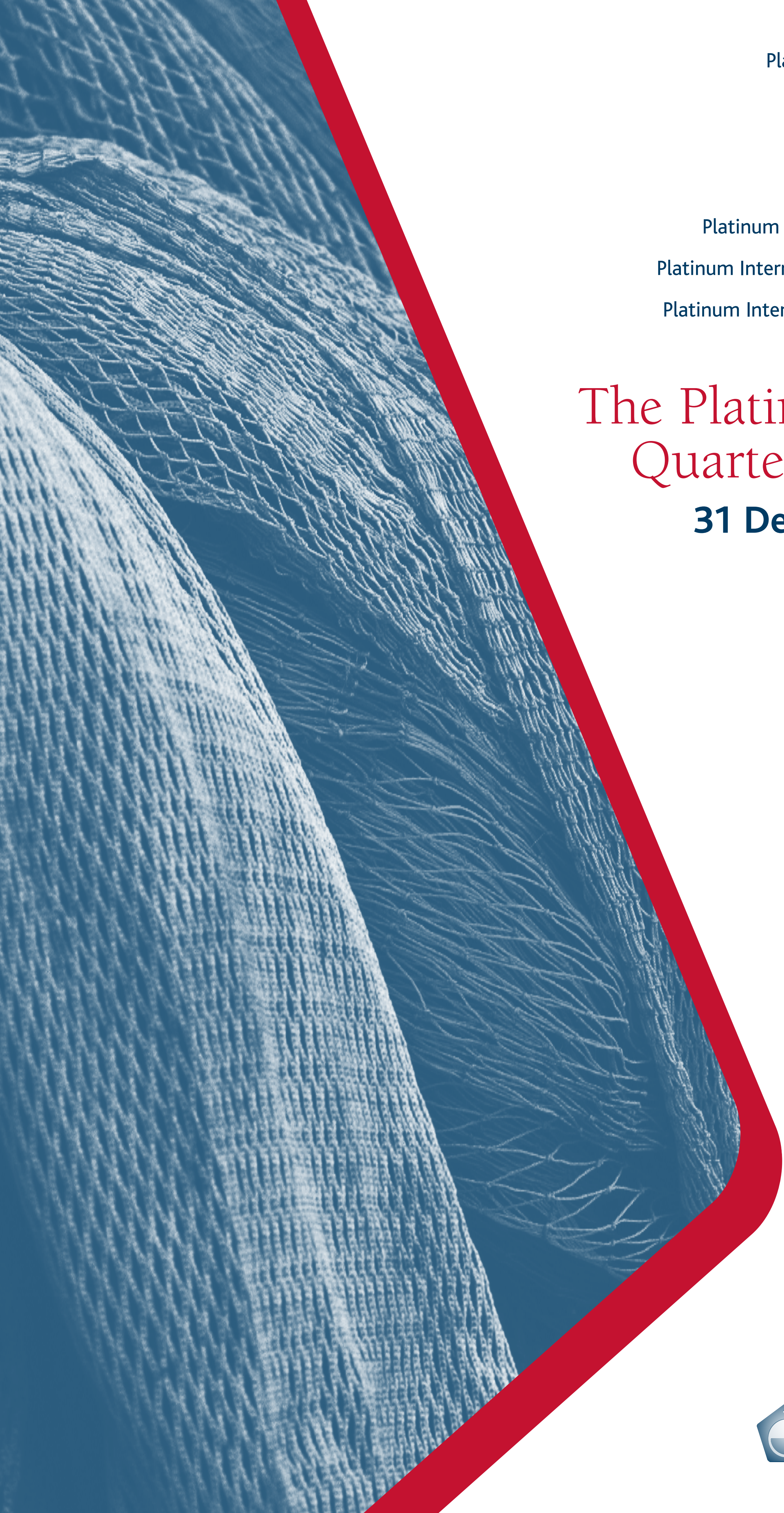
Platinum International Fund
ARSN 089 528 307
Platinum Asia Fund
ARSN 104 043 110
Platinum European Fund
ARSN 089 528 594
Platinum Japan Fund
ARSN 089 528 825
Platinum International Brands Fund
ARSN 092 429 813
Platinum International Health Care Fund
ARSN 107 023 530
Platinum International Technology Fund
ARSN 092 429 555

The Platinum Trust® Quarterly Report

31 December 2006



Platinum® ASSET MANAGEMENT

Front cover photograph: Alan Benson/Lonely Planet Images.

CONTENTS

Experts ...

We recognise that our greatest untapped resource is our readers. If you are an industry expert, we would welcome your comments and ideas.

Do email us at:

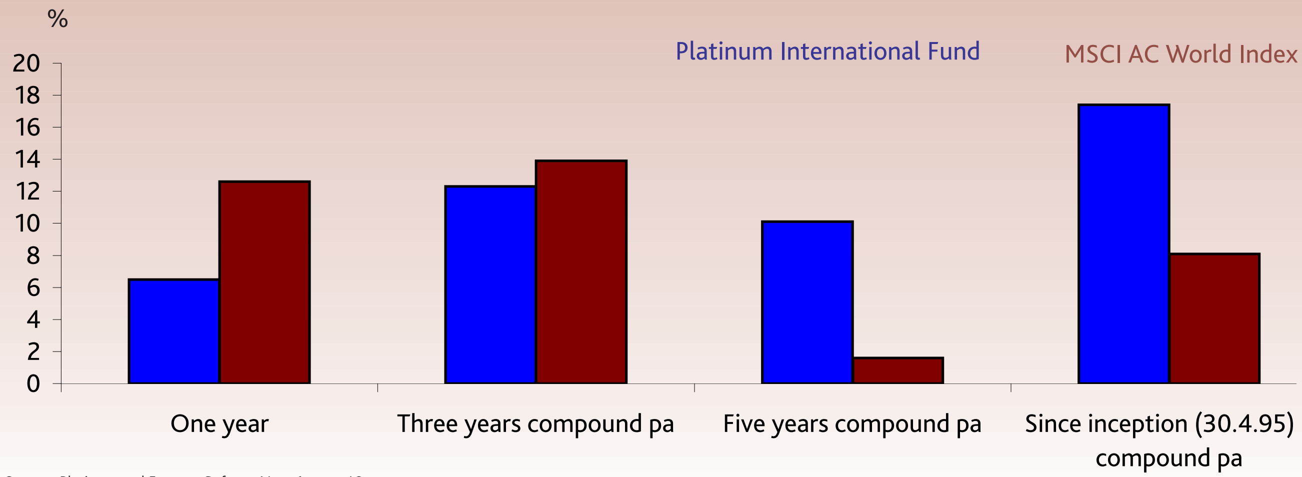
commentary@platinum.com.au

FUND	FUND SIZE	QUARTER	1 YEAR	2 YEARS COMPOUND PA	3 YEARS COMPOUND PA	5 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA
INTERNATIONAL FUND	**$9,277m**	**0.5%**	**6.5%**	**13.4%**	**12.3%**	**10.1%**	**17.4%**
MSCI AC* WORLD INDEX		3.3%	12.6%	15.5%	13.9%	1.6%	8.1%
ASIA FUND	**$2,312m**	**6.0%**	**17.8%**	**28.7%**	**27.4%**	**-**	**33.6%**
MSCI AC ASIA EX JAPAN INDEX		9.5%	24.1%	27.6%	22.4%	-	23.7%
EUROPEAN FUND	**$352m**	**5.3%**	**24.4%**	**18.7%**	**18.3%**	**12.5%**	**17.1%**
MSCI AC EUROPE INDEX		5.8%	24.5%	21.1%	19.5%	5.7%	3.2%
JAPAN FUND	**$1,060m**	**-1.9%**	**-5.2%**	**17.3%**	**17.0%**	**14.4%**	**22.2%**
MSCI JAPAN INDEX		-0.6%	-1.1%	15.2%	13.9%	4.1%	3.2%
INTERNATIONAL BRANDS FUND	**$627m**	**2.6%**	**12.2%**	**23.3%**	**21.7%**	**17.4%**	**18.0%**
MSCI AC WORLD INDEX		3.3%	12.6%	15.5%	13.9%	1.6%	-1.3%
INTERNATIONAL HEALTH CARE FUND	**$30m**	**0.2%**	**10.9%**	**7.6%**	**5.7%**	**-**	**6.2%**
MSCI AC WORLD HEALTH CARE INDEX		-3.8%	2.5%	9.4%	6.9%	-	8.2%
INTERNATIONAL TECHNOLOGY FUND	**$69m**	**3.7%**	**11.9%**	**12.6%**	**9.9%**	**7.0%**	**12.0%**
MSCI AC WORLD IT INDEX		1.1%	2.0%	7.9%	4.8%	-6.3%	-14.4%

*Morgan Stanley Capital International All Country

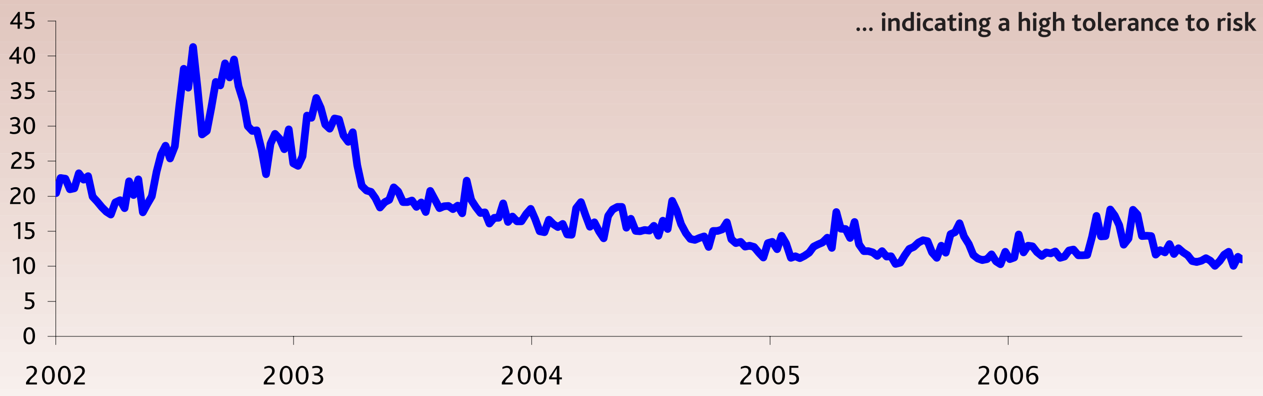
Source: Platinum and Factset. Refer to Note 1, page 46.

PLATINUM INTERNATIONAL FUND VERSUS MSCI WORLD INDEX TO 31 DECEMBER 2006



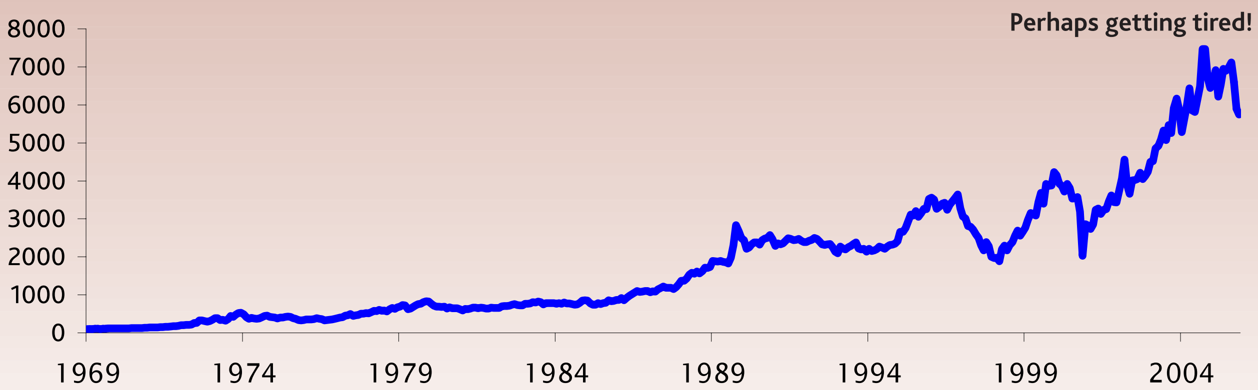
Source: Platinum and Factset. Refer to Note 1, page 46.

VOLATILITY INDEX (VIX) OF THE CHICAGO BOARDS OPTIONS EXCHANGE



Source: Bloomberg

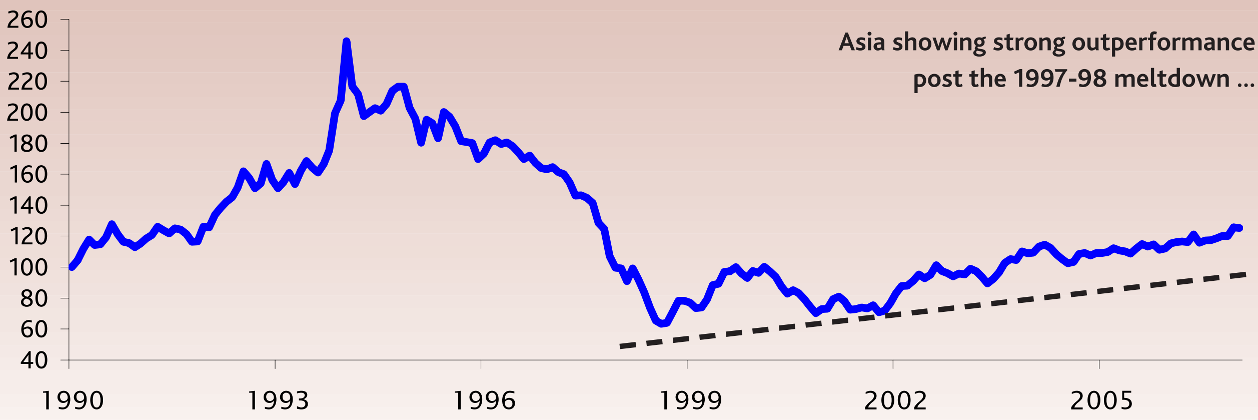
GOLDMAN SACHS COMMODITY INDEX



Note: Energy accounts for 69% of the index, while crude oil accounts for 44%.

