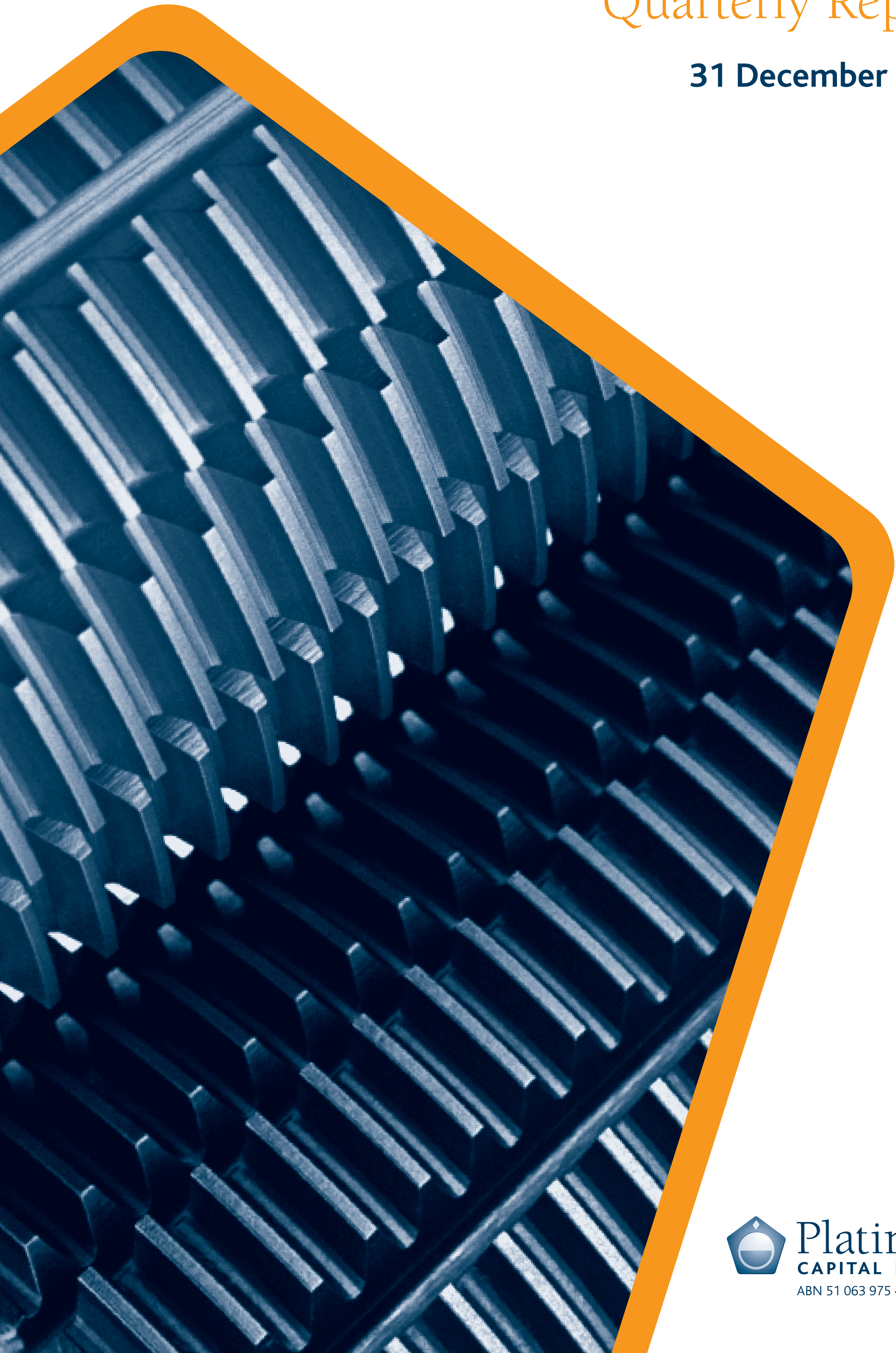
Platinum Capital® Limited Quarterly Report

31 December 2007



Platinum® CAPITAL LIMITED

ABN 51 063 975 431

PERFORMANCE

Our relative performance has improved as our fears about an over-supply of credit have proved justified. Cracks in market confidence began to appear in the second quarter and have since widened as a moderately serious credit squeeze has developed. We have benefited from a low exposure to financial and cyclical companies and from a concentration on quality and value.

