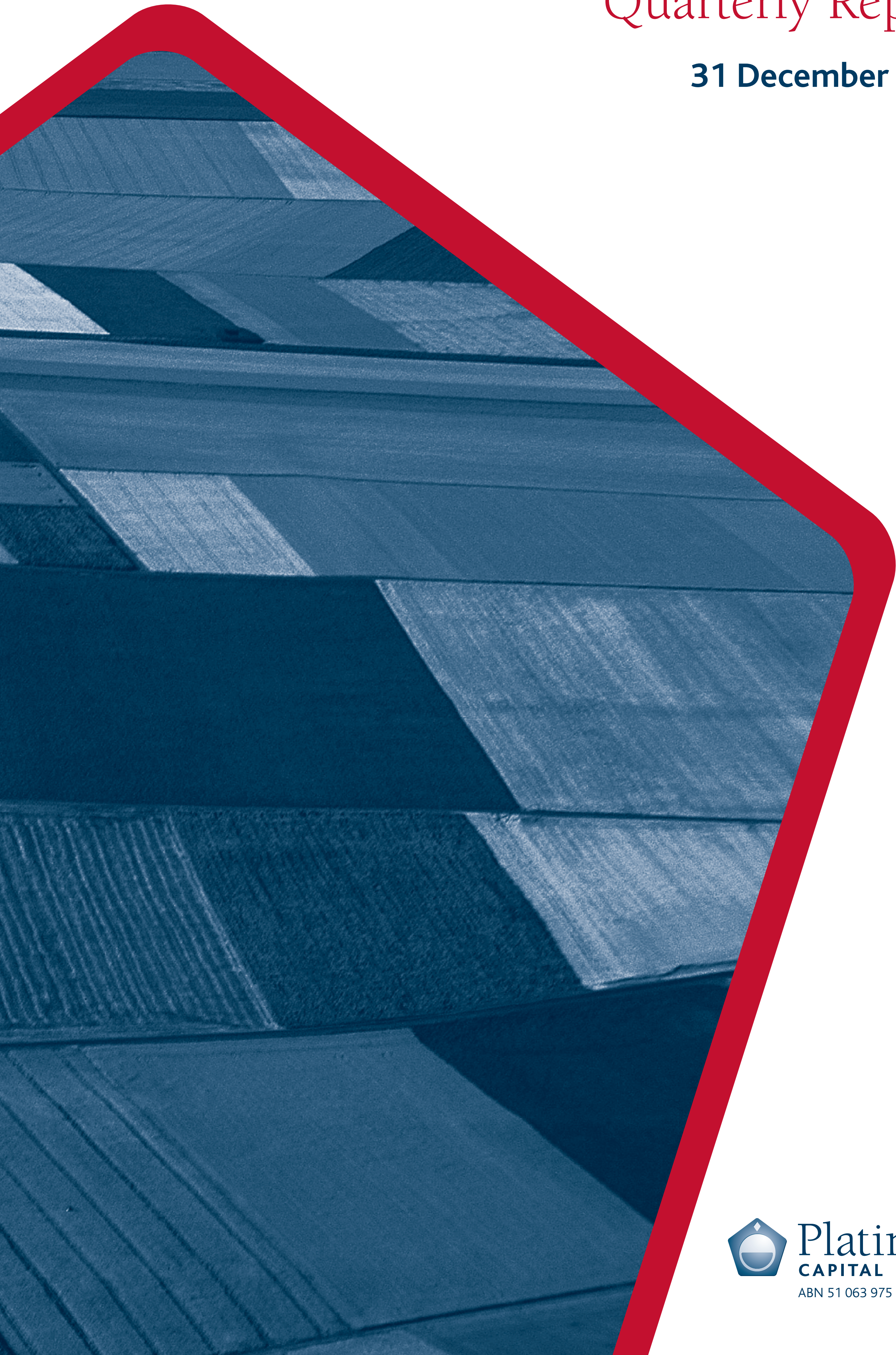
Platinum Capital® Limited Quarterly Report

31 December 2006



Platinum® CAPITAL LIMITED

ABN 51 063 975 431

PERFORMANCE

The consensus view in world markets remained broadly optimistic up to the end of calendar 2006. There was increasing acceptance throughout the fourth quarter that although growth in the US economy would slacken, it would not collapse, while inflation would remain under control and corporate earnings would continue to grow. More modest growth, it was felt, could lead to an early cut in Federal interest rates which reduced the attraction of holding US dollars.