Source: Goldman Sachs, Datastream

MSCI ASIA EX JAPAN RELATIVE TO MSCI AC WORLD INDEX



Source: Datastream

PLATINUM INTERNATIONAL FUND

Kerr Neilson
Managing Director

PERFORMANCE

The general view of a friendly investment climate continued into the fourth quarter. The consensus moved to a "soft landing" for the US economy; a benign inflation outlook and further earnings growth, albeit in single digits. For the present, the US dollar is acting as a barometer of growth expectations, with the linkage being that weak growth will result in an early cut of rates by the Fed and hence this will reduce the attraction of holding US dollars. In addition, several large corporate takeovers underscored investor convictions that market risk is low. Further evidence of this interpretation is shown in the cyclical sectors versus defensives and emerging markets strongly outperforming traditional markets (see accompanying tables).

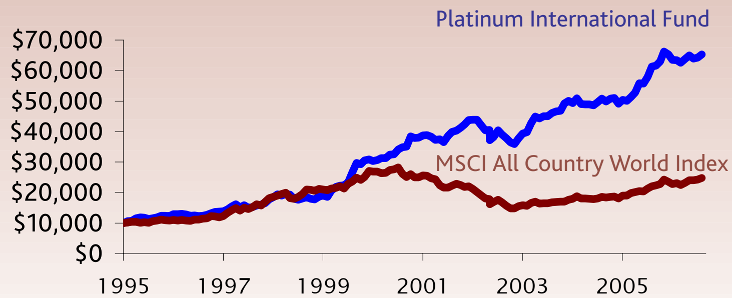
Overall the MSCI rose by 3.3% when expressed in A$ for the quarter and 12.6% for the year. Several factors have dampened our performance. By having over 25% of the portfolio in Japan, which has been the only market to be almost flat for the year, we have denied you some excellent opportunities. Worse still within Japan, the banks 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 60%. 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 we have achieved positive returns of 0.5% for the quarter and 6.5% 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

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 MAY 1995 TO 31 DECEMBER 2006



Source: Platinum and Factset. Refer to Note 2, page 46.

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

DISPOSITION OF ASSETS

REGION	DEC 2006	SEP 2006
JAPAN *	26%	25%
NORTH AMERICA	23%	26%
WESTERN EUROPE	21%	24%
EMERGING MARKETS	17%	13%
CASH	13%	12%
SHORTS	35%	35%

* The Fund also has a 8% short position in Japanese Gov't Bonds

Source: Platinum

CURRENCY

At one stage it looked as though the Japanese yen was about to recover and move more in tandem with the strengthening Asian cohort. This proved short lived as the Bank of Japan again vacillated in 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

Europe has been the source of funding 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, 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 were once stock market darlings with unblemished growth records and all the hype associated with the internet bubble. Their share prices are a fraction of earlier levels and in each case there is the trenchant whiff of fear regarding a permanent change in their 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 equally, 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 (delivering 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 steam-rolled by disappointments recently; battery recalls, production constraints and the ongoing reshuffling of management in an attempt to break down internal silos that are obstructing the group from bringing its full resources to bear. Some of these issues have been resolved but the public image will take some time to rebuild. Digging below the much publicised

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	DEC 2006	SEP 2006
CYCLICALS/MANUFACTURING	TOYOTA INDUSTRIES, SIEMENS, INTERNATIONAL PAPER, MOSAIC	**28%**	**30%**
FINANCIALS	CREDIT AGRICOLE, SUMITOMO MITSUI INSURANCE, SAMSUNG FIRE & MARINE	**15%**	**15%**
RETAIL/SERVICES/LOGISTICS	HORNBACH, CARREFOUR, HUTCHISON WHAMPOA	**10%**	**7%**
TELECOMS	ALCATEL, SK TELECOM, ERICSSON, CHINA TELECOM	**9%**	**6%**
TECHNOLOGY/HARDWARE	INFINEON TECH, SAMSUNG, CISCO, SONY	**8%**	**9%**
CONSUMER BRANDS	HENKEL, PERNOD RICARD	**6%**	**6%**
GOLD AND OTHER RESOURCES	SHELL, BARRICK GOLD, NEWMONT MINING	**5%**	**5%**
SOFTWARE/MEDIA	LIBERTY MEDIA, NEWSCORP, PUBLICIS GROUPE	**4%**	**7%**
MEDICAL	PFIZER, BIOTECHS	**2%**	**3%**

Source: Platinum

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 has also lost its lustre as it rings 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 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

Optimists must surely regard this as a perfect world for equity markets. A care-free attitude to risk[1]; record corporate profitability[2]; low costs of borrowing money[3] and world-wide growth like we haven't had for years[4]. It is the type of situation that encourages linear extrapolation. Our concern is that as custodians of your wealth we 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 economies, which in the case of a large economy such as Japan, has a tendency to wash

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. See first chart page 3.

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.

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

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 **depressant 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 with some anxiety, however, the likely consequences to competitor's margins in many basic industries should Chinese producers turn to exports to alleviate domestic over-supply[8].

Here though is the interesting paradox; just as western stock markets swelter in the heat of lusty and ever-larger LBO deals, the waiting list for IPOs in the east is stretching over the horizon as owners discover the delights 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 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 following highly stylised table above.

With the continued availability of ultra-cheap money from carrying currencies such as the yen and Swiss franc, it would be **brave to anticipate the end to the LBO boom which is proving to be such an important driver in equity markets**. On their own or acting in concert, these pools are now so large as to be able to challenge even the great listed industrial behemoths. Spreads between prime and lesser grade paper are now 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 even highly leveraged entities such as Equity

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.

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 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!

For all these **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 a very weak yen) to bolster profits rather than incomes to workers (wages are rising by a mere 0.2 to 0.3% on last 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 and indeed 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) but 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 (and netted IHI ¥30.8 billion capital gain or approximately $US260 million).

Across the sea, domestic investors 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 on their saving accounts (2.5%), it would be surprising if we do not see a repeat of frenetic investor activity last witnessed in 2000. While foreigners can 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.

On account 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 Fund'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 also discovered India. (This mode of operation can, however, work to our disadvantage by causing us to enter and exit too early and it certainly has been costly with our short selling activity.)

An inversion of the yield curve has, with few exceptions, led to a decline in economic activity within 18 months. This suggests that the US economy will grow slowly at best in 2007 and 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, reflecting the general observation of risk 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 and it would be usual for them to appreciate relative to lesser quality companies.

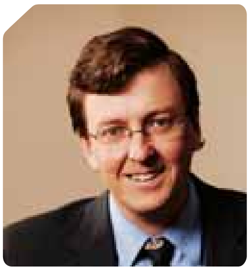
OUTLOOK

If one were to pick a single indicator to signal a change in 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 yen may be the most telling indicator for 2007. Countries producing large surpluses such as those in the Persian Gulf and Russia are now actively diversifying to euro and yen.

World growth looks set to remain strong even in the face of a weaker US economy but sight should not be lost of Asia's greater export dependency than in the 1990s which in the event of growth fears, is likely to lead initially to fierce price volatility.

Offsetting this to some extent is the fact that most economies are fundamentally stronger than in the 1990s. Also, our valuation models show that the region is offering some of the most compelling value. At this stage we have no plan to reduce our shorts as they should help to counter any change in market sentiment regarding risk assets.

PLATINUM ASIA FUND



Andrew Clifford
Portfolio Manager

PERFORMANCE

PERFORMANCE (compound pa, to 31 December 2006)

	QUARTER	1 YR	2 YRS	3 YRS	SINCE INCEPTION
PLATINUM ASIA FUND	6%	18%	29%	27%	34%
MSCI AC ASIA EX JAPAN	10%	24%	28%	22%	24%

Source: Platinum and Factset. Refer to Note 1, page 46.

It was an extraordinary quarter for Chinese stocks with the Shanghai "A" market up over 50% and the Hong Kong "H" market up 45%[1]. While the Chinese "A" shares have been steadily making ground over the last 18 months, having previously been one of the world's worst performing markets, this quarter's performance would suggest that the country's massive trade and capital account surplus have finally created liquidity conditions conducive to a good bull market. Efforts to hold back property prices, the major alternative asset class for domestic investors, have possibly helped funnel funds back towards stocks as well. Foreign investors have bought up the "H" share market in sympathy, particularly as it represents one of the few ways of playing the ongoing appreciation in the Chinese yuan. Other strong performers for the quarter were Indonesia, the Philippines, and Singapore, all up in excess of 16%. The major laggard was Thailand which was down 1% for the quarter after the Bank of Thailand imposed capital controls.

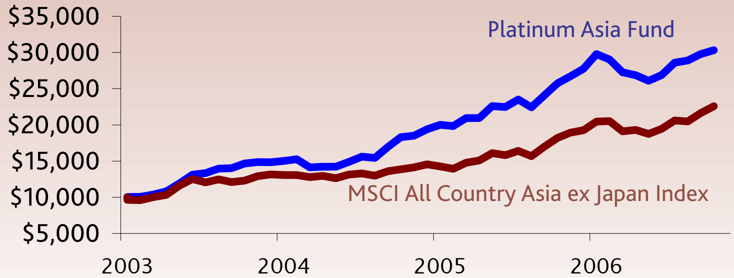
[1] The "A" share market in China is primarily a domestic market only, although foreign investors now have some limited access, while the "H" share market in Hong Kong is open to foreign investors but not mainland investors.

DISPOSITION OF ASSETS

REGION	DEC 2006	SEP 2006
CHINA (LISTED EX PRC)	5%	5%
HONG KONG	8%	7%
CHINA (LISTED PRC)	19%	22%
TAIWAN	6%	4%
GREATER CHINA TOTAL	38%	38%
KOREA	15%	18%
INDIA	15%	15%
MALAYSIA	7%	6%
THAILAND	5%	5%
SINGAPORE	2%	2%
INDONESIA	3%	3%
CASH	15%	13%
SHORTS	15%	9%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
3 MARCH 2003 TO 31 DECEMBER 2006



Source: Platinum and Factset. Refer to Note 2, page 46.

The major contributors to performance were the Fund's Chinese holdings with China Vanke (property developer), Anhui Conch Cement, Zhengzhou Yutong Bus ("A" share listed bus manufacturer) and China Telecom all appreciating in excess of 50% for the quarter. The underperformance of the Fund during the quarter can be attributed primarily to short positions in share indices across the region.

CHANGES TO THE PORTFOLIO

With a number of holdings reaching full valuations there were a significant number of changes made to the portfolio. China Mobile, Anhui Conch Cement and Shanghai Real Estate were amongst holdings disposed of. New holdings include Hutchison Whampoa, the Hong Kong conglomerate that includes the world's largest container terminal operator and the "3" mobile phone business with operations across the globe, including the UK, Italy, HK, and Australia. Taiwan Semiconductor, the leading semiconductor foundry, was also added to the portfolio, along with Reliance Energy (Indian power utility) and New World China (PRC property developer).

COMMENTARY

The star performer amongst Asian markets during 2006 has been the Vietnamese stock market where the Ho Chi Minh stock index appreciated by over 150%. While the Fund currently has no direct investments in Vietnam, it is worth contemplating the progress Vietnam has made in reforming its economy in recent years as it will quite likely form a permanent part of the investment universe in the region.

In many respects the changes that have taken place in Vietnam mirror those that occurred in China during its transformation to a market economy. The *equitisation* (Vietnamese terminology for privatisation) of state owned entities (SOEs) started on an experimental basis in the early 90s. The process involves incorporating the SOE and a subsequent sale to the public, with 30% of the stock reserved at a heavily discounted price for the management and employees. In some cases the government has sold out completely, while in others it has retained controlling stakes. By the late 90s, the process was accelerated with over 3,000 SOEs, accounting for approximately 10% of SOE invested capital, "equitised" by the end of 2005. Laws passed this year require all remaining SOEs to be privatised over the next four years.

Although the privatisation process was a vital part of the Chinese reforms, the real driver of China's growth has been the extraordinary success of the private sector, to the extent that the private sector today accounts for over 60% of China's GDP. (After all, telling a government department it now has shareholders and has to make profits usually won't make for the most inspiring of companies, at least not overnight.) In centrally planned economies such as Vietnam or China before their respective reforms, there was always an underground private economy that provided services which the SOE behemoths failed to fill. Although such activity may have been well hidden, once the government opened the door to private enterprise many rushed in to fill the void.

In China, the move to opening up the private sector started with the "household responsibility" system for farming in the early 80s and progressed further with the creation of township and village enterprises in the late 80s. The success of the private sector gained even more impetus in 1992 with Deng Xiaoping's famous exhortation "To be rich is glorious". Perhaps this explicit encouragement of the pursuit of profit by the nation's senior statesman represented the removal of the last barrier to the rising flood of private enterprise. The establishment of Vietnam's "Enterprise Law" in 2000 appears to have heralded a similar period of private enterprise expansion with the number of private companies having expanded from less than 100 to over 200,000.

Hand-in-hand with the expansion of the private sector has been a rapid growth in foreign direct investment (FDI). As much as $US7 billion is expected to flow into the country this year up from $2 billion five years ago, which places Vietnam second only to China in FDI relative to GDP. With the wages of manufacturing workers in China starting to accelerate, Vietnam has become the new destination for low cost manufacturing. A population of over 82 million, of which 50% are less than 25 years old, and a literacy rate of over 95%, makes Vietnam a highly desirable location to establish manufacturing operations. Unskilled labour can be found by foreign firms for $US60 per month (local employers will pay substantially less) compared with the $US150 per month now being paid in major manufacturing centres in China.

However, it should be noted that Vietnam is equal in population only to the largest of China's 26 provinces, so the competitive impact on China's own growth will be limited. Other sources of foreign income include tourism with foreign arrivals now over two million a year and inward remittances from expatriate Vietnamese estimated to be at levels similar to that received by the Philippines. With Vietnam's entrance to the WTO in early 2007 now confirmed, the country will undoubtedly receive a further boost in FDI and trade.