PLATINUM CAPITAL LIMITED – PRE-TAX NAV RETURN VS MSCI INDEX

	3 MTHS	6 MTHS	1 YR
PLATINUM CAPITAL LTD	**1.3%**	**-0.6%**	**2.2%**
MSCI ALL COUNTRY WORLD NET INDEX	**-1.0%**	**-1.8%**	**0.2%**

Source: Platinum and MSCI

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 2007	**151.78**
30 NOVEMBER 2007	**152.95**
31 DECEMBER 2007	**153.88**

Source: Platinum

We have not entirely avoided disappointments. We have suffered from a few "value traps" where we have identified and bought "cheap" stocks only to find them obstinately remaining "cheap". Our consolation is the limited downside of counters of this type.

SHORTING

We reduced our short position from 27% to 22% early in the fourth quarter to reduce the impact of the cost of this insurance on our relative performance. However, as markets became more concerned with the flow-on effects of the credit squeeze we saw opportunities to benefit from downside adjustments simply too good to refuse in areas such as commodities, emerging small markets and low capitalisation stocks in the US. By the end of the quarter our short position had increased to 30%.

CURRENCY

The Australian dollar has been strong reflecting dynamic world growth and a high level of demand for commodities. As seen from the table below, last year's returns from the larger international markets were significantly reduced by this strength.

We now anticipate a period of slower world growth so have reduced exposure to the Australian dollar. The US dollar looks to be finding a base level against the Euro, the Pound sterling and the Swiss franc. It still looks unattractive, however, against Asian currencies, not only the Japanese yen but also the Malaysian ringgit, the Singapore dollar and the Taiwanese dollar despite significant interest rate differentials in some cases. Our broad currency policy for the year ahead is to be positioned to benefit from a gradual rebalancing which would likely involve a steady appreciation of Asian currencies on a trade weighted basis.

MSCI WORLD INDEX WEIGHTINGS AND MSCI INDEX PERFORMANCE (LOCAL AND AUD), 12 MONTHS TO 31 DECEMBER 2007

REGION	WEIGHTING	LOCAL	AUD
ASIA EX JAPAN	**7%**	**33%**	**26%**
EMERGING MARKETS	**12%**	**38%**	**25%**
JAPAN	**8%**	**-10%**	**-14%**
EUROPE	**30%**	**6%**	**3%**
US	**41%**	**5%**	**-5%**
WORLD		**7%**	**0%**

Source: MSCI

CHANGES TO THE PORTFOLIO

Our exposure to Western Europe has been increased, partly due to purchases in four very interesting companies.

Schneider is the world leader in low voltage electrical distribution equipment. While clearly in the short-term facing diminishing demand from US housing, Schneider is extremely well-placed in emerging markets, which represent some 30% of sales. Of equal importance it is exploiting the awakening awareness for energy saving devices in homes and offices. It has a well-established global supply chain and has progressively broadened its reach by acquiring related businesses worldwide. We believe temporary doubts about growth give us an unusually good opportunity to buy at well below the normal valuation.

Pinault Printemps Redoute (PPR) was known traditionally as a department store operator in France. Via a remarkably adept acquisition strategy it has transformed itself so as to now derive only half of its profits from the slow growing European retail businesses and 40% from luxury brands, such as Gucci, YSL and Bottega Veneta. While one can over-state the enthusiasm with which consumers relish the wearing of brands, it is a fact that PPR has achieved unusual success at reinvigorating its labels and is receiving a warm welcome in Asia and emerging markets. Reaching far back into its history the group also owns a significant trading company in Africa that principally distributes cars and light trucks. It has progressively widened its network and now covers 26 African countries.

As capitalism gradually becomes the norm in Africa, we suspect this division's growth rate will accelerate above its traditional mid-teens pace. The group has achieved an outstanding record and with the founder's son fully engaged in running the business, we believe it deserves a rating that more appropriately reflects its new profile.

