reducing the availability of reserves to that country's banking system.

The sell-off which accompanied the above may have been no more than a temporary reverse. It is certainly true that there are still many positives, including the broader base of world economic growth; the widespread acceptance of the capitalist model; record levels of corporate profits world-wide; valuations that are compatible with prevailing circumstances and specific investment opportunities that seem to offer growth longer term.

It does, however, appear equally true that the pressure on interest rates is now unequivocally upwards, that an extended era of almost untrammelled monetary expansion is coming to an end, and, perhaps most importantly and least understood, that world financial markets are both highly geared and unusually exposed to high risk assets.

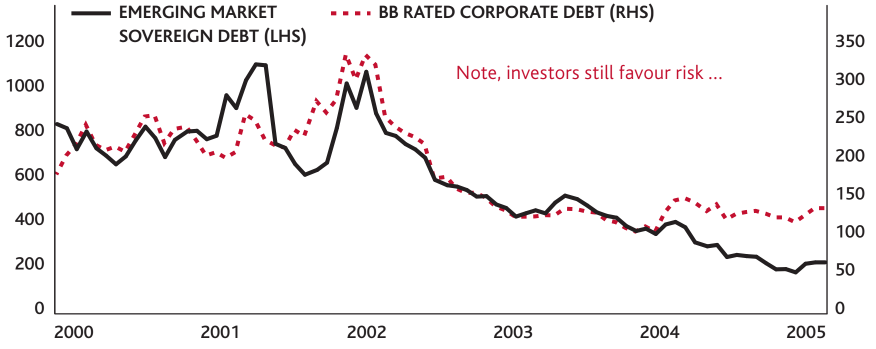
Most commentators are focusing on the US Federal Reserve Board and the consensus is that the scope for further interest rate rises in that country is now limited. It is our belief, however, that equally important will be the actions of the Bank of Japan, European Central Bank and maybe Bank of China. A worst case scenario would be for rate rises to become competitive, possibly in the context of currency turbulence. Since the 1990s the world has experienced a series of separate but almost consecutive episodes of monetary infusion, each designed to cope with an earlier problem eg. the bursting of the Japanese asset bubble, the excessive foreign debt by Asian countries in the late '90s, the unravelling of the tech boom in 2000 etc. Unlike in earlier times, this force-feeding of money did not result in general inflation, partly because of

US YIELD CURVE – COST OF MONEY OVER TIME



Source: Bloomberg and JPMorgan

LEVEL OF RATES IN EXCESS OF US TREASURY BOND YIELDS REQUIRED BY INVESTORS



Source: Bloomberg and CSFB

melting demand in Asia and the former Soviet Union, exacerbated by massive "de-stocking". This was followed by an extraordinary supply shock of cheap and plentiful manufactured goods from the likes of China, which for a while looked like a deflationary pulse. These counter-forces have now gone, replaced by the "unmasked" demand for raw materials as former laggards, India, Brazil and Russia et al, helped by foreign investment, experience massively greater material prosperity.

The effect of these injections of cheap money has been a sharp rise of asset values and a falling risk rating attached to emerging markets. As property has lost some of its allure, the chase has headed after private equity funds and cunningly sculptured financial structures. These developments fit snugly into a dichotomous world which sees one group consuming excessively and another saving. In general, the savers are willing to hold sovereign-like debt while the consumers rejoice in spicier opportunities. Specifically this can be observed in the massive build-up of derivative activity and the intercession of investment banks to cater to both sides of this SEE-SAW: so-named because one side cannot be satisfied without the other facing elevated risk.

"Splicing and dicing" it's called. The investment banks have been ever more ingenious at putting together packets of assets and apportioning the returns between different classes of investment vehicles, primary debt, junior debt, straight equity and derivative related equity. By so doing, substantial leverage becomes possible although not without compromising the security of the equity holders. The banks have been greatly helped in this by State and other public sector privatisations which have provided relatively secure income streams to investors and finance to governments, relieving them from the immediate need to either rein in spending or increase taxes.