The result of the reforms has been that GDP has grown at a rate of over 7% pa since 2000, again second only to China in the region. Perhaps more illustrative of the country's progress are the 17 million mobile phone subscribers, up from six million in mid-2005, which represents a similar level of market penetration as in Indonesia. The existence of 21 million motorbikes on the road, along with the appearance of Mercedes and BMWs on the streets in recent times, provides another view of Vietnam's recently found prosperity. Along with the stock market, the property market has also been hot with the market reportedly up tenfold since 1998. Prime residential property prices in Hanoi and Ho Chi Minh City are approximately $US200 per square foot which places it at similar levels to Shanghai.

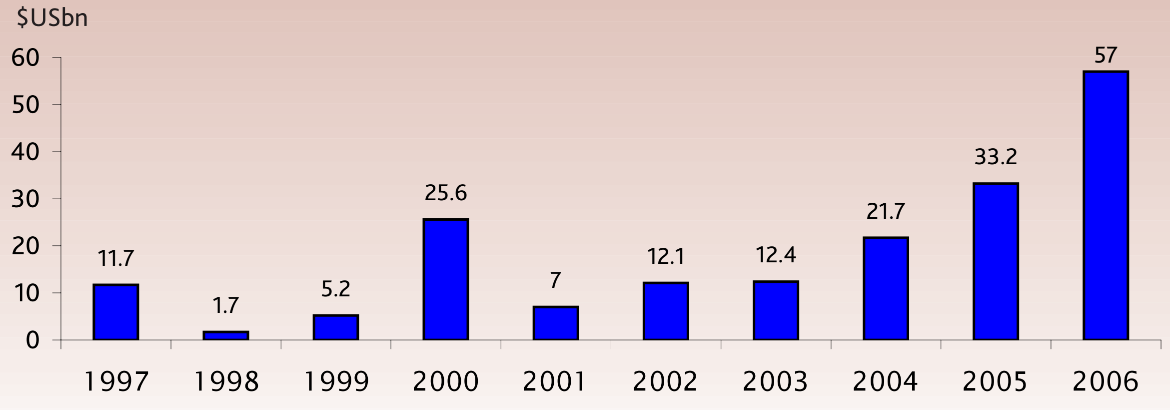
The stock market is tiny with a market capitalisation in the order of $US10 billion. Exact figures are hard to come by because of the existence of a large over-the-counter market in privatised SOEs. This is separate from the formal stock exchange which is expanding quickly as a result of the acceleration of privatisations. Hopefully this will give us an opportunity to participate in the transformation of the country. In the meantime, trade volumes are pitiful with the largest listed company capitalised at $US1.7 billion with trading virtually by appointment. Currently the Fund does have an indirect exposure through Thai property developer, Amata Group.

Elsewhere, the event of note during the quarter was the imposition of capital controls by the Bank of Thailand in an attempt to reduce the global liquidity that had been washing into the Thai market and driving up the value of the baht. The measures were immediately effective, sending the Thai Stock Market into a sell off that saw it fall 14% in a single day. Once the rules were clarified for stock market investors, the market regained half its losses, but foreign investors' confidence in the country had been significantly damaged. Subsequently there have been accusations of incompetence and inexperience in the caretaker government and its administrators Many commentators hold the view that capital inflows could have been reduced through interest rate cuts that were otherwise necessary to give a boost to the sluggish performance of the Thai economy.

It is worth reflecting on why the Bank of Thailand (BOT) would take such draconian action when there was little evidence of speculative excesses in Thailand. Perhaps their experience of the mid-90s when global liquidity flowed into and then out of Thailand and resulted in a currency crisis? The subsequent recession saw half of the banking system's loan portfolio default which surely made them sensitive to the damage that indiscriminate portfolio flows can do to the real economy. Although the BOT's actions may remain an isolated incident, it is also possible they portend further disturbances to markets as authorities try to deal with the ramifications of global liquidity flows.

Otherwise we could report much as we did last quarter that ongoing confidence about lower global interest rates, steady-to-lower energy costs, and the ongoing strength of the Chinese yuan against the US dollar continue to help Asian stock markets move higher. The strong markets have allowed companies to continue to raise funds from the market, with nearly $US60 billion raised by initial public offerings this year. ICBC, a Chinese state owned bank, was the highlight of the new issues with the $US21.6 billion issue attracting over $US1 trillion in applications. Although such an abundance of new supply is often an indicator of a market top, the positive is that in direct contrast to the developed markets where the private equity buyout phenomenon is gearing up corporate balance sheets, Asian companies are moving to strengthen their financial position.

Initial Public Offerings (IPO) in Asia ex Japan



Source: Merrill Lynch

PLATINUM EUROPEAN FUND

Toby Harrop
Portfolio Manager

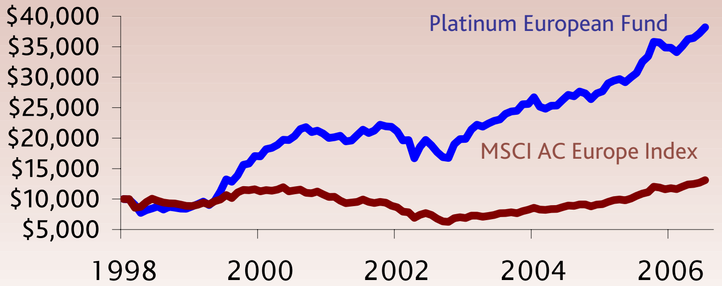
PERFORMANCE

Brushing off a minor setback in November, the European equity markets drifted higher in the last quarter of 2006. Renewed weakness in the US$ (admittedly modest, and mainly versus the euro not the yen thus far) is one of few straws in the wind to suggest the markets are tiring. Another is record levels of "insider sales" (ie. net sales of shares by company directors and officers) on both sides of the Atlantic. Similarly the start of large scale share issues by some savvy European companies indicates their perspective on the market. These blemishes aside, however, the fourth year of the bull market has been broad in nature.

Strong areas of the market for the quarter were steel (+24%), real estate (+20%), and travel and leisure (+17%). Only the pharmaceuticals sector (-4%) fell, confirming investors' appetite for risk. In native currencies, the European markets added 7% for the three months to December, and with the A$ marginally firmer against the euro etc, the MSCI Europe A$ return was 5.8%. The Platinum European Fund gained 5.3% for the three months.

Over calendar 2006, the Fund (+24%) has kept pace with the market (+25%), despite its more cautious position: the Fund has tended to be 70-75% net invested over the year. Thus while we have incorrectly positioned the overall portfolio for such a strong market, our stock selection has partly offset the error.

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 31 DECEMBER 2006



Source: Platinum and Factset. Refer to Note 2, page 46.

CHANGES TO THE PORTFOLIO

We have continued to reduce exposure to some stocks where prices have run very high, but the main change is the addition of several new names in one key lagging area of the market. The portfolio now has 11% in the European **media** sector. This comprises French and German TV companies, one of the multi-national advertising groups, and also magazine and radio companies based in France. As the chart illustrates, the media stocks in Europe have been one of the few poor relations in this broad bull market.

The missing vim relates to several things. Firstly, the actual advertising expenditure upswing has been modest in recent years, strong economies, record corporate profitability and global branding efforts notwithstanding. Second, uncertainty over the impact of new technology on delivery mechanisms (eg. TV over the internet etc) and audience fragmentation have made traditional TV models uncertain. And third, a general presumption that the internet will supplant print (and other) media - even if few can articulate *how* this will happen - has caused investors to be wary of the industry.

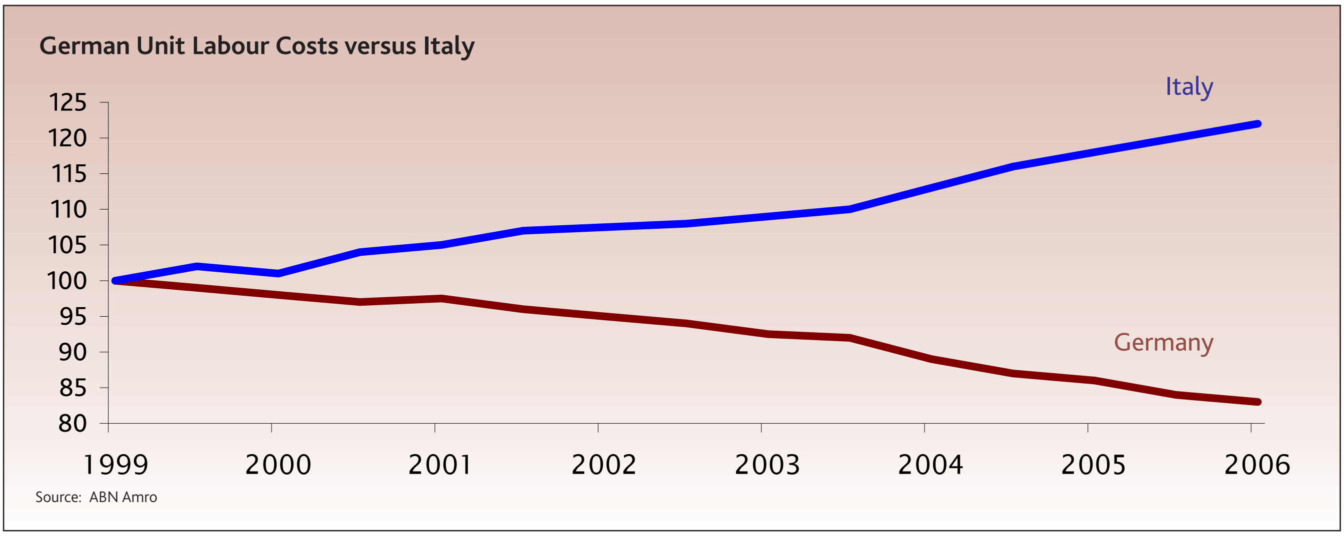
We are sanguine, leaning towards optimism, on the general advertising expenditure cycle: this should improve in the next year or two, especially in France where January sees the commencement of the era of TV advertising by retailers (French law has banned such communication hitherto). Incidentally, worry that the French radio businesses will be the losers from this regulatory change has pushed their valuations down to such low levels that we have invested in the leading player.

And on the more important structural change issues outlined above, we have tried to find areas where the impact is more than discounted already, or where it may not matter. The best example of this seems to be one of the global advertising groups, which is almost indifferent to the competition between media, and moreover is a beneficiary (through more and higher advisory fees) of the strategic complexity of the internet, and a changing communication landscape generally.

Elsewhere we have added another name in the pulp and paper area, and the portfolio has a 9% exposure to this theme. Improving pulp prices, and high capacity utilisation rates are, for the moment, being offset by the strength of the euro versus the US dollar.

Europe: media relative to market

Source: Factset



COMMENTARY

The mighty German economy!

One year ago we reported that German central banking figures (ie. German representatives on the European Central Bank board) were threatening that Italy must engineer *relative disinflation* in its economy over the coming years to reverse the problem implicit in the chart above.

Last December's report showed the collapse in the Italian current account from handsome surpluses in the mid-1990s, to persistent and worsening deficits in recent years. In general we presented the case from the "uncompetitive Italy" perspective, and we noted (again!) how in a monetary union (where there is no functioning political union) that interest rate settings will <u>inevitably</u> be inappropriate for some countries at various times.

Today it is fashionable (and seemingly accurate) to discuss the situation from the "hypercompetitive Germany" point of view. Germany is once again supreme in European industrial output, and indeed remains the world's largest exporter of goods (perhaps a surprising position in a world pre-occupied with the dramatic expansion of China's exports, or indeed with the industrial giants of Japan and the US). Astonishingly, there are now anecdotes of German companies shutting down Eastern European plants in order to ***bring production back "home"*** to Germany: such is the wage inflation, and relatively low productivity, of the countries to Germany's east (with the notable exception of Poland).

In France, populist politicians are suggesting - and newspaper editorials are claiming - that Germany is "stealing French jobs"! In the Netherlands and elsewhere similar unease is emerging. The point of this is that the *disequilibrium* in Europe has become "strong Germany" (rather than "weak Italy"). And the reality of monetary union is that the consequences of this are several years of relatively high inflation in Germany in preference to deflation and recession in the Mediterranean countries. Today's tensions in the European monetary project reflect the fact that Germans do not like the prospect of inflation - the 1920s are gone but not forgotten, and the great fear Germans had in swapping their Deutschemark for euros was the loss of "internal currency stability".

But such give and take is what monetary union implies and requires, and our best bet is that Germany will have some inflation over the rest of the noughties - probably not too much, but more than the rest of Europe. With this in mind, one of the few dull areas of the robust German stock market, namely the retailers, may be much more interesting in the coming years. The best supermarket operators (Aldi etc) are unlisted, but we have a good position in one of the strongest hardware store ("DIY") chains, namely the Hornbach group. Recent sales data from the company (and a *tripling* of third quarter profits) suggest that both business volumes and prices are improving.

Visits to European companies in China

In October we visited the Chinese operations of a number of European companies, focusing on those where China accounts for a significant part of either today's business, or tomorrow's growth. We can report that wage growth is indeed running at 8-15% pa, that pollution is even worse than imagined, and that there is an ongoing obsession with low prices. However, as usual, some of the company-specific issues were more instructive:

Electricity transmission company ABB of Switzerland highlighted how China is at the "cutting edge" in more and more industries - a reminder that *the learning is in the doing*. Due to its hydro and coal resources being far from the coastal region of greatest electricity usage, China is pioneering electricity transmission projects at higher voltages, over greater distances, than anywhere in the world. In fact the ABB China boss pointed out that they are working on a single line which alone will transmit Switzerland's entire electricity generation capacity! And thus while in the physics departments of European universities electricity transmission is a low priority, in Beijing universities it is a glamorous and vital area of study.