Reed Elsevier and SAP are companies with low cyclical profiles. Reed has an underlying growth rate of around 10%, selling professional services to the likes of lawyers and accountants. This growth has been masked in recent times by the weakness of the US dollar versus the Pound, and, as a consequence, the rating has suffered and has fallen back to a market average despite the defensive nature of the business. This appeals to us particularly as the Pound looks set to reverse its earlier strength.

SAP is of even higher quality. It has successfully migrated its business applications platform from mainframes to servers and now onto the web. It supplies the principal IT platform to some 400 of the Fortune 500 companies and as they have migrated to the new release, SAP is in the midst of a strong up-selling cycle. At the same time group margins should expand as it stabilises its R&D relating to a new hosted software system targeted at businesses of up to 500 employees. (See the more detailed explanation in the latest Platinum European Fund report available at www.platinum.com.au.) On approximately 19 times 2008

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS

REGION	DEC 2007	SEP 2007
NORTH AMERICA	24%	28%
WESTERN EUROPE	23%	18%
JAPAN	21%	22%
EMERGING MARKETS (INCLUDING KOREA)	20%	19%
CASH	12%	13%
SHORTS	30%	27%

Source: Platinum

PLATINUM CAPITAL LIMITED – TOP 20 STOCKS		
STOCK	INDUSTRY	DEC 2007
MICROSOFT	TECHNOLOGY	3.6%
SIEMENS	ELECTRICAL	3.0%
BOMBARDIER	TRANSPORT	2.9%
HUTCHISON WHAMPOA	TELCO/TRANSPORT	2.8%
INTERNATIONAL PAPER	PAPER	2.6%
HENDERSON LAND DEV	PROPERTY	2.2%
CISCO SYSTEMS	TECHNOLOGY	2.2%
SAMSUNG ELECTRONICS	ELECTRICAL	2.0%
DENSO CORP	AUTO	1.9%
SONY CORP	ELECTRICAL	1.8%
HENKEL KGAA	CONSUMER	1.8%
PERNOD RICARD	BEVERAGE	1.8%
HORNBACH BAUMARKT	RETAIL	1.6%
CREDIT AGRICOLE	FINANCIAL	1.6%
ERICSSON	TELECOM	1.6%
ROYAL DUTCH SHELL	OIL	1.5%
BMW	AUTO	1.4%
BANK OF CHINA	FINANCIAL	1.4%
BARRICK GOLD	GOLD	1.4%
TOYOTA INDUSTRIES CORP	AUTO	1.3%

Source: Platinum

earnings and with excellent short and medium-term prospects, this is the ideal purchase in what we believe will be a world where earnings growth is scarce.

It is Platinum policy to limit investment to stocks which we have researched thoroughly. Approximately 40% of our portfolio is invested in 20 stocks.

COMMENTARY

It is widely assumed that the US authorities will take whatever action is necessary to prevent their economy from sinking into recession. It is, however, equally widely assumed that the drying up of the cheap credit previously flooding into both corporate and consumer hands will slow down previous high rates of growth. It is further assumed that this effect will spread to most other developed economies.

The question we are asked most frequently relates to the prospects for there to be a so-called decoupling between the developed economies and those of Asia and the large commodity producers such as Brazil and Russia. Stephen Roach of Morgan Stanley has expressed the view that there can be no decoupling as globalisation is essentially about integration. This, however, has not been a seamless process, as witnessed by the mercantilist policies pursued by some, with the consequent accumulation of huge foreign exchange surpluses. Had the system been totally fluid, significant currency adjustments might have ensured less misallocation of resources and perhaps this might have constrained some of the financing excesses that are now unravelling.

The momentum behind some of the emerging economies is very strong on the back of heavy investment in infrastructure and resource development. It is likely that there will be a negative pulse from the West, as well as from their own interest rate tightening, notably in India and China, and perhaps from currency appreciation. However, in the event of an undue slowing, these countries have plenty of scope to stimulate consumer demand.

As far as equity markets are concerned our main worry lies in valuations at the extremes. Like the tech boom before it, the trap lies in visions of endless demand and the willingness of investors to extrapolate current above-trend prices into the distant future. Copper, a valuable indicator of growth expectations, has already come off by 18% from its September highs, as have the prices of other metals. We cannot justify most commodity producer share prices. Likewise, the valuations now common in hot emerging markets such as Russia, India and China leave us unenthusiastic as they have been revalued to unprecedented levels.