A number of large corporate takeovers and buyouts in various countries underscored investors' conviction that market risk is low. This led to strength in the cyclical sectors versus defensives and to substantial outperformance in emerging markets as opposed to more traditional areas.

Overall the MSCI rose by 3.3% when expressed in A$ for the quarter and 12.6% for the year. Two factors adversely affected Platinum's performance. We had over 25% of the portfolio in Japan, which has been the only market to be almost flat for the year. Worse still within Japan, the banks where we are over-represented, have lagged further and undid the strong work put in by the likes of Canon, Nintendo and Toyota Industries. Holding the associated yen was not a help either, particularly against the strong Australian dollar. The second depressant was the burden of the short sales. These reduced our through-year exposure to the markets to about 55%. This only seemed like a good idea briefly in May when the markets tumbled but soon bounced back. In retrospect we regret that our cautious stance meant missing some easy pickings. This will not, however, stop us from continuing to give at least as much weight to fundamentals as to momentum. Faith in our ability to pick stocks was reinforced by the knowledge that even with these self-inflicted handicaps the Company has achieved positive returns of 0.4% pre-tax for the quarter and 5.7% for the year.

MSCI* WORLD INDEX INDUSTRY PERFORMANCE (AUD)

SECTOR	QUARTER	1 YEAR
MATERIALS	9%	22%
TELECOMMUNICATIONS	8%	24%
UTILITIES	7%	27%
CONSUMER DISCRETIONARY	5%	12%
ENERGY	4%	12%
INDUSTRIALS	4%	11%
FINANCIALS	3%	16%
INFORMATION TECHNOLOGY	1%	2%
CONSUMER STAPLES	1%	13%
HEALTH CARE	-4%	3%

Source: Factset
* Morgan Stanley Capital International

MSCI* WORLD INDEX COUNTRY PERFORMANCE (AUD)

REGION	QUARTER	1 YEAR
BRAZIL	18%	35%
INDIA	10%	41%
AUSTRALIA	10%	22%
HONG KONG	8%	21%
GERMANY	8%	27%
FRANCE	5%	25%
UK	4%	22%
US	1%	7%
JAPAN	-1%	-1%
KOREA	-1%	5%

Source: Factset
* Morgan Stanley Capital International

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

NET ASSET VALUE (CPS)

31 OCTOBER 2006	172.08
30 NOVEMBER 2006	163.79
31 DECEMBER 2006	165.44

Source: Platinum

CURRENCY

At one stage it looked as though the Japanese yen was about to recover and move more in tandem with other strengthening Asian currencies. This proved short lived as the Bank of Japan again vacillated about raising rates. At the same time commodity sensitive currencies such as the Australian dollar moved higher in concert with reduced concerns about global growth. For the quarter the Australian dollar rose by 6% versus the US dollar and 1.6% versus the euro.

CHANGES TO THE PORTFOLIO

We have reduced our exposure to Europe as we have continued to find better valued opportunities in the east. Long-standing stalwarts like Metso, Beiersdorf, Schindler and Novozymes, now on relatively demanding valuations and having each appreciated by two to three fold since acquisition, have been sold. In addition some recent purchases in the US, namely E-bay, Merck and Oracle, were discarded or reduced as they raced ahead of their near-term fundamentals.

In Japan we completed the sales programme of the previous quarter and have added gradually to the regional banks, Ajinomoto (packaged food and animal feed supplements), to some of our small holdings, and introduced Yamato Holdings Co and Sony. Both of these were once stock market darlings with unblemished growth records and all the hype associated with the internet bubble. Their share prices now, however, are a fraction of earlier levels and in each case there is the whiff of fear regarding a permanent change in prospects.

In the case of Yamato this comes from a 2004 decline in earnings, the first in 17 years, and the coincident emergence of the soon-to-be-privatised Japan Post. The latter has changed the business environment but nonetheless the demand for Yamato's rapid delivery services continues to grow and broaden into related fields of logistics and clearing. As UPS and FedEx have shown, to replicate these fine-mesh networks is no easy matter; Yamato is still the industry leader with a 34% market share. It delivered 2.8 billion parcels in 2006! Our meeting with the company reinforced our confidence in this debt free, highly profitable company's ability to grow.