The retailer Carrefour, based in France, has been operating in China for 10 years and has 80 stores. The differentiating feature of Chinese retail is that hypermarkets (ie. supermarkets with a large non-food offer included) are succeeding in the urban/suburban areas where a western city would be served by supermarkets. In China, the "catchment" areas of the shops are defined by a radius of 10 minutes on a bike! Despite relentless car traffic in China, 91% of Carrefour China shoppers come by bike or on foot. And therefore they come often. Competition is intense, and so sales growth in existing stores is low (**every** catchment area, **every year**, is seeing a new hypermarket competitor, at the moment), but the company can open up to twenty new stores per annum to grow, and profitability is solid.

For companies who rely in the west on service and maintenance profits to supplement low margin initial equipment sales, such an approach in China is fraught with difficulty. Whether it is elevators or forklift trucks, Chinese customers will pay only just above standard hourly labour rates for service, so that the five year service contract of the west is not a route to profit if your initial price is insufficient.

And one evening we were taken on a tour of some premises selling Pernod Ricard's Scotches, Cognacs etc, which was eye-opening indeed. The personnel-intensive business model astonished us, but we were left with an impression of a fantastic growth opportunity for a company such as this which has put in the staff at the coal face, rather than merely relying on high level sporting event sponsorships etc.

Russian risks

The stock market reaction was muted when it became clear in recent weeks that state-controlled Gazprom of Russia would indeed relieve Shell of half its interest in the vast "Sakhalin II" hydrocarbons project. The barely perceptible fall in Shell's share price reflected (a) that the market has expected something of this nature anyway, and (b) (optimistic?) hopes that Gazprom will pay a reasonable price in this "deal".

Over several months various pressures have been brought to bear(!) on Shell, culminating with a direct threat a few weeks ago by the Ministry of Environment to withdraw Shell's operating licence for alleged environmental violations. Shell has been forced into a negotiation it does not want, with few strong cards to play.

The main point for us - and you may recall that the Trust Deed allows the European Fund to invest east as far as the Urals! - is that with emerging markets priced with growth premiums rather than risk discounts, Russian investments need a pretty wide margin of safety.

To highlight the problems created by uncertainty over title and property rights generally, consider the situation in the pulp and paper industry. Today the key dynamic in that market is China's growing demand for pulp - there is plenty of paper-making capacity being installed in China, but there are few spare trees. At the moment one million tonnes of pulp are shipped annually from Brazil to China. But Brazil's strong currency, and high ocean freight rates suggest that (Eastern) Russia is the logical location for new pulping capacity to feed Chinese demand. Russia has vast forests, cheap labour, cheap energy and close proximity to the market. The most "recently" installed capacity in Russia is over thirty years old and yet has the lowest operating costs of any pulp line we are aware of around the world. And yet *no new pulp lines are being installed*, and in fact the largest local producer has recently been sold - for what appears to be an astonishingly low price - to International Paper of the US.

The point is that even the native Russians are turning their back on a sound investment opportunity, such is the uncertainty over title - surely among the most basic building blocks of the capitalist system. Indeed, the consequences are seen elsewhere, such as in London where now *one in five* of the very high-end property sales is to a Russian buyer. Whatever next?! What a surprising world, where someone flogs a growth business in Russia for a quarter of its value, to buy property in London at valuations seen only in 1980s Tokyo …

The Platinum European Fund has a very limited exposure to Russia (Shell being the main one), and even less to London property!

Invested Position

At the end of 2006, the Fund is 86% long, and 11% short for a net 75% exposure to European markets. In addition, a modest put option position (on the French CAC and German DAX indices) was established at good prices, so that on a delta-adjusted basis the Fund's exposure is 69%. Currency positioning is little changed with 37% hedged back into the A$.

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	DEC 2006	SEP 2006
TECH/MEDIA	INFINEON, ALCATEL, ERICSSON	26%	20%
CHEMICALS/MATERIALS	UPM, SHELL	18%	19%
CAPITAL GOODS	SIEMENS, RIETER, METSO	17%	18%
CONSUMER/RETAIL	HENKEL, HORNBACH, CARREFOUR	14%	13%
FINANCIALS	CREDIT AGRICOLE	5%	6%
PHARMACEUTICAL/BIOTECHNOLOGY	NOVOZYMES, EUROFINS	4%	4%
MISCELLANEOUS SERVICES	GFK	2%	3%

Source: Platinum

PLATINUM JAPAN FUND

Jim Simpson
Portfolio Manager

PERFORMANCE

The Fund has produced a very disappointing return for the quarter and the last 12 months. The main culprit has been the strong Australian dollar which rose by 9% against the yen over the year and by 7% alone in the December quarter. The Australian dollar even outperformed the strong Korean won. Essentially we have misread the Japanese yen which we had imagined would have begun to strengthen after 50 months of economic expansion. This caused us to favour entities which would benefit from a more buoyant domestic economy and as a result we downplayed exporters and commodity type of businesses. With the weak yen, some of these companies have been spectacular with the likes of low-rated companies such as steels rising a full 40% in the month of December alone. Beneficiaries of a domestic recovery were in fact laggards with the retailers and financials underperforming the Nikkei. Among these were the Regional Banks which were weak on account of interest rate rises being deferred by the BOJ (Bank of Japan). To the extent that we had exposure to exporters such as Toyota, the performance was excellent, as were our property holdings such as NTT Urban.

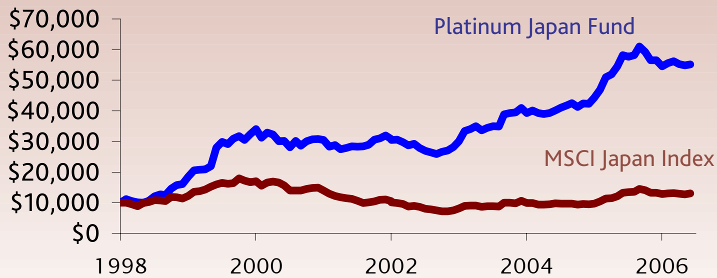
Apart from Livedoor, we have not identified any specific lapses in our stock selection. As always, there were opportunities which were foregone such as selling Nintendo too early and perhaps not squeezing more out of the export-orientated shares we owned. The wash-up for the year was an underperformance against the index of 4.1% and by 1.3% for the December quarter.

DISPOSITION OF ASSETS

REGION	DEC 2006	SEP 2006
JAPAN	70%	70%
KOREA	17%	17%
CASH	13%	13%
NET SHORTS	8%	3%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 31 DECEMBER 2006



Source: Platinum and Factset. Refer to Note 2, page 46.

CHANGES TO THE PORTFOLIO

Major Purchases: Sony, East Japan Railway.

Major Sales: Tokyo Gas, Samsung Fire & Marine, Mitsui Sumitomo Insurance.

COMMENTARY

During our December visit to Japan, an area to which we devoted a considerable amount of time were businesses that would benefit from the new game console cycle. Specifically we met with Sony, Nintendo and game developers such as Square Enix and Namco Bandai.

Having last written about this at the end of 2005, we have been astonished at the change in sentiment towards Nintendo and this gives us reason to question the market's current negative view of Sony.

Central to Nintendo's strategy has been the company's emphasis on what it calls 'Gamer Drift' - the loss of once loyal game players due to the increasing complexity of games that require huge investments of time to enjoy. Nintendo's fixation on this issue (unlike Sony or Microsoft) may have stemmed from their much younger user base and a shrinking demographic in their home market. In fact, in Japan the market for video games matured around 1997-98 and today game software sales are 20% lower than the annual peak of almost 100 million titles. Hardware sales too have been generally flat, despite the introduction of new consoles.

Nintendo once dominated the home console market, but corporate arrogance and a fear of piracy let Sony steal the crown from them with the PlayStation and their market share dwindled even further to as little as 13% with the Game Cube. About two years ago when the market started shifting its focus towards the next generation of consoles, analysts were, somewhat presumptuously, suggesting that Nintendo couldn't compete with the technical savvy of Sony or the balance sheet of Microsoft and should exit the hardware business altogether, following Sega's example.

About this time, Nintendo announced and subsequently released the Nintendo DS, a portable game console with two screens, one of which was touch sensitive. The DS's initial reception was unenthusiastic and it was seen as an underpowered competitor to Sony's PlayStation Portable (PSP) until the market saw the benefits of Nintendo's two hit games, Nintendogs and Brain Training.

Starting in Japan, these two games ignited sales and drew in customers from demographics that had hitherto been virtually unrepresented in gaming - notably women and middle-aged adults. Nintendo has sold more than 10 million copies of Nintendogs and the DS has become the fastest selling game console in Japan.

In some ways the DS was a dress rehearsal for the 'real' battle between Nintendo, Sony and Microsoft which has just started with the release of all three new game consoles (the Wii, PlayStation 3 and Xbox360) onto the market. Nintendo has had to prove to consumers and game developers that they were worth supporting. Just as the DS's pen-based input was a natural fit for older game players, the Wii's motion-detecting controller has the potential to attract older game players to action-based games such as tennis or bowling. Because there is nothing new to learn, the barriers to participation are low.

"The next generation begins when we say it does".

Ken Kutaragi, video-game division chairman at Sony. (*E3, May 2006*).

While analogies can be made between Sony's arrogance today and Nintendo's ten years ago, the negative sentiment towards Sony seems to have been overdone. It may be expensive and production problems have hampered its release, but the PS3 is without a doubt a powerful machine almost ahead of its time. Compared to Nintendo, Sony is actually taking a much larger risk with the

PS3, both financially and strategically. In addition to initially losing $300 for each PS3 sold (compared to a small profit at Nintendo for each Wii), Sony is actually trying to position the PS3 as the centrepiece of the living room, eventually becoming the access point to all one's media consumption, such as high-definition movies and downloaded content from the Internet. Even if it doesn't take the form of a PS3, Sony is hoping the Cell processor (a seven core CPU) which it developed with Toshiba and IBM, will be at the heart of whatever device becomes popular.

Apart from concerns in the game console arena, investor sentiment toward Sony has also been weighed down by recalls of notebook batteries, yield problems in the production of Blu-ray diodes and the ongoing reorientation of management responsibilities. However, when one tries to remove this emotive over-burden, we can identify several areas of success which we believe will allow Sony to have a dramatic turnaround in its profitability over the next 18 months. Most notably, the success of the Sony Ericsson mobile phone joint venture, the current wins at the box office with *Casino Royale, Click and Da Vinci Code*, and the build-up of production of large LCD TVs (the panels being derived from a joint venture with Samsung Electronics). In addition, the electronic components division is beginning to benefit from its cost cutting exercises and as products such as the cell CPU chip migrates to finer line geometries, the profitability will be considerably enhanced.

Sony remains a very powerful technology and marketing entity with a full suite of offerings ranging from hardware through to software such as film studios and game developers. Its distribution channels in the US and Europe are second to none and while the brand has been somewhat tarnished from missed opportunities more than from technical failures, it still has the ability to achieve somewhat superior prices to many competitors. While the market in the next 6-12 months will be focused on the relative successes of Nintendo's Wii versus the PS3, the surprise may be that the intensity of competition will actually expand the game console market.

OUTLOOK

Our recent trip to Japan left us confident in the nation's economic rejuvenation. As is the norm these days, growth is being driven by high corporate profit share, reinvestment and exports rather than consumption although it seems that this will improve with mild wage increases. The liveliness of the recovery remains somewhat dampened by the inevitable effects of government retrenchment from its former supporting role. Probably more importantly, the consumer seems as uninterested in borrowing as ever and this is being reinforced by a credit crunch in the riskier end of the market as the government clamps down on the lending spreads of the consumer credit companies, *Sarakin*.

In market terms, 2006 has been similar to 2005 only in terms of there being great optimism, followed by great frustration. However, we believe there is nothing fundamentally wrong with the case for Japan despite all of the gnashing of teeth. Much of the commentary stems from the failure of the Japanese economic model to resemble the much favoured western model. Instead of the unbridled pursuit of so-called shareholder value, the Establishment in Japan discourage hostile takeovers or private equity buyouts. Even so, there is clear evidence of large organisations moving with the times towards outsourcing and to the discarding of ill-fitting divisions to be melded with those of other organisations in the pursuit of industrial logic. We have also seen the early movers begin to consolidate the small Regional Banks and we believe that before the year is out, this will become a growing trend. Share buy-backs are also taking place by those who genuinely have no better use for the free cash but the intent behind this is, in many cases, purer than the motivation we see elsewhere. As we have said before it is far from clear that the Japanese "method" of wealth accumulation which pursues concerted R&D and capital expenditure is inferior in the long run. If this is matched by less cosy cross-shareholding structures, which is the case, so much the better!

From a technical viewpoint the market looks primed to resume its bull run. The local investors are pitifully under-exposed to their home market, just as was the case in Germany, two years back, with just over 7% of their financial assets in common shares. They continue to chase yield abroad or in the home market via REITs and as was the case in the rest of Asia after the 1997/98 melt-down, few are prepared to take large bets on equities. All our quantitative work suggests that Japanese companies offer some of the best value in world markets and that is before one fully adjusts for the quality of these entities. When we first started singing the praises of Toyota several years ago and suggested that it would be the largest auto maker within a short time, most regarded us with scepticism. We continue to argue that over the next few years, the technical competence of Japanese companies and their financial strength will result in their usurping some of today's champions.

Who said things were getting better? (A chained, cooked chicken photographed outside a smart restaurant).

$US50 for strawberries.

Stocks may be cheap but fruit certainly isn't! A couple of fancy melons for $US280.

$US60 for oranges and grapefruits.

THE PLATINUM INVESTMENT PROCESS

A blueprint of Platinum's Investment Process is overleaf.