Through the debt, equity and derivative markets the banks have been creating a cascade of credit and derivative risks[1] that can multiply the size of the entity, and consequently the fees to the banks. These new entities, Real Estate Investment Trusts, infrastructure funds, and similar, have been very successful whilst interest rates have been low and stable. What will happen under more adverse circumstances remains to be seen.

The published accounts of six[2] of the top eight investment banks show balance sheet footings of some $US3.7 trillion, of which over half are long exotic and short plain vanilla debt.

Guessing at the investment banking component for Citigroup and JP Morgan, the top eight may have banking assets approaching $US5 trillion. By way of context this compares with the non-financial debt in the US of $US26 trillion – perhaps 40% of the world total. And recall, in their pure form these are banks

1 Luxembourg is much favoured in these opaque structures as it is renowned for facilitating really exotic splicing and dicing whereas the US favours the debtor. The amount of intellectual effort expended on what is the financial equivalent of recombinant engineering is breathtaking but ultimately the risk can only be shifted, not expunged.

2 Goldman Sachs, Morgan Stanley, Lehman, Merrills, Bear Stearns, Barcap.

GLOBAL MERGER AND ACQUISITION VOLUMES

Source: Bloomberg

without natural deposits and hence are highly vulnerable to the vicissitudes of the price and availability of money. Moreover, in terms of their investment banking attributed equity bases this presents gearing of over 30 times, which is wonderful for profits in favourable circumstances but who knows the consequences under stress.

Some may dismiss all this as financial evolution and innovation. It is the widespread nature of such opportunistic activity, however, which should ring alarm bells. Private equity funds have grown exponentially and together with hedge funds may now control assets in excess of $US1.8 trillion. Originally developed to provide finance to risky start-ups and to facilitate management buy-outs, private equity has become a world of its own. It is now common for some funds to off-load investments to other private equity funds instead of listing them in open markets: even hedge funds are said to be buying into private equity funds! In other instances natural buyers of long duration assets, such as pension funds, are being outbid by investment bank-led structured entities whose only apparent distinction is their affinity for higher debt leverage (and other people's money) to the extent that interest paid out has been known to be twice that of the operation's gross takings. These activities, together with the frenzied levels of corporate merger and acquisitions, see graph over, trumpet a highly mature bull market.

We believe there is scope for global growth even if, as seems likely, the rate of US expansion soon flattens out. Importantly, in Asia the consumer's use of debt is still modest. While India has benefited from a consumer credit driven expansion that process is yet to begin in China and may take up the running as investment plays a lesser role. The sophisticated exporters of the region, Japan, Korea and Taiwan, all look set for further growth even in the face of the deteriorating trend of export prices. Strangely, these have been dropping despite relatively strong volume off-take which augurs poorly for the exporters' profitability. Fortunately, the domestic economies still look healthy.

On the more micro level, we continue to be encouraged by the attractive valuation of quality companies versus their lesser rivals. While this recent de-rating of quality may portend a general reversion of profits to the mean, it nevertheless offers interesting opportunities on an individual stock basis. Some of our themes, such as agriculture and paper, may be early in their cycle but have large upside potential; the wait will, hopefully, prove worthwhile.

CONCLUSION

Overall the dangers in markets weigh slightly heavier on us than the opportunities. The recent sell-off reflects the rising cost of capital and the reappraisal of risk. We believe this is a change of trend. It is, however, still too early to say that inflation will rise to levels that damage the valuation of equities. It is not yet clear that the deflationary burden of excessive debt, by way of higher interest rates impinging on consumption in the Anglo-Saxon countries, will outweigh the upward pressure on prices caused by tight supply and continuing strong growth elsewhere. Either way, in the next few months recorded inflation should start to reflect the pent-up cost increases of raw materials.

Platinum's portfolio is well diversified and we are continuing to find new prospects that should grow under most circumstances and yet are attractively priced. We remain, however, uneasily aware of the danger of a further downrating of risk assets.

Kerr Neilson
Managing Director