PLATINUM EUROPEAN FUND

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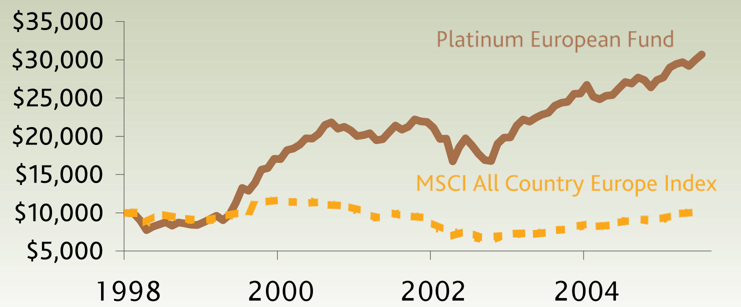
PERFORMANCE

Performance of the Fund in the latest quarter was disappointing, as the broad strength of European markets proved hard to match. The so-called "global non-collapsing (for the moment) Ponzi scheme" – describing negative real interest rates, and asset prices which are justified against the "cost"(lessness) of money rather than against the reality of business (and other) risks – is evident in European markets. Indeed if private equity deal volume is the relevant measure, then Europe is currently the main "beneficiary" of the scheme!

Strong areas of the market for the quarter were insurance (+14%), industrial products (+13%) and travel/leisure (+13%). Meanwhile energy (-7%), and autos (-6%) were weaker. In native currencies, the European markets added 3.5% for the three months to December, and with the A$ a little softer against the euro et al, the MSCI Europe A$ return was 6%. The Platinum European Fund returned 3% for the quarter.

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 31 DECEMBER 2005



Source: Platinum and Factset. Refer to Note 2, page 5.

CHANGES TO THE PORTFOLIO

The major adjustments to the portfolio included the near doubling of the "financials" exposure (to 7%), with a good performance of our major bank holding (Credit Agricole in France) as well as a new investment in a German financial advisory business. We also added two new TV companies (of which more below), and sold the last of our position in transport company Deutsche Post, as we were unwilling to take the risk of their latest, expensive, distracting acquisition.

Notable performances in the portfolio have come from organic-LED display technology company Cambridge Display (+29% for the quarter), from the Dutch mail/(international) courier business TNT (+28%), and from the Dutch semiconductor manufacturing equipment vendor ASML (+24%). Frustratingly, part of this was offset by a 40%-in-a-day decline for the share price of German pay-TV business Premiere (please refer below).

The Fund's currency exposure has changed little over the quarter, with roughly a quarter held in Australian dollars and the remainder in European currencies. Notably, with five shareholdings in the UK, the Fund now has a 6% exposure to the pound sterling. In total the Platinum European Fund had 50 holdings at the end of 2005.

COMMENTARY

Italy (and the challenges of monetary union)

Italian politics is regarded locally as a soap opera; the fact that the country's richest man and most powerful media proprietor is also prime minister has made the episodes of recent years more sinister, but the plot remains comically unlikely, and scandal is of course ever present. The post-war treaty required considerable independence (from government) for the Italian Central Bank – this worked quite well for long periods; indeed the Bank had an excellent reputation and many good people over the years. However, the situation backfired recently in the slowness of the removal of an unfit governor (only the committee appointed by the governor could vote him out!). Fazio seemed to have perverted policy over the ownership of a commercial bank for the benefit of his own family. The ensuing shenanigans in the bank made it look like an arm of government, but finally Fazio was removed, and a promising looking choice made to replace him for a fixed four year term.

However, this circus, as well as other ravages of the Berlusconi years, are distracting attention from another difficulty facing Italy, namely the reality of its membership of the euro currency mechanism. It is noteworthy that the German representative on

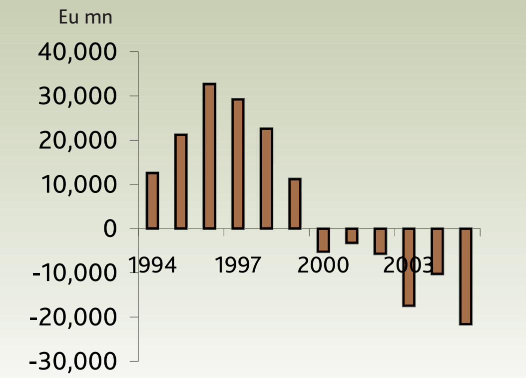
BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	DEC 2005	SEP 2005
CAPITAL GOODS	SIEMENS, RIETER, METSO	21%	22%
TECH/MEDIA	INFINEON, ALCATEL, ERICSSON	20%	18%
CHEMICALS/MATERIALS	NORSKE SKOG, UPM, SHELL	16%	14%
CONSUMER/RETAIL	HENKEL, HORNBACH, DOUGLAS	11%	10%
PHARMACEUTICAL/BIOTECHNOLOGY	NOVOZYMES, GLAXOSMITHKLINE	10%	10%
MISCELLANEOUS SERVICES	TNT, L'OREAL	10%	6%
FINANCIALS	CREDIT AGRICOLE	7%	4%

Source: Platinum

the European Central Bank board has recently pointed out that Germany will not tolerate high inflation to accommodate other members of the monetary union. This is aimed squarely at Italy, where the deterioration of its trade position – starting from a favourably competitive position due to the weak euro entry price of the Italian lira – illustrates the consequences of years of higher inflation relative to Germany (which has endured domestic wage stagnation/decline to retain its position as the world's largest exporter in the face of the **unfavourable** conversion price of Deutsche marks into euros).