An animated version of the investment process can be viewed on Platinum's website at the following link:

http://www.platinum.com.au/invest_diagram.htm

SUBJECT

The Platinum Investment Process

URL
www.platinum.com.au

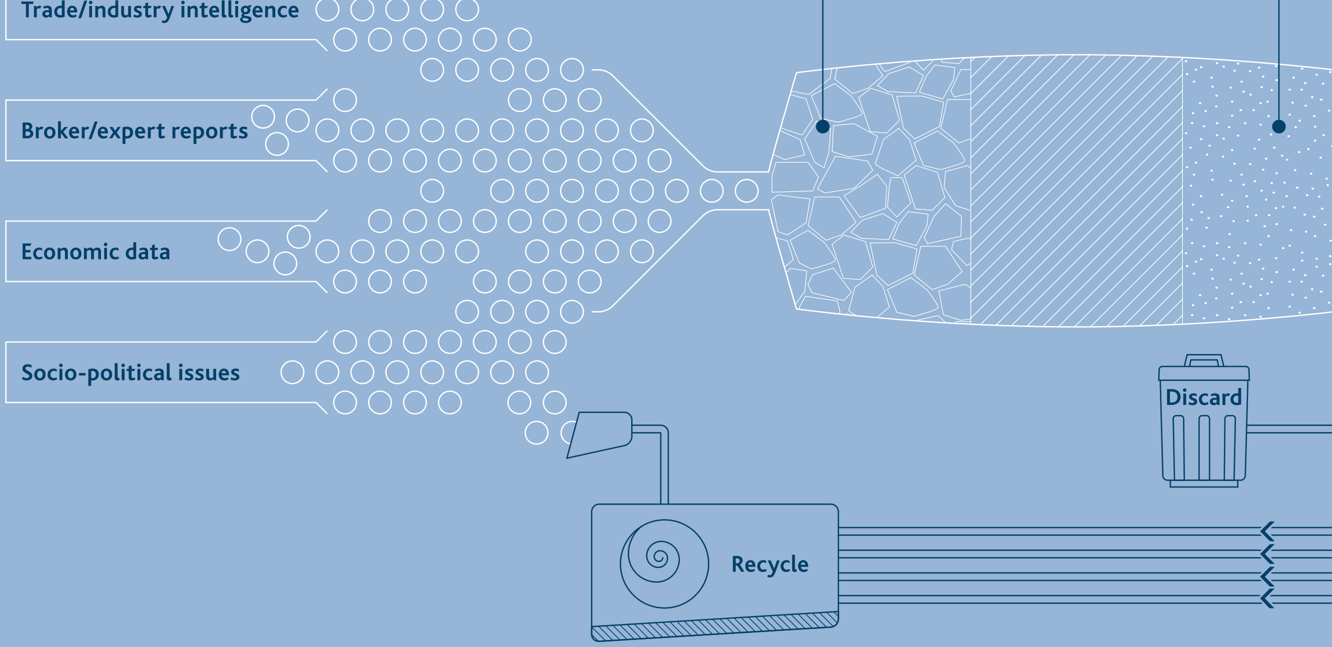
SCALE
Human

Platinum® ASSET MANAGEMENT

01 Deluge of information

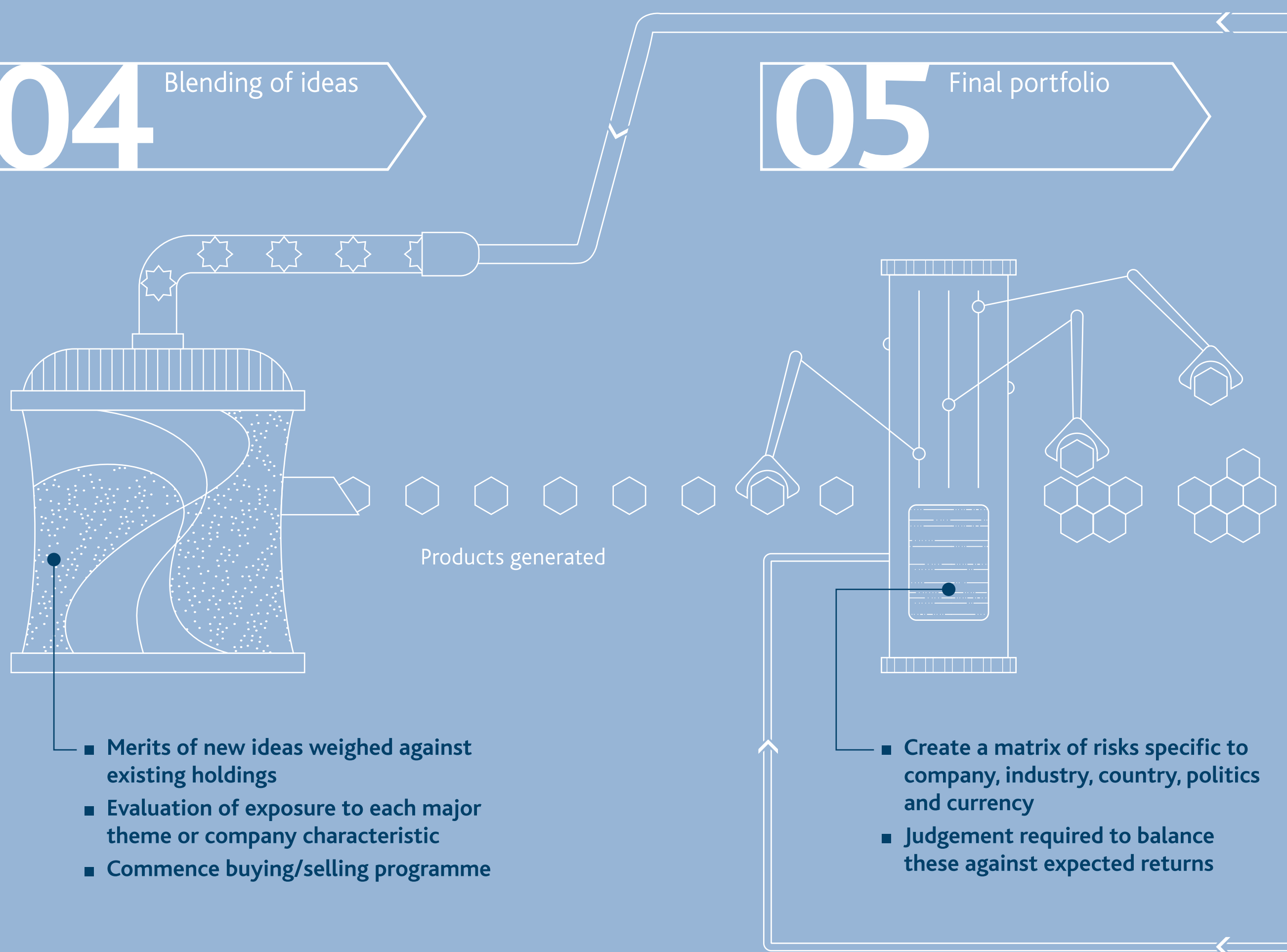
02 Selecting, ordering and distilling

- Searching for neglect
- Screening databank of several thousand companies
- Generation of themes and ideas
- Free-flow of information among the team



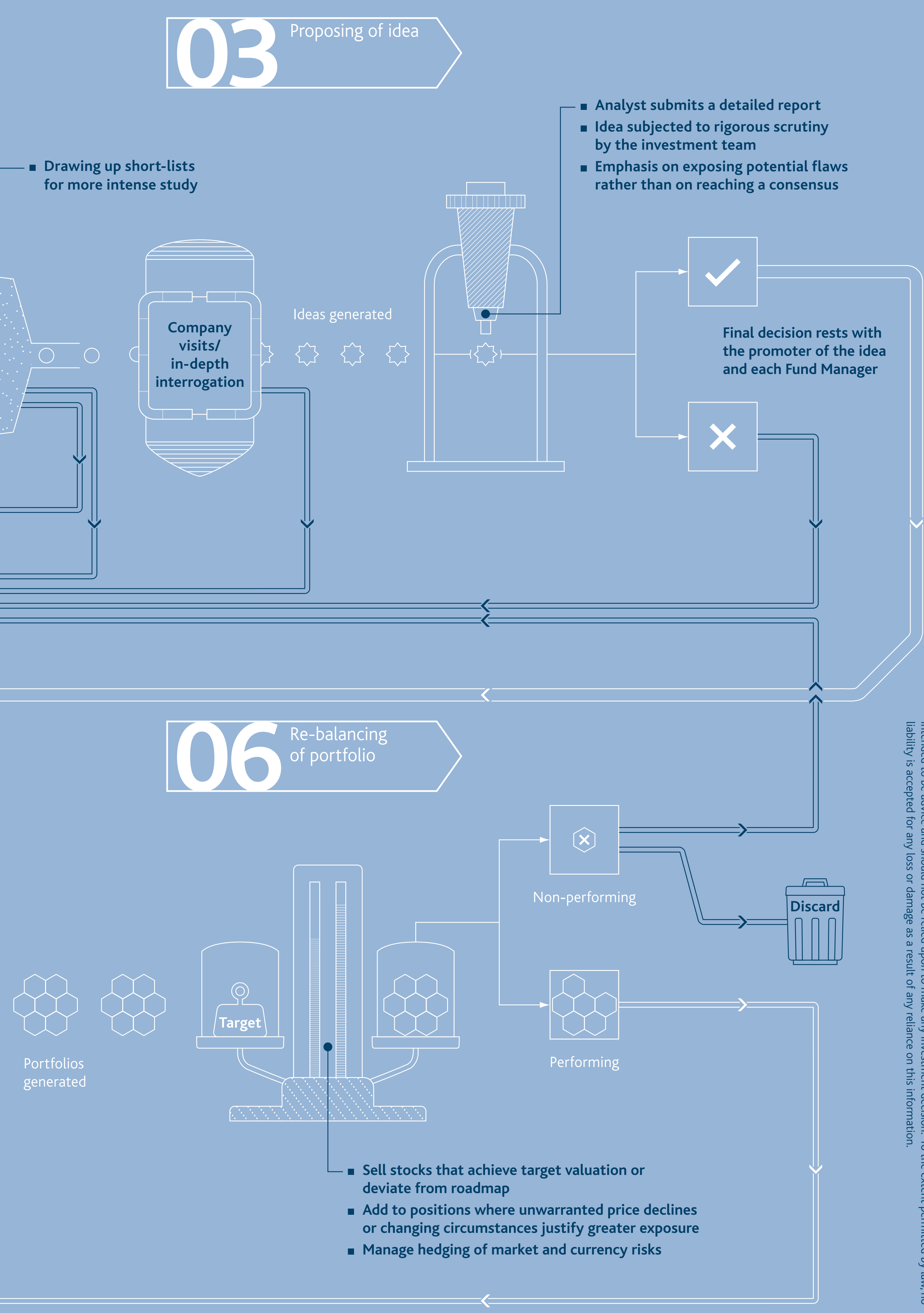
04 Blending of ideas

05 Final portfolio



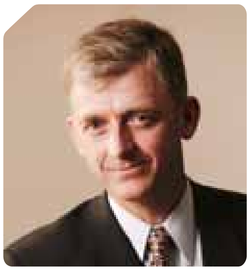
- Merits of new ideas weighed against existing holdings
- Evaluation of exposure to each major theme or company characteristic
- Commence buying/selling programme

- Create a matrix of risks specific to company, industry, country, politics and currency
- Judgement required to balance these against expected returns



This flow chart has been prepared by Platinum Asset Management Limited ABN 25 063 565 006 AFSL 221935 ("Platinum"). It provides a high-level overview of Platinum's investment process only. Not all steps may be taken in respect of every investment decision Platinum makes and there may be some steps taken which are not detailed. Platinum reserves the right to alter its investment process where and when it considers necessary. The information provided in this chart is not intended to be advice and should not be relied upon to make any investment decision. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

PLATINUM INTERNATIONAL BRANDS FUND



Simon Trevett
Portfolio Manager

PERFORMANCE AND CHANGES TO THE PORTFOLIO

The Fund achieved a return of 2.6% in the quarter slightly behind that of the MSCI World Index of 3.3%. Over a twelve month period the Fund has achieved a return of 12.2% compared with the MSCI of 12.6%.

In a continuing trend and as highlighted in the previous quarterly report, the overall returns of the Fund have been negatively impacted by the appreciation of the Australian dollar, particularly against the yen. The performance of the stocks in their native currencies was again stronger than is apparent from the overall returns.

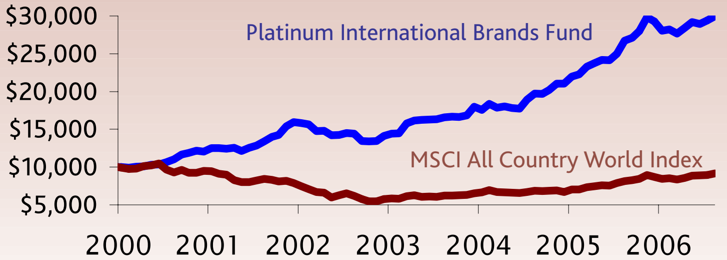
The Fund was active in the Asian markets this quarter making investments in a variety of companies including Sony, Kweichow Moutai (China) and Vietnam Dairy. Kweichow Moutai, producer of the famous Chinese spirit 'Moutai', has been growing strongly in recent years and has been unaffected by the equally strong enthusiasm for western spirits. The stock appreciated sharply in the quarter from an already rather robust valuation and we sold the position. We will continue to have exposure to the strongly growing Chinese spirit market through our investments in Pernod and Remy Cointreau.

DISPOSITION OF ASSETS

REGION	DEC 2006	SEP 2006
EUROPE	33%	34%
JAPAN	23%	20%
OTHER ASIA (INCL KOREA)	20%	19%
NORTH AMERICA	5%	9%
CASH	19%	18%
SHORTS	9%	4%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
18 MAY 2000 TO 31 DECEMBER 2006



Source: Platinum and Factset. Refer to Note 2, page 46.

The Fund acquired and continues to own shares in Vietnam Dairy which also performed exceptionally well towards the end of the quarter, as Vietnam became the latest El Dorado for investors. A number of other investments in Asia have done well in the quarter including Toyota and Astra International (Indonesia) up over 20%.

In Europe, the Fund's investment in Remy Cointreau appreciated in excess of 20% as the company announced an untangling of its distribution arrangements and became the subject of takeover speculation. They may well join a larger organisation in due course; however, in the meantime we prefer to watch the progress of the management team with a company that many had regarded as quite lost.