Sony has been hurt by disappointments recently including battery recalls, production constraints and the ongoing reshuffling of management in an attempt to break down the internal silos that have obstructed the group from bringing its full resources to bear. Some of these issues have been resolved but the public image will take time to rebuild. Digging below the much publicised contest between the PlayStation (PS3) and Nintendo's Wii, we can identify a number of successes, notably the mobile handset joint venture with Ericsson; a strong showing by the movie division; interesting prospects in LCD television where the company manufactures the panels in a joint venture with Samsung; and the prospect of its electronic components business returning to healthy profitability. Within the next 18 months the company should benefit from its deepened in-house component technology, including the cell chip and Blu-ray DVD player, and as game developers learn to exploit the PS3's stunning computational power the game division may again be a major profit earner. In the meantime we anticipate hearing all about the virtues of Nintendo, a stock which we clearly sold too early.

In the rest of Asia we have been actively adding to positions, the largest purchase being Hutchison Whampoa. Like the above examples this company lost its lustre as it rang up heavy losses in its third generation mobile phone business principally in the UK. Were these losses to be eliminated the shares would be trading on 12 times earnings. Not bad for a company that is intimately involved

BREAKDOWN OF PLATINUM'S PORTFOLIO BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	DEC 2006	SEP 2006
CYCLICALS/MANUFACTURING	**TOYOTA INDUSTRIES, MOSAIC, SIEMENS, INTERNATIONAL PAPER**	**29%**	**29%**
FINANCIALS	**CREDIT AGRICOLE, SUMITOMO MITSUI INSURANCE, SAMSUNG FIRE & MARINE**	**14%**	**15%**
RETAIL/SERVICES/LOGISTICS	**HORNBACH, CARREFOUR, HUTCHISON, WHAMPOA**	**12%**	**10%**
TECHNOLOGY/HARDWARE	**INFINEON TECH, SAMSUNG, CISCO, SONY**	**9%**	**10%**
TELECOMS	**ALCATEL, SK TELECOM, ERICSSON, CHINA TELECOM**	**9%**	**6%**
CONSUMER BRANDS	**HENKEL, PERNOD RICARD**	**7%**	**6%**
GOLD AND OTHER RESOURCES	**SHELL, BARRICK GOLD, NEWMONT MINING**	**5%**	**5%**
SOFTWARE/MEDIA	**LIBERTY MEDIA, NEWS CORP, PUBLICAS GROUPE**	**4%**	**7%**
MEDICAL	**PFIZER, BIOTECHS**	**3%**	**4%**

Source: Platinum

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS		
REGION	DEC 2006	SEP 2006
JAPAN *	**26%**	**25%**
NORTH AMERICA	**25%**	**27%**
WESTERN EUROPE	**25%**	**27%**
EMERGING MARKETS (INCLUDING KOREA)	**16%**	**13%**
CASH	**8%**	**8%**
SHORTS	**40%**	**36%**

Source: Platinum
* The Company also has a 10% short position in Japanese Government Bonds

in today's hot areas, notably container terminals, road and other infrastructure and Asian property. With its 3G operations gradually gaining customers we feel it is only a matter of time before the market realises the advantage of not having a voice customer dependence.

COMMENTARY

It would be easy to see this as a perfect world for equity markets. Favourable factors include a care-free attitude to risk[1]; record corporate profitability[2]; low costs of borrowing money[3] and world-wide growth on a scale we haven't had for years[4]. This is, what's more, the type of seemingly unblemished situation that encourages linear extrapolation. Platinum, however, as custodians of your wealth, are intellectually and emotionally disinclined to adopt this exquisite view of the world.