We believe the repricing of risk will ultimately bear down on these valuations although accumulating foreign exchange surpluses may delay the adjustment.

A further question is whether we are at the beginning of a major rise in the rate of inflation. Certainly prices have started to surprise on the upside, notably in China where food prices are some 15% higher than last year, but our contention at this stage is that the tightening of credit across the globe will be a counter to current supply tightness. Moreover, outsourcing is still exerting pressure on real wages in developed countries even with employment running at historically full levels. The bond markets seem to be endorsing this view about inflation, with the yields on most Sovereign debt being near their lows. The co-ordinated action by central banks to ameliorate the tightness in the credit markets, however, carries underlying inflationary risks.

At the corporate level it is clear that most of the world has been going through a period of excellent conditions for business. Demand has been strong, credit has been cheap, wages and rents have been easily contained, even governments have been largely supportive. As a consequence corporate profits have reached unprecedented levels, expressed either as a percentage of GDP or as a return on sales. Even poorly managed concerns have done well, sometimes spectacularly so as they typically spend as little as possible on R&D, marketing or equipment maintenance. On the basis that market forces eventually rebalance abnormalities we can expect that some time soon demand will weaken, credit costs will rise, wage pressure will increase and governments will impose greater social and environmental burdens.

When the above happens we anticipate a sharp reversal of the recent trend for valuations to compress into a narrow range. Amazingly, price-setting and price-taking companies are now selling on similar multiples, a situation which will surely be unsustainable as less robust demand makes it harder to pass on rising costs.

One routine exercise done by Platinum is to rank our core universe of some 2000 companies by quality. Each is reassessed annually to give top and bottom quartiles by profitability and growth over a rolling twenty years. Further analysis identifies those without excessively high operational gearing but with normal profit margins. Provided their other business dynamics, such as technical excellence, product quality and price-setting ability are also good, and provided their shares are selling on valuations close to their historic average or less, they are candidates for our portfolio. Companies like Microsoft, SAP and Cisco meet these criteria.

We also give consideration to companies which fit into long-duration themes such as energy conservation, alternative energy, public infrastructure and similar. These seldom have all the attributes of normal "quality" companies but can nonetheless be attractive because of their exposure to a long, outstanding backlog of capital projects. A few of our favourites, such as Bombardier, Siemens and JGC, even have the prospect of widening profit margins.

OUTLOOK

On balance we believe that the action of the central banks to flush the system with standby facilities will gradually move the focus away from the so-called sub-prime crises. With write-offs put at, say, US$350 billion, this has been a sizable setback to financial intermediaries globally. Fresh equity has been sought and we could expect more to be needed in due course. There has certainly been a rude interruption to credit availability in an exuberant world that was running at its fastest pace in history and stretching available resources to the full.

We fret about the high level of profits but the fact is that developed market equities are by historic standards cheap against other asset classes. We argue that there is enough momentum to see global growth continuing, albeit at a slower pace. Our greatest encouragement is that we are still able to identify a broad group of companies we wish to buy. This partly stems from the sharp sell-off in some growth sensitive sectors and markets as they anticipate a slowing, plus the phenomenon of some quality companies being rated at multi-year relative lows. The general indices seem inexpensive with the consensus estimates putting global earnings for 2008 on a PE of 14.1 times, the US on 14.7 times and Europe on 12.6 times. We suspect that earnings will fall short of these boom-induced forecasts but nevertheless such ratings are below the long-term averages. International reserve growth continues apace and as we have noted previously, the appetite of Sovereign funds for equity type investment is on the rise.

There is enough optimism in valuations and over-enthusiasm in profit expectations to justify some short positions to reduce market risk. By seeking out the exceptions, either in "quality" or long duration themes, we believe we can achieve solid returns in 2008.

Kerr Neilson
Managing Director

The Monthly Net Asset Value for Platinum Capital Limited is released to the ASX seven business days after month end. This announcement can be viewed at Platinum's website: **www platinum.com.au/Stock_exchange_releases.htm** or the ASX website: **www.asx.com.au**

Alternatively, please call Platinum's investor services on 1300 726 700, 61 2 9255 7500 or 0800 700 726 (New Zealand only).

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