The investment in companies listed in France has grown to 15% of the Fund. These are international companies such as L'Oreal, Pernod, Clarins, Carrefour etc and although they all have operations in France it is not their domestic businesses to which we are necessarily attracted. Given our ongoing concern about valuations we have introduced a short position against the French CAC index.

VINAMILK

COMMENTARY

There is significant debate and experimentation to determine how best to advertise on the Internet. Transaction oriented products and service companies such as mortgage or credit card providers perhaps find this relatively easy, akin to buying an entry in the yellow pages. But what of companies that want to build a brand and maintain an aura or personality about their imagery?

We have been examining more closely advertising and marketing on the Internet and particularly the possibilities for the social networking sites such as MySpace (bought by News Corp in 2005). MySpace proudly claimed in August 2006 that they had surpassed 100 million accounts. To put that in context, Avon, with one of the world's largest direct selling networks, has five million representatives to talk about their products. It's not a fair comparison but just imagine, along with the heads of marketing departments, what might be achieved if the MySpace community were to discuss or even adopt your 'must be seen with' product. There are of course many other sites where companies, brands and products are discussed and not always very favourably. For companies that seek to *control* their messages and *lead* their (prospective) customers this can be extremely irritating and potentially quite damaging.

We have a keen interest in understanding how a website such as MySpace, which was founded in July 2003, can grow to such a size in only three years and along the way change hands for $US580 million. Similarly, YouTube which was only founded in February 2005 changed hands in October 2006 for a staggering $US1.65 billion. Can the next MySpace or YouTube be identified amongst the thousands of new websites? The odds would appear to be against it but that shouldn't preclude us from investigating emerging trends, especially when they develop 'communities' five times the population of Australia in seemingly a mere instant. What of the impact on existing industries such as the traditional media companies and the branded goods companies? Can we discern trends and signposts that can assist our investment decisions? Will MySpace have longevity? Is it truly driven by the user community to evolve and stay relevant or will the Internet tribe just migrate to the next emerging 'place to be seen'?

"*Coke fountains*", featured in a short video appearing on the Internet and on the chat shows of mainstream TV has set off a craze. Achieved by putting a Mentos into a bottle of Diet Coke which erupts into a spectacular fountain, this practice has rapidly caught on as a fun, competitive activity. Coke's reaction was to initially dismiss the "buzz" as "an entertaining phenomenon" and to say …"that they would hope that people want to drink more than try experiments with their products … it doesn't fit with the brand personality". The Mentos owners on the other hand, had the opposite reaction and encouraged the attention, even promoting a competition. It seems that having some fun appealed to them! A month later Coke concluded that this might actually be a good thing, provided that it was on their website. More command and control style thinking …

It is clear that companies that are trying to protect brand imagery are struggling with the concept that consumers can generate *and propagate* their own views and imagery involving brands. Brand owners are also acutely aware that *word of mouth* recommendations are still amongst the most powerful means of building a brand and that *word of mouth* now extends to written words and videos on the Internet.

Some companies have experimented with using consumer generated advertising in conjunction with that from their professional teams. The outcomes are mixed and would seem to suggest that once again the companies are trying to control the final message, either by restricting the creativity along the way or by purporting to be consumer driven, when in reality it is entirely driven by the same professional teams. Consumers are astute at evaluating whether companies are genuine with their products and messages. Respected and valuable brands have a genuine consistency between the products and the messages, regardless of where and how the messages are generated.

We have previously lamented the lack of spending on true research and development amongst consumer companies. This results in an inevitable stream of pseudo innovation that invariably fails to maintain its position on the shelf. Those companies that have maintained their investment in developing products and reputations that consumers can trust and recommend, by whatever means, have unsurprisingly also tended to be good investments.

Lindt and Sprungli shares have been owned by the Brands Fund since April 2002 with a steady appreciation that has yielded a threefold increase on our original investment. Whilst the competitors including Hershey, Cadbury, Nestlé and others, may be defined by their ability to save costs through refining the ingredients list or trimming the packaging, Lindt has maintained an enviable rate of growth.

The competitors have scrimped and economised on packaging, product sizes, and ingredient quality, generally detracting from the consumer's enjoyment of the product. Lindt, in contrast, and against the prevailing industry trends, has improved the packaging, increased the product quality and continued to launch interesting new products with a determination to delight and enhance the consumer's experience with the brand. The growth of the company and the strength of the brand equity, we believe, can be attributed to Lindt's more than 150 years of commitment to producing the highest quality products. As with the product, an investment in the shares of any of the competitors would have fallen significantly short of the performance of Lindt.

Likewise many readers will be aware of our enthusiasm over the years for Toyota. We have written recently about their lead in the development of hybrid vehicles although we should also acknowledge their commitment to their complete product range through a relentless focus on research and (manufacturing) process development. It probably won't surprise anybody to learn that over the next 12 months, Toyota is likely to surpass GM in the sale of vehicles globally, to take the market leading position.

So once again we are reminded that the key to the success of companies is the product to which creative marketing can be applied. We must remain circumspect in cases where we suspect the reverse.

OUTLOOK

We remain concerned that the valuations of many consumer goods companies already anticipate improved earnings and in many cases the benefit of the robust growth of consumerism in Asia. It is likely that this will continue, however, we are cautious and will maintain some partial protection through short positions on indices. The cash position of the Fund at 19% also provides flexibility to take advantage of opportunities as they arise, such as the recent volatility in the Thailand market where the Fund has a small investment.

PLATINUM INTERNATIONAL HEALTH CARE FUND

Simon Trevett
Portfolio Manager

PERFORMANCE

It has been an eventful year for the health care sector and the past quarter did not fail to disappoint. Biotechs in general continued to enjoy investors' attention, helped by rather strong deal activity. Pharmaceutical, in contrast, struggled this quarter with a number of late stage pipeline setbacks, as well as the Democrats' success in the US elections reinvigorating the possibility of more stringent price controls in the not too distant future.

Business development teams of pharmaceutical and large biotech did not slow down. For many companies plenty of money is available and the appetite for external opportunities continues to increase, as do the valuations of licensing deals and acquisitions. In the current scenario all drug developers are looking externally for new products and it is becoming apparent that some are more anxious than others.

Private Equity also visited the sector looking to buy US orthopaedic device maker Biomet. As mentioned previously, valuations of several device companies have slowly taken into account lower growth prospects but unfortunately, with the potential of a private equity deal on the horizon, most remain rather expensive.

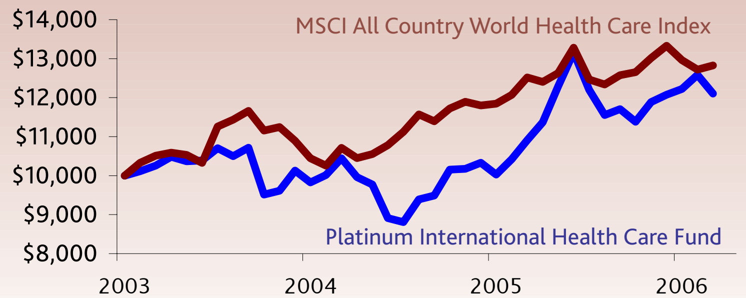
The Platinum International Health Care Fund remained steady this quarter, and was up 10.9% for the year, while the MSCI Health Care Index returned -3.8% for the quarter and 2.5% for the year. Some of our holdings reported pipeline setbacks, whilst others benefited from the ongoing acquisitions and licensing trend as well as the demand for phase three opportunities.

DISPOSITION OF ASSETS

REGION	DEC 2006	SEP 2006
NORTH AMERICA	56%	47%
EUROPE	24%	24%
JAPAN	6%	6%
OTHER ASIA (INCL KOREA)	2%	3%
CASH	12%	20%
SHORTS	1%	1%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
10 NOVEMBER 2003 TO 31 DECEMBER 2006



Source: Platinum and Factset. Refer to Note 2, page 46.

CHANGES TO THE PORTFOLIO

This quarter our focus has been on companies with a particular technology or therapeutic class. Biologicals such as monoclonal antibodies and vaccines have been of interest to us and we added to some of our holdings, also including a new vaccine developer, based in the Netherlands. The company produces a number of vaccines, and has an interesting technology that makes the production of antibodies, as well as vaccines, more efficient. Another holding we added to is a company that has made good progress in the area of RNA interference, a technology to silence genes and consequently suppress their activity.

The rather significant number of pipeline setbacks this quarter and the very severe reaction by the market to these events offered some opportunities, but also made us reduce some of our holdings as valuations have been increasing simply due to anticipation.

COMMENTARY

There is no denying that at present a number of companies find themselves looking for new growth opportunities as old products stand against generic drugs, pipeline products continue to struggle and the concept of me-too products loses its popularity with regulators as well as reimbursement agencies. In some ways, it appears that companies needed these challenges to occur in order to start seriously considering reforms and questioning their sales/marketing paradigm. Current valuations of a number of pharmaceutical, large biotech and medical device companies suggests a rather stagnant outlook or, as some may prefer, a time of "transition". However, the most difficult question, "what will they do?" still remains. Pharmaceutical companies see part of the solution in biological drugs, vaccines and immunotherapies, and sales/marketing approaches are being dismantled.

Vaccines, also a type of "biological", are taking on a new identity with the possibility of use as therapy as well as improved preventative activity. The risk of a pandemic flu outbreak, strong demand for flu vaccines and the successful development of a cervical cancer vaccine further highlights the potential of vaccines. Some pharmaceutical companies are entering the vaccine business, whilst others who have kept an interest in this class of "drugs" over decades, are reinvigorating their vaccinology work.

In the past, the disadvantages of vaccines (the stringent regulatory requirements associated with vaccination of healthy people and the rather costly manufacturing process of vaccines) have resulted in only a small number of companies remaining committed to this class. Today, vaccines are more interesting for a myriad of reasons, including the general trend towards "biological" drugs and the perception that "generic" vaccines do not exist, thus allowing new products to have a long life-cycle. Also, the knowledge learned making "biologicals" has significantly benefited vaccine manufacturing with new types of vaccines emerging as well as the opportunity to use vaccines as a therapeutic for diseases such as cancer. In addition, the sales/marketing infrastructure for vaccines tends to be less costly as vaccination is part of the public-tender market.

The idea of a vaccine is to make sure the immune system is "primed" for the respective pathogen so that upon infection it produces an immune response eliminating the pathogen and/or preventing the infection. Making and finding the "immune primer (antigen)" is key and has become much more sophisticated. The historical approach was based on growing the pathogen in the laboratory and subsequently manipulating it (life attenuated vaccines eg. Chickenpox vaccine), killing it (inactivated vaccine eg. Influenza vaccine) or isolating certain antigens (sub-unit vaccine eg. Tetanus vaccine). Unfortunately, growing the pathogen is quite often impossible (eg. Hepatitis C virus, Human Pappilloma virus). More recently, the possibility of simply making the "primer" using recombinant DNA technology along with the genomic information of a pathogen is being tried. This approach offers a promising option to make new vaccines against pathogens that refuse to grow in the lab and also make better, more characterised vaccines replacing the old ones. The vaccine Gardasil (fights HPV infection, which is associated with cervical cancer) is probably the best known example of this approach. Here the genetic information of particular viral proteins, known to prime the immune system is being inserted into yeast and following fermentation, the proteins are purified and linked to another more ubiquitous immune booster (adjuvant).

The other idea, related to vaccines, is therapeutic immunisation and immunotherapies. In various ways these approaches attempt to influence the activity of the immune system or imitate parts of its activity. Some approaches use tumour/cancer specific antigens to vaccinate cancer patients and hopefully turn the immune system against the tumour. Others use chemical molecules that induce a non-specific immune response against infections caused by the Hepatitis C Virus. Antibodies, effectors of the immune system, can be seen as a form of "passive immunisation". Alzheimer's disease (AD) is one area where antibodies are currently being tested and results should become available over the next 12 months.

So far success has been limited for the therapeutic application of vaccines and, as is often the case with novel approaches, scepticism remains high. In a way, it is similar to the early stages of Monoclonal antibody development as a treatment option. Failures do occur, side effect profiles have to be established and also the way efficacy is assessed needs to be reconsidered. History shows that new therapeutic classes do emerge over time with effort and a lot of tweaking. This time, pharmaceutical, despite being latecomers to the biologics trend, are more adventurous, albeit with the help of biotech alliances. To some extent it feels like pharmaceutical has been waiting on the sidelines, letting biotechs do the groundwork and now, once some hurdles have been overcome, they are proceeding quickly.

OUTLOOK

The complexity of the US health care system along with the discussions about pricing controls will continue for some time, most likely with few definite solutions in the short term. In the meantime, the close interaction between big and small companies will continue and we may see more work for disease indications and drug classes that had been dismissed, back on the agenda.

Biosimilars (cheaper versions of off-patent biologicals) will continue to be an interesting area along with biomanufacturing. So far the development path of this type of "generic" is more product specific and most likely will require a clinical trial program. Given the cost conscious thinking of governments, biosimilars should appeal to them. Outside of the US in particular, this class of drugs has made faster progress and there are a number of opportunities we are looking to explore.

Also of interest to us is the vibrant biotech industry emerging in the EU. Although financial support for early stage companies has been more limited than in the US, some companies, quite often via consolidation, are emerging and are worth more detailed work.

Bianca Elzinger

PLATINUM INTERNATIONAL TECHNOLOGY FUND

Alex Barbi
Portfolio Manager

PERFORMANCE

During the quarter the Fund rose 3.7% compared to an increase of 1.1% in the MSCI World Information Technology Index and an 8.2% increase in the MSCI Telecommunications Index (A$).

For the full year to 31 December 2006, the Fund performance was +11.9%. During the same period the "tech-heavy" Nasdaq Composite Index rose 10.4 % (in US$) or 2.7% (in A$).

CHANGES TO THE PORTFOLIO

Major purchases: Sony, Samsung Electronics, Taiwan Semiconductor Corp, Adva Optical Networks.

Major sales: Alcatel, China Mobile

We decided to partly reduce our exposure to Alcatel. After reviewing details of the merger with Lucent we took the view that the integration would be longer and more challenging than previously expected. However, we still remain exposed to the theme of telecom capex with positions such as Adva Optical Networks and Ericsson (a 5% holding in the Fund). China Mobile was sold after rising more than 20% in the quarter.