It is probable that we have bored you with earlier commentary about the creation of cheap money by Central Banks[5] as they intercede to reliquefy their domestic economies; in the case of a large economy such as Japan this has a tendency to wash across borders to create further distortions. We have also trumpeted on about the agents of the system applying technology[6] and a deregulated environment to produce derivative instruments that are so distant from their origin as to allow a pricing of risk that gives non-participants the impression of alchemy[7]. We have also outlined some of the issues facing China as it pursues mercantilist policies to grapple with internal needs for employment and resources. At present, this has had a lowering effect on global inflation but the longer-term implications of a giant economy devoting over 40% of GDP to investment has yet to be seen. We note, however, the likely consequences to competitor's margins should Chinese producers turn to exports to alleviate domestic over-supply[8].

Your attention is drawn to an interesting paradox. Just as western stock markets chase ever-larger LBO deals, the waiting list for IPOs in the east is stretching over the horizon as owners discover the possibility of raising equity from ever-less critical investors. We have heard of several "road shows" being cancelled at the last moment as owners felt they could use their time more profitably than touring the financial capitals of the world to enlighten potential investors about their company's prospects! Likewise, the frantic application for shares in the likes of Industrial & Commercial

1 A measure of this is the multi-year low of the Volatility Index (VIX) of the Chicago Board Options Exchange. The VIX measures the markets' expectation of 30-day volatility and hence is a gauge of fear.

2 For example, the US Department of Commerce calculates that corporate profits' share of National Income is the highest since 1929 – except for 1942. Measures for the G7 show a similar pattern.

3 AAA credit spreads over five year treasuries are 84 basis points compared to a 20-year average of 155 and a 50-year average of 100 basis points. The corresponding numbers for BAA credit spreads are respectively 176 basis points versus 243, and 197 for the 50-year average.

4 World GDP is expected to have grown by 5.1% in 2006. With the exception of 2004 (5.3%), this is the fastest growth recorded since 1974.

5 The weighted average of overnight interest rates for the US, UK, Germany and Japan in 2001 were the lowest in a series that began in 1882 and indeed almost 1% below the last major trough seen during WW2.

6 Without today's wondrous computing power it would be impossible to price and to keep track of the slicing and dicing of debt derivatives that are now so prevalent.

7 We have recently encountered collateralised debt obligations (CDOs) that have their origin as sub-prime mortgages and have been eventually repackaged to produce tranches of AAA-rated paper!

8 Chinese steel exports are presently running at over 30 million tons a year: for context this represents about one third of US domestic steel production.

Bank of China-ICBC, being the largest IPO in history yet being over-subscribed by more than 20 times, underscores the enthusiasm of the moment. To highlight these contrasts we have prepared the highly stylised table below.

While ultra-cheap money continues to be available from carrying currencies such as the yen and Swiss franc it would be brave to forecast the end to the LBO boom. On their own or acting in concert the Private Finance Groups are now so large as to be able to challenge even the great listed industrial behemoths. Spreads between prime and lesser grade paper are so narrow as to encourage companies to actively consider the use of more debt to enhance growth even at the expense of having their debt downgraded to "junk". Hence the display of nonchalance by markets in the face of mega-bids for highly leveraged entities such as Equity Office Properties, by Blackstone in November for $US36 billion, and a consortia's bid for HCA for $US32 billion in July. At home, the bid for Qantas had the added touch of the consortium planning to place $A7.5 billion "covenant lite" paper abroad. Are we so far down the road of globalisation that traditional risks such as labour disputes, management misjudgements and the like carry so little weight? Perhaps, but there is a measure that we apply when managing your wealth that does seem to be missing in some of these deals; when buying a company's shares we systematically ask whether the business will be bigger, stronger and better in the future than at present.

Despite the tell-tale indicators of undue exuberance in stock markets we are still finding a wide selection of companies that we regard as attractively priced. As we often note, by definition there is always something out of fashion. Having been a star in 2005, Japan has spent the last 12 months consolidating as weak holders reduced their positions. The economy has witnessed over 50 months of growth and the continued reluctance of the Bank of Japan to raise the cost of borrowing has seen the yen slide by 13% versus the euro this year – its principal export competitor.

Japanese company earnings are growing strongly as management redirects the benefit of stronger demand, helped by the very weak yen, to bolster profits rather than incomes to workers. Wages are rising by a mere 0.2 to 0.3% year on year. This emphasis on profitability is being influenced by the disappearance of cross shareholdings and a change in the pecking order of "stakeholders".