Italy's current account 1994 - 2005



Source: Bank of Italy

The trouble is one we have mentioned over the years: in a monetary union without a political union, it is inevitable that monetary policy will eventually become highly inappropriate to some part(s) of the union, and without other balancing (fiscal) offsets, this situation could lead to instability of the union itself. Further, it is unlikely that policy will be set at the appropriate level for the most profligate, politically indefensible member of the union. Thus the German warning: Italy must go through a very uncomfortable deflationary period, rather than Germany inflating to "rescue" Italy – the alternative is an Italian exit from the euro and a competitiveness adjustment via currency depreciation.

Italian government bonds have very little risk premium in them to account for the possibility of leaving (or being ejected from) the euro – clearly markets do not yet see a crisis as imminent. But interest rate rises in Europe (even from very low levels) inevitably raise sovereign financial risks for Italy. This mechanism – or risk to the mechanism – is exactly the reason that makes us disinclined to hold a full exposure to the euro …

Television in France and Germany

7% of the Fund is invested in European TV companies; mostly in France. The three companies held by the Fund had mixed fortunes in (late) 2005; the coming few years should be interesting.

Unlike the situation in some southern hemisphere island-continents, the political process in Europe – Italy aside! – seems to prevent politicians supporting oligopolistic market structures in free-to-air (advertising funded) television. This means that in addition to concern that the Internet reduces television "consumption", many European TV incumbents are suffering the arrival of new TV channels. Digital Terrestrial TV (DTT), which has the effect of reducing the spectrum required to transmit TV signals from conventional towers, has allowed many new entrants. In addition, in countries such as France where the ADSL cable is of sufficiently high speed, telephone companies are bundling telephony and TV offerings to compete for customers, again giving simple access to many new TV channels.

These behavioural and technological changes, as well as a tough economy (Germany) and specific issues reducing advertising spending by branded goods companies (France), have conspired to deny European TV stocks participation in the broad bull market of the past 30 months.

While these concerns, as well as the steady encroachment of pay-TV, are not to be ignored, the stock market seems to be fixated on the problems while ignoring a couple of positive points. (1) Market leading (by audience share) free-to-air companies enjoy a vastly disproportionate share of total TV advertising revenues simply because the "efficiency" given by the largest audience allows premium pricing for advertising slots. This reality is little changed by new channel fragmentation: it is hard to see how a channel with 1-2% audience share is useful to companies advertising soap or cars. (2) Free-to-air TV viewers remain the most favourable, "passive" consumers of media (perhaps equal to radio listeners): pay-TV customers are worryingly active and expert in choosing their viewing; Internet users are positively <u>controlling</u> the flow coming across their screen. It's much better to have a "sitting back", passive victim to receive advertising messages - indeed, it often seems to us that the only missing ingredient for free-TV is engaging (interesting/funny/breathtaking/episodic etc) advertising. Perhaps this will come …

Also, in France, regulations have prohibited retailers (supermarkets etc) from advertising ***at all*** on TV. This situation ceases in one year (ie. January 2007), and with Carrefour and others desperate to improve their image in the minds of French shoppers, we see no reason why the TV advertising market in France should not resemble other western countries where retailers are among the largest advertisers. With this in mind, we have 5% of the Fund in TF1 and M6, the two leading French TV companies, where we expect large uplifts in 2007 earnings, and market anticipation of same.

In Germany, the arrival of DTT technology/licences is a moot point in a market where households have for some time received 30-40 channels or more. This situation, and the fact that the Kirch empire went bankrupt partly due to losses in pay-TV, has meant that the market received the March 2005 listing of Premiere AG with little enthusiasm.

In fact, though, the same logic applies: very small audience shares give even smaller advertising shares and thus limited programming budgets. It follows that a market – in a rich country such as Germany – for pay-TV exists regardless of whether there are three or 30 free-to-air channels. A part of the population (and 4-6 million is sufficient) will pay for content that free-to-air stations cannot carry (eg. many channels of sport, movies etc). So while the stock market worried that pay-TV "could not work" in Germany, we were cautiously optimistic; the low valuation led us to a 3% position in the stock even though we expected a sizeable price rise in the December auction of the TV rights for the German football league. In a Christmas-wrecking outcome for many, though, the league awarded a three year, one billion euro contract to an "unknown" little cable owner (with no pay-TV customers). Quite where they will find that billion euros is not obvious … Anyway, the stock market reflected the general shock at this outcome, and Premiere's shares instantly fell by two-fifths. We bought some more stock (partly on the basis that there is much more to the offer than local football, but also assuming a sub-licensing deal of some sort is likely) and the share price has recovered a little since. The Fund has 2% in Premiere.

OUTLOOK (OR "LOOKOUT!"?)

It is of some concern to us that we struggle to be as optimistic as "the market" about most European stocks. Clearly earnings have improved structurally in Europe (profitability is at all time highs despite anaemic economic growth). And hopefully European economies will be stronger in 2006 than in 2005. But these factors are widely acknowledged, and it is hard to escape the conclusion that equity prices have for some time been driven by the debt bubble (via private equity funds). Thus companies are priced as financial instruments rather than risky enterprises, and that may be fine as long as it lasts, but it makes for lean pickings in our search for low risk investments.

The Fund was 84% net invested at the end of 2005 (95% long, 11% short – almost all of which in German DAX futures); this ratio is more likely to decline than rise in the near term.

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.

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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.