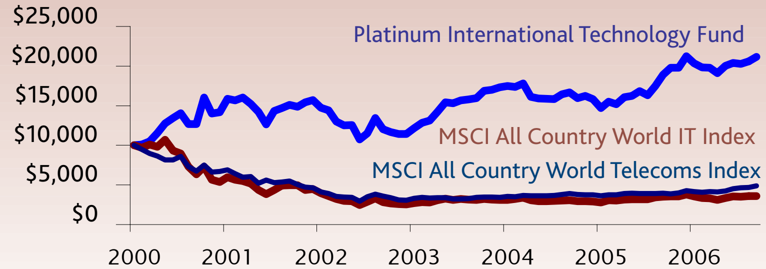
We introduced Sony, confident that the group has key strengths (new PlayStation, HD TV technology and movie business) not fully appreciated by the market. Taiwan Semiconductor has been purchased on the assumption that it will benefit from the outsourcing trends developing in the semiconductor industry (please refer to our September 2006 report).

DISPOSITION OF ASSETS

REGION	DEC 2006	SEP 2006
OTHER ASIA (INCL KOREA)	28%	23%
NORTH AMERICA	20%	24%
JAPAN	16%	17%
EUROPE	16%	14%
CASH	20%	22%
SHORTS	5%	3%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
18 MAY 2000 TO 31 DECEMBER 2006



Source: Platinum and Factset. Refer to Note 2, page 46.

COMMENTARY

Internet Advertising

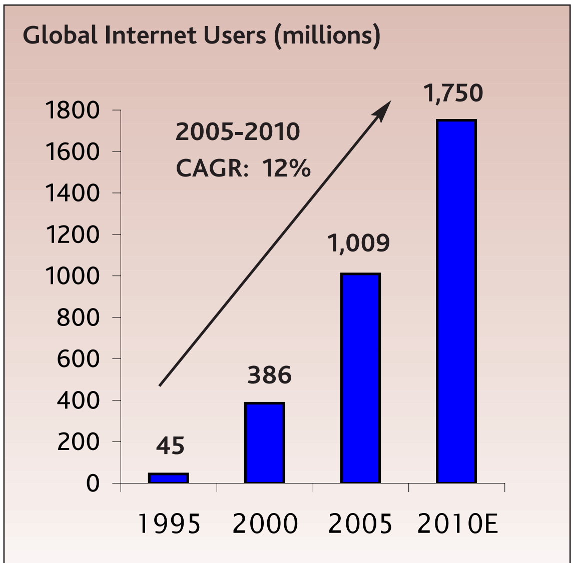
In our March 2005 quarterly report we discussed the emerging phenomenon of Internet advertising (then a $10 billion market) and how Google and Yahoo had grown to capture nearly two thirds of all searches on the Internet. Since then, growth has accelerated, with the Internet advertising industry in the US alone currently estimated at $16 billion, and growing at 28% year-on-year. While Internet advertising is still a relatively small portion of the total advertising market (5-6%), its expected growth rate of 20% pa over the next few years is in sharp contrast with the slow growing and more mature segments of newspapers, TV and radio advertising, growing at 0-2% pa.

The key trends driving Internet advertising growth are:

- more Internet users, expected to reach 1.7 billion globally by 2010.

- more time spent by users browsing on the Internet.

- a better experience (better content and faster connection speed).



Source: Yahoo Analyst's Day

The increased adoption of broadband is changing the nature of the Internet, which is slowly evolving from a pure information repository to an entertainment source. Video, audio and games rather than plain text and pictures can now be accessed with much improved quality. According to Neilsen/Netratings, 78% of active home Web users in the US were connected via broadband in November, up from 65% a year ago.

Consumers are also spending more time communicating through the Internet, with tools like email, instant messaging and VoIP technology, increasing the amount of time in front of the screen (estimated at around 19% of the time spent consuming media).

It is logical to expect that big marketers will chase "eyeballs" wherever they are, and will dedicate increasingly larger advertising budgets to the Internet.

Even mobile phones are likely to become an important target for advertisers. With the introduction of high-speed third generation (3G) phones, we will increasingly surf the Internet through the handset and not solely via the PC. Wireless Broadband is creating millions of potential advertising screens where "ads" can be delivered in the form of banners, text messages, digital coupons etc … In the US, mobile phone operators Sprint and Verizon have recently allowed advertisements to appear with content that is listed on their menus. While cautious not to upset subscribers with ads which could be too intrusive, telecom operators are keen to capitalise on a market still in its infancy ($45 million in 2005) but expected to reach $1.3 billion by 2010.

Search Engines

The most successful form of Internet advertising in the past few years has been "search advertising" (42% of the total Internet advertising market and growing 30% year over year).

In the US the leader in this category is Google with 62% market share, followed by Yahoo with 22% and distant third is Microsoft with 10%.

How does it work?

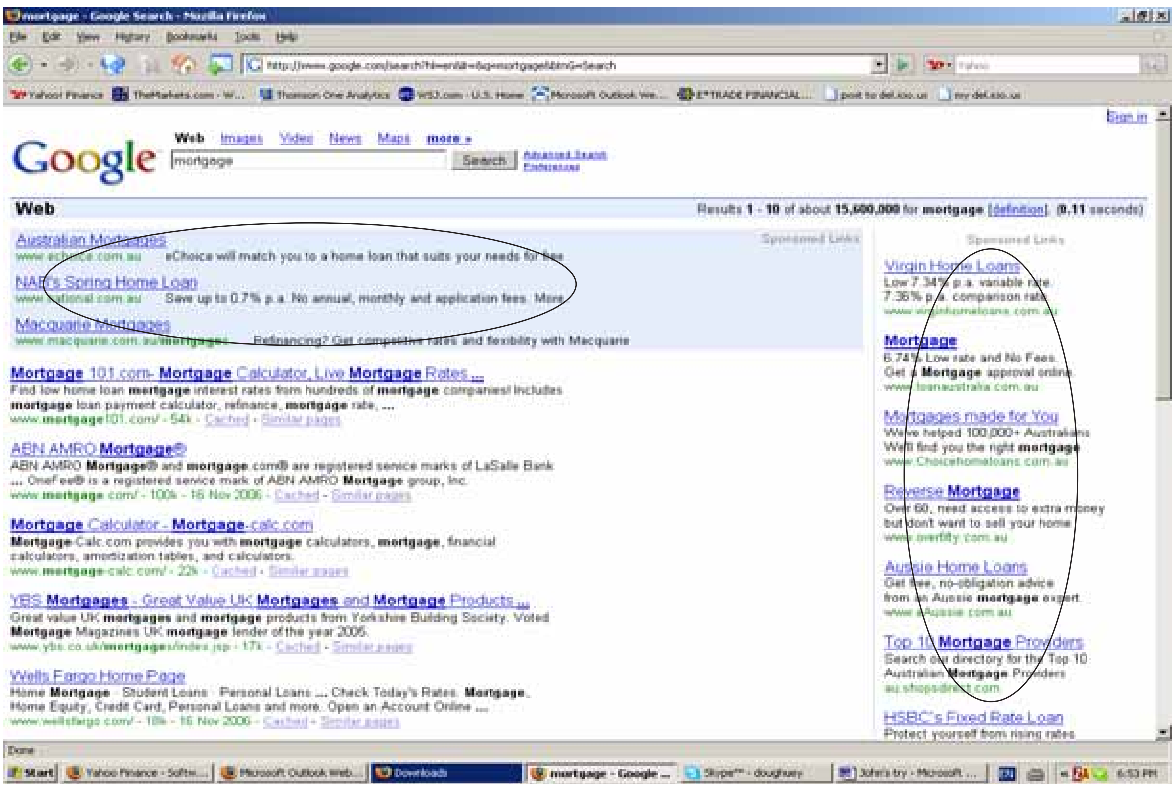
Whenever you type a word in the search box of Google.com, Yahoo.com or MSN.com, a long list of results will appear ranked according to various relevance criteria. (Google was particularly clever in being first to develop a method to calculate how many websites and web pages link to a single page, creating a sort of "rank by popularity" system). You will notice, however, that some search results will be listed on the right side of the page or highlighted at the very first spots of the list. These are so-called "Sponsored Links" or Sponsored Ads and the advertisers are paying Google/Yahoo/MSN every time you click on these links. This method is called Pay per Click. Advertisers acquire this right to place their ad in the privileged spots after bidding for "keywords" that they believe their potential target customers would type in the search bar when looking for a product or service.

This is how a Google page might look if you search for a “mortgage”:

The moment you click on a Sponsored Link, Google would make on average US46 cents. The average cost per click varies from a few cents to US$15-20 for the most coveted words (for example clicks related to financial products tend to attract relatively higher prices). When the click originates from the search company's own site, it keeps all the revenues. In cases where Google (or Yahoo/Microsoft) inserts advertisements on a third party website, it will share the revenues with this original traffic originator. The revenue split varies from about 60 to 80% in favour of the traffic provider and it creates a huge incentive even for independent small businesses to carry the Google links.

Social Networking

The amount and variety of content online is also increasing, not only as traditional media companies post material on various websites, but also with "user generated content" from personal pages on so-called "social networks".



In September 2006, one in 20 Americans had visited a social networking website, twice as many as the year before. In November 2006, Myspace.com was the most popular website in the US with 4.74% of all Internet traffic (just ahead of Yahoo Mail with 4.24%). Similarly Yahoo's photo sharing/social network hybrid website Flickr.com had cumulated 200 million photos from its users (Source: Hitwise.com).

In July 2005, News Corp bought for $US580 million MySpace.com, an Internet site for teens and young people keen to register their personal profiles and to exchange messages, photos, music, video, blogs etc with existing and potential friends. Many commentators thought that Rupert Murdoch had paid well above fair value. Yet 12 months later MySpace has not only become the most popular US website, but it has also signed a deal where it would receive $900 million in exchange for Google to place search and display (banner) advertising on MySpace users' pages. Not bad for such a seemingly casual website.

Why has MySpace been so successful? The most interesting explanation about MySpace's appeal was given by Danah Boyd, a social researcher at Yahoo and Berkeley PhD student:

"So what exactly are teens doing on MySpace? Simple: they're hanging out. Of course, ask any teen what they're doing with their friends in general; they'll most likely shrug their shoulders and respond nonchalantly with "just hanging out." Although adults often perceive hanging out to be wasted time, it is how youth get socialized into peer groups. Hanging out amongst friends allows teens to build relationships and stay connected. Much of what is shared between youth is culture - fashion, music, media. The rest is simply presence. This is important in the development of a social worldview … For many teens, hanging out has moved online. Teens chat on IM for hours, mostly keeping each other company and sharing entertaining cultural tidbits from the web and thoughts of the day. The same is true on MySpace, only in a much more public way. MySpace is both the location of hanging out and the cultural glue itself. MySpace and IM have become critical tools for teens to maintain "full-time always-on intimate communities" where they keep their friends close even when they're physically separated. Such ongoing intimacy and shared cultural context allows youth to solidify their social groups … Teens have increasingly less access to public space. Classic 1950s hang out locations like the roller rink and burger joint are disappearing while malls and 7/11s are banning teens unaccompanied by parents. Hanging out around the neighbourhood or in the woods has been deemed unsafe for fear of predators, drug dealers and abductors …"

The digital equivalent of the roller rink and one where Google is comfortable to invest $900 million to attract advertisers! Do visit MySpace and you may be astonished at the time, effort and in some cases, the sophistication of the pages or pads that users have "decked-out". These pages are a statement about "ME" the individual and what I am interested in - a form of invitation to friendship.

Later in 2006 Google also acquired for $US1.65 billion Youtube.com, a free video website which lets users upload, share and download video clips. The website uses widely available video Flash play-back technology without requiring the viewer to permanently download any new software on his/her PC. Available content includes movie and TV clips, music videos as well amateur material such as video-blogs. Barely a year since its foundation in February 2005, Youtube had grown to serve up to 20 million daily videos and immediately became an attractive prey for Google, keen again to exploit the huge audience glued to the popular website.

In light of the tremendous success enjoyed by these emerging social networks, large established companies like Yahoo and Microsoft have eventually taken notice and they are now frantically devising new strategies to keep up with the fast changing landscape.

Microsoft has redesigned its MSN.com website and search engine while it is introducing new technology aiming to leverage its huge database of Hotmail subscribers. With 263 million users, the

Microsoft free email service already stores details of individuals such as age, occupation, address etc … If a subscriber uses Live Search, Microsoft new search engine can keep a record of the words searched and the results they clicked on. The new technique, named Behavioural Online Ad Targeting, combines this information and allows advertisers to better target the ads they send to each individual's PC and avoid wasting people's time with irrelevant messages. Indeed it's Big Brother at work! (although Microsoft has ensured that it won't pass people's names and addresses to advertisers).

Similarly Yahoo is redesigning its Search Advertising platform (code-named Panama) to better leverage its huge audience (nearly 500 million monthly visitors to their websites). Currently Yahoo's ad system gives the most coveted placement to the advertisers who bid the most per click. By contrast, Google's technology considers additional factors, such as the frequency with which consumers click on each ad ("click-through" rate), to determine the order in which the ads are displayed. This approach generates more revenue per search, since the most popular ads for any query appear more prominently, increasing the click-through rate.

While not an easy task, Yahoo's management is confident that its Panama project will improve its search engine deficiencies and will also introduce useful elements of behavioural advertising. We believe that Yahoo's share of Internet advertising is lower than its full potential, given its huge share of Internet traffic, and that the newly adopted plan offers the stock considerable upside.

The Fund has exposure to the theme of Internet advertising through its holdings in Yahoo, Sohu (second largest Chinese portal), Liberty Media Interactive (a holding of e-commerce businesses) and Microsoft (the owner of MSN.com).

OUTLOOK

The Fund remains tactically positioned for a seasonally slow start of the new year after the traditionally strong Christmas sales in consumer electronics (TVs, mobile phones, games platform etc).