We continue to believe that Japan is a highly prospective market and that the weak holders have now sold out. Foreign institutional holdings appear to be down to index weight. This suggests that the climax of selling we saw in November has set the market for a resumption of its upward trend. Domestic investors still have approximately 52% of their financial assets in cash and only 7.4% directly in domestic shares. Their search for yield is evident from the portfolio flows abroad and the drop in the capitalisation rate of commercial property at home; with rentals yielding at least twice the cost of 10 year money the inducement is obvious. This enthusiasm is also spreading to development land. For example, in late December IHI sold 0.66ha of reclaimed land for about $US40,000 per square metre, some four times the price achieved in Koto ward in August 2004. This netted IHI ¥30.8 billion capital gain or approximately $US260 million.

WEST VERSUS EAST

WEST	EAST
REDEEMING EQUITY WITH SHARE BUY-BACKS AND LBO ACTIVITY	RAISING EQUITY VIA IPOS AND GOVERNMENT PRIVATISATIONS
RE-LEVERAGING BALANCE SHEETS TO PROTECT AGAINST UNWANTED SUITORS	TRYING TO BURY THE MEMORIES OF HAVING HAD TOO MUCH (EXCHANGE RATE EXPOSED) DEBT
CONSUMERS WITH MINIMAL SAVINGS CONTINUE TO INDEBT THEMSELVES FURTHER	CONSUMERS ARE RELATIVELY UNDER-BORROWED AND STILL CONTENT TO SAVE
LBO FUNDS INFLUENCING SHARE PRICES AT THE MARGIN	FOREIGNERS SET THE PRICES OF SHARES
FINANCIAL MARKET DEREGULATION IS *DE RIGUEUR*	REGULATORS ARE SOMEWHAT HOSTILE TO UNREGULATED FOREIGN DEPREDATIONS

Source: Platinum

Elsewhere, domestic investors have returned enthusiastically to the China "A" share market. While valuations are up this thematically-driven market pays more attention to the story line than the valuation. With restricted capital flows and paltry returns of about 2.5% on their saving accounts, it would be surprising if we do not see a repeat of the frenetic investor activity last witnessed in 2000. While foreigners have only limited access to this market, via QFII quotas, we have been adding mainland orientated companies to the portfolio via the "H" share market in Hong Kong. Some 40% of our funds are now deployed in Asia.

In the context of rising valuations we have tended to sell down in Europe even as confidence returns regarding the growth outlook for the largest European economy, and the world's largest exporter, Germany. We had nearly 60% of the Company's European exposure in that country alone in mid-2003/04 but valuations have moved a fair way since. We make this observation to emphasise that we seldom seek confirmation from the crowd who tend to be consensus driven, just as now for example, they have discovered India. This mode of operation can, of course, work to our disadvantage by causing us to enter and exit too early and it has recently been costly due to our short selling activity.

An inversion of the yield curve has, with few exceptions, been followed by a decline in economic activity within 18 months. This suggests that the US economy will grow slowly at best in 2007 although most forecasters are projecting a soft landing. As we have noted for some while now the valuation gap between truly good companies and the rest is abnormally low, which probably means that risk is being ill-priced. This offers us scope to buy great companies at valuations at the lower end of their 20-year range. In more turbulent times, investors are likely to find these shares relatively more appealing so we expect them to appreciate relative to lesser quality rivals.

OUTLOOK

If one were to pick a single factor which could change today's seemingly benign environment it would be currencies. The development of the Chinese yuan is acting in line with our commentary of September 2005, but the Japanese yen may be the most telling indicator for 2007. Countries producing large balance of payments surpluses, such as those in the Persian Gulf and Russia, are now actively diversifying into euro and yen.

World growth looks set to remain strong even in the face of a weaker US economy but we should not forget that Asia now has a greater export dependency than in the 1990s which, should investors become nervous about the sustainability of demand, could lead to fierce price volatility. Offsetting this to some extent is the fact that most Asian economies are presently fundamentally stronger than in the 1990s and our valuation models show that the region is offering some of the most compelling value.

We have no plans at this point to reduce our short positions in those areas where we judge that markets are driven almost entirely by exuberance and are paying little attention to risk. The consequences of a change in market sentiment regarding risk assets could be substantial.

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