We maintain our exposure to our favourite themes of broadband access, wireless Internet, electronic memory (DRAM and NANDs) with our core holdings in Ericsson, Samsung Electronics, Microsoft and Adva Networking. We are confident that these stocks will be able to deliver superior returns in the medium term.

WHAT COST? - SUN, WIND, WATER AND CARBON CREDITS

While "global warming" has been a generally accepted theory by the scientific community for some years, it would appear that Australia's political leadership has now finally decided to acknowledge the reality. At least the debate has moved on to what we as a nation should do about minimising our greenhouse gas emissions. If you find it disturbing to listen to the interminable discussion about whether we should or shouldn't ratify the Kyoto Protocol or build nuclear power stations, whilst at the same time watching vast iceshelfs break-up and disintegrate on the nightly news, the encouraging point is that we can each take action to compensate for the greenhouse gas emissions we currently produce.

For most households and businesses, the major contribution to global warming comes from the consumption of electricity and gas, and the use of motor vehicles and air travel. The burning of fossil fuels to provide our energy or transport needs releases carbon dioxide and other greenhouse gases into the atmosphere. However, to compensate for the impact of our greenhouse gas emissions one can simply purchase a corresponding number of carbon credits.

In Australia, the Office of Renewable Energy Regulator (ORER) created the concept of renewable energy certificates (RECs) which are issued to producers of renewable energy supplying electricity to the grid, or in the case of very small installations (such as household solar panels) when they are installed. Renewable energy sources include the obvious such as wind power, solar power, and hydro power, and perhaps some not so obvious sources such as solid waste incinerators. Some of these other sources of renewable energy are included on the basis that they would have eventually emitted greenhouse gases if they weren't used as fuel. Also the installation of home systems such as solar water heaters can give rise to an issuance of a REC based on the energy savings over the life of the system.

The power producer must also have commenced generation no earlier than 1997, the year the Kyoto Protocol was agreed.

These RECs effectively represent saved carbon emissions, but of themselves have limited value. The value is created by the legal requirement that our power generators deliver a specified percentage of their output from renewable sources. This generally forces them to purchase RECs or pay a penalty. It is worth noting that a REC exists in perpetuity and could be on-traded until the holder surrenders the REC to the ORER. A REC must be surrendered for a power generator to fulfil its renewable energy obligation. It is quite possible that a REC purchased today could in fact relate to power generated in 2001 (the first year of RECs) and indeed out of the 15.7 million RECs (each REC is equivalent to one megawatt hour of electricity) created in the five years to December 2005, only 9.2 million have been surrendered. Although the surplus of RECs may suggest the buyer is not making a contribution to cutting CO_2 emissions as the power has already been produced, this concern is probably academic in view of the projected 2.5 fold increase in demand for RECs over the next five years as a result of increasing renewable energy targets set by the legislation. (At present, power generators need only supply 2.2% of output from renewable sources).

As a negotiable instrument, a REC effectively gives the producer of clean energy an extra amount to augment the revenues that accrue as a supplier to the grid. As all electricity suppliers receive the market rate, profitability from renewable sources in the absence of a "REC subsidy" would be pretty low. Consider the cost of production for various methods of generation in the table over.

COST OF POWER GENERATION	
OPTIONS	COST
GAS	3-5 C/KWH
HYDRO	2-4 C/KWH
COGENERATION	3-4 C/KWH
PHOTOVOLTAICS (SOLAR)	30-40 C/KWH
WIND	4-6 C/KWH
COAL	4-6 C/KWH
BIOFUELS	5-7 C/KWH

Source: Alexandria Research Institute, Virginia Tech

Some would argue not all RECs are equal as certain sources of renewable energy (as defined) may not be as clearly renewable or carbon neutral as desired. To fill this void and provide consumers assurance that they are buying truly clean and renewable energy, the State governments have created the "GreenPower" accreditation program (www.greenpower.gov.au). The program works with the RECs system but has strict guidelines about what type of generation qualifies as "GreenPower". The program also audits participants annually to ensure that consumers are receiving the product they have paid for.

Consumers can buy "GreenPower" not only from their electricity provider but also from third parties who effectively act as a broker between the generators and buyers of clean energy. In this way, "GreenPower" qualifying RECs are carbon credits and could be purchased to cover carbon emissions from other sources such as motor vehicles and flights. Offshore, the WWF along with others have sponsored the creation of the "Gold Standard" carbon credit along similar lines to "GreenPower". In terms of the total emissions of CO_2 globally, it is of little consequence whether the credit is generated in Australia or not, and "Gold Standard" credits are available at approximately half the price of the local product. (We have not got to the bottom of this but will keep working at it).

The big question is how much will it cost to offset your CO_2 emissions?

"GreenPower" can be purchased for 4.675 cents per kilowatt hour over and above standard rates from one NSW power utility. For the average Australian household consuming approximately 16 kilowatt hours per day, this represents an increase in the annual electricity bill of $273. Gold Standard credits used to offset carbon emissions from a medium size car driven 15,000 kilometres a year would cost around $70 annually. To offset a return flight to London would cost approximately $220.

These amounts may seem a little or a lot depending on your own household budget, but it is interesting to look at it from a national perspective. Australia emits an estimated 564 million tonnes of greenhouse gases ($C0_2$ equivalent) for which Gold Standard carbon credits could be purchased for less than $A9.3 billion dollars at current market rates, or approximately 1.7% of GDP. This can serve as a rough estimate of the annual running cost of converting the entire nation's energy to clean renewable sources. Of course, there may be limitations on our ability to make such a move (eg. suitable sites for wind farms, or the conversion of motor vehicles to fossil fuel alternatives such as fuel cells) but it does suggest the cost of moving to renewable energy, particularly over a period of time, is not an insurmountable issue. Indeed there is already evidence that higher investment and improved know-how and economies of scale have steadily reduced the cost of producing renewable energy.

Platinum Asset Management has decided to purchase carbon credits to cover its greenhouse gas emissions for the current financial year and beyond. To do this we are using "Climate Friendly", a local company that effectively acts as a middleman in the provision of "GreenPower" and "Gold Standard" carbon credits. If you are interested in pursuing this subject, we suggest you visit their website, www.climatefriendly.com.au to calculate your household's carbon footprint.

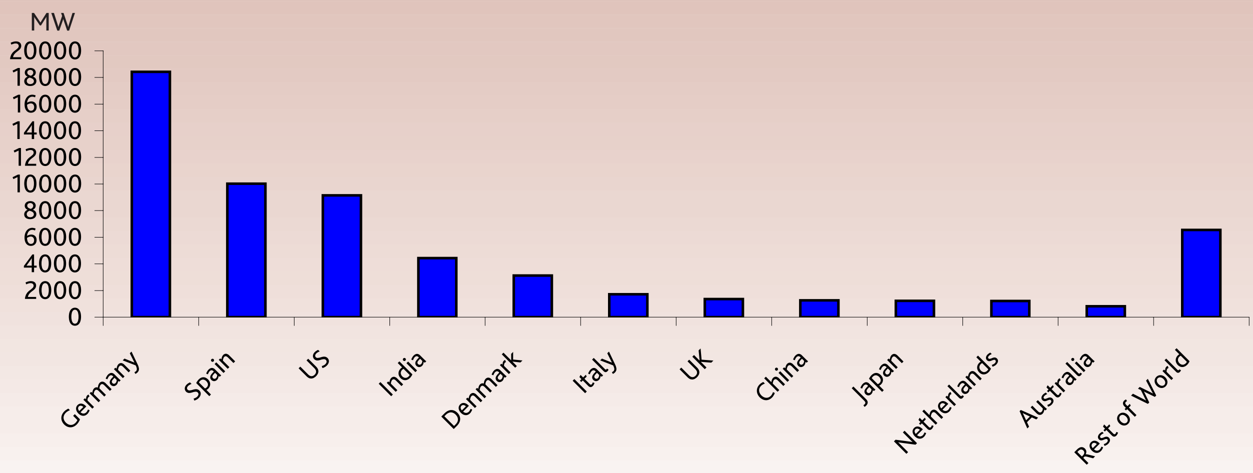
Other options include buying "GreenPower" directly from your local electricity supplier. By choosing this option you will only be covering your actual electricity consumption and not the emissions from other sources such as motor vehicles. It would appear that some utilities are not prepared to cover 100% of electricity consumption with "GreenPower" and prefer to offer non-accredited sources of clean energy. A cheaper option is to plant trees to absorb the $C0_2$ as they grow (www.greenfleet.com.au). A most agreeable choice, and at a significant discount again to Gold Standard credits, with a little over $9 needed to plant four trees which will ultimately absorb one tonne of CO_2. Unfortunately though the trees take more than 30 years to reach maturity and fully absorb the required amount of CO_2. Maybe the matter is more urgent!

For air travel, some airlines are now offering carbon credits when you purchase a ticket. The issue with this option is that emissions of aircraft at altitude have a much greater impact on global warming than those released at sea level. Thus to offset each tonne of CO_2 released by the aircraft's fuel burn, you need to acquire 2.7 carbon credits; a point not made clear by at least one airline site we have visited.

As you will appreciate, emissions and credits are a complicated issue and we have only scratched the surface with this article. To offset carbon emissions through buying carbon credits is really just the first step each of us can make. Beyond this there is a clear need for our households and businesses to become more energy efficient and frugal. We have long enjoyed the enormous benefits of low cost energy thanks to the availability of fossil fuels and this has resulted in many of us becoming insensitive to our consumption of energy. Now we may be discovering that the cost wasn't quite so low after all.

Andrew Clifford

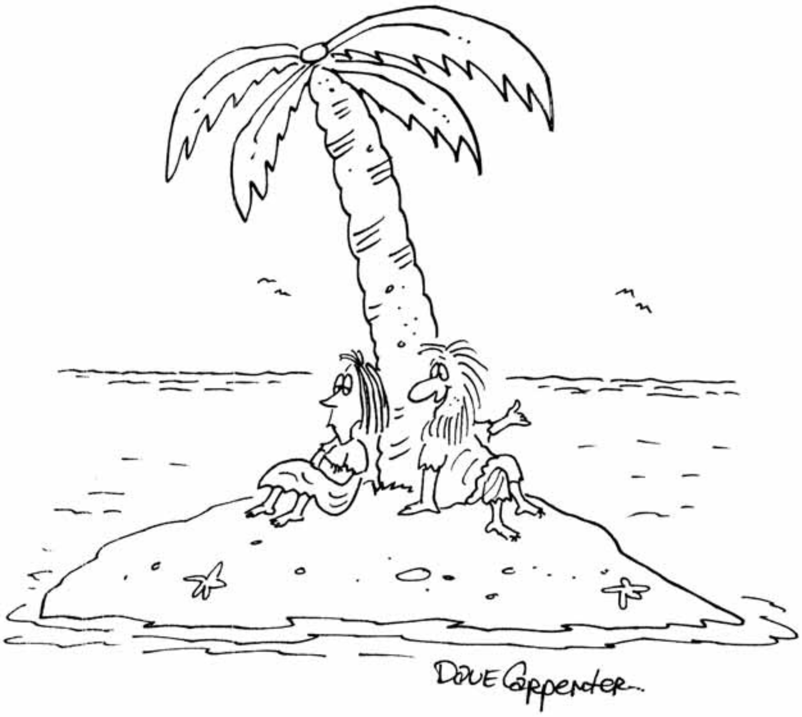
Installed Wind Farm Capacity - Top Markets



Source: Global Wind Energy Council

" WITH MY BRAINS AND YOUR MONEY, WE HAVE NOTHING TO LOSE OTHER THAN YOUR MONEY."

" THE CURE FOR 'STOCK MARKET JITTERS' IS AN UP MARKET-- SO LET ME PRESCRIBE SOME HOT STOCK TIPS!"



"THANK GOODNESS WE INVESTED IN LONG TERM BONDS."

LOSERS GUIDE TO ONLINE TRADING

NOTES

1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

2. The investment returns depicted in the graphs are cumulative on A$10,000 invested in the relevant Fund since inception relative to their Index (in A$) as per below:

Platinum International Fund:
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Asia Fund:
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:
Inception 18 May 2000, MSCI All Country World Information Technology Index

(nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

Platinum Asset Management Limited ABN 25 063 565 006 AFSL 221935 (Platinum) is the responsible entity and issuer of the Platinum Trust Funds (the Funds). The Platinum Trust Product Disclosure Statement No. 6 and Supplementary (PDS), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's website, www.platinum.com.au, or by contacting Investor Services on 1300 726 700 (Australian investors only), 02 9255 7500 or 0800 700 726 (New Zealand investors only) or via invest@platinum.com.au.

Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

DISCLAIMER: The information in this Quarterly Report is not intended to provide advice. It has not been prepared taking into account any particular investor's or class of investor's investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Platinum does not guarantee the repayment of capital, the payment of income or the performance of the Funds.

Platinum is a member of the Platinum Group of companies.

Platinum Asset Management is a Sydney-based manager specialising in international equities. The investment team uses a thematic stock-picking approach that concentrates on identifying out-of-favour stocks with the objective of achieving superior returns for our clients. We pay no heed to recognised indices. We aim to protect against loss and will hedge stocks, indices and currencies in our endeavours to do so.

The firm was founded in February 1994 by a group of professionals who had built an enviable reputation while at Bankers Trust Australia. PAM currently manages around A$21 billion with over 20% of this coming from overseas investors. The staff are the owners of the company. The emphasis of the organisation is on managing clients' money rather than gathering funds: we have no sales staff and pay no inducements to promoters of our funds.

Since inception, the Platinum International Fund has achieved returns of over twice those of the MSCI All Country World Index* and considerably more than interest rates on cash.

INVESTOR SERVICES NUMBERS

Monday to Friday, 8.30am – 6.00pm AEST

1300 726 700

(for the price of a local call anywhere in Australia)

0800 700 726

(New Zealand only)

OR VISIT US AT OUR NEW OFFICES AT

Level 8, 7 Macquarie Place, Sydney.

* Please refer to page 2.

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