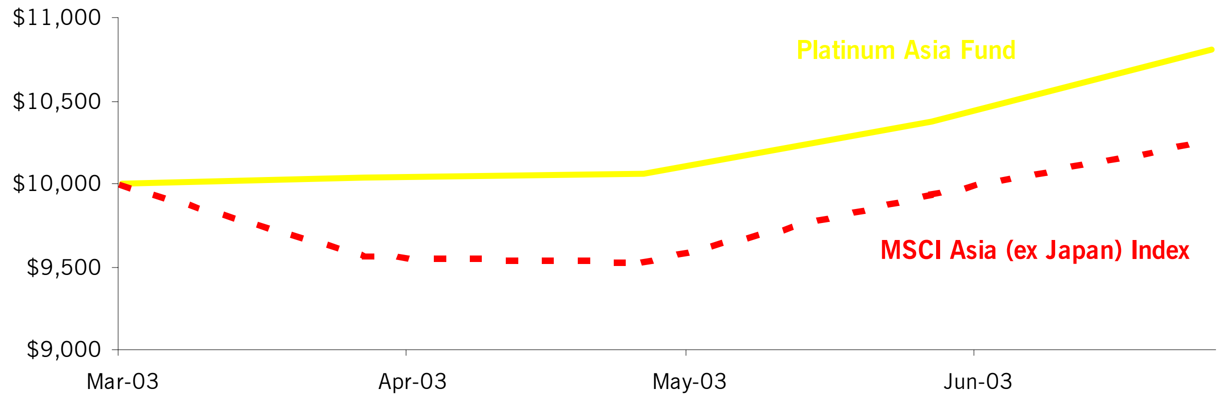
Platinum Asia Fund

Performance

REDEMPTION PRICE: CUM $1.0779 EX $1.0709

VALUE OF $10,000 INVESTED SINCE INCEPTION (3 MARCH 2003 – 30 JUNE 2003)



Source: Platinum and MSCI   Refer to Note 2

Asian stock markets turned in a strong performance in the latest quarter rising over 16% (MSCI Asia ex Japan Index, local currency). Post the Iraq war, investors worldwide have shown greater willingness to take on higher risk assets, especially those sensitive to assumptions regarding world growth. In addition, the weakening US dollar boosts export prospects for the regional economies whose currencies are managed against or pegged to the US currency. Finally, the subsidence of the SARS epidemic removed an additional concern that had been hanging over the region.

Of particular note was the performance of Thailand (up 24%) and Indonesia (up 33%). The Thai domestic economy continues to gain momentum on the back of increased consumer spending. The Indonesian market has been driven by falling interest rates with the benchmark 90 day SBI rate now below 10% having been as high as 15% in the previous 12 months. The notable laggard was Hong Kong (up 8%) where the SARS epidemic had the greatest economic impact driving unemployment to over 8%, an unhelpful outcome for an economy and stock market still trying to overcome the fallout from the mid-nineties property bubble.

Offsetting the performance of the markets was the rise in the Australian dollar which reduced the quarterly return on the MSCI Asia ex Japan Index to 7.3% in Australian dollar terms. The Platinum Asian Fund returned 7.7% for its first quarter.

Portfolio

At the end of the Fund's first quarter, 47% was invested in Indian stocks. This market is providing us with an inordinate number of opportunities to invest in companies with good growth prospects on very low multiples of earnings, and more often than not are paying a decent dividend yield while we wait for any capital appreciation. This is a combination we find hard to resist and one we have not seen for some time.

The State Bank of India (SBI) is the largest bank in India, accounting for around 30% of the Indian banking system. The bank provides finance to a wide spectrum of Indian commerce from large blue chip companies (22% of lending), small to medium size enterprises (51%) and consumers (17%). SBI has an extensive network of branches, which in many locations act as agent for the government in collecting taxes and issuance of currency. All the government banks have been undergoing a methodical modernisation program since the early nineties. Computerisation of SBI's branch network has seen the number of employees fall from a peak of 240,000 to 200,000. The next step will be a centralised solution that will link all branches to a central server, further cutting costs and allowing customers to access accounts from any location! Meanwhile, low interest rates are resulting in strong demand for credit that should see earnings grow at around 15% over the next two to three years. Longer term, the concern will be the quality of the loan book but we believe we are still in the early stages of the cycle. The stock is trading on 5x earnings and a 10% discount to book value.

Tata Engineering and Locomotive Company (Telco) started in the truck business in the fifties with technical assistance from Daimler which continued until the late sixties. Subsequently the company continued on independently and became the dominant manufacturer of heavy vehicles in the country, consistently maintaining a market share of around 70%. A combination of local requirements (Indian trucks have low power to weight ratios as the appalling state of the roads diminishes the importance of acceleration, while a premium is placed on durability on account of chronic overloading) and very low prices (as little as US$20,000 will buy you an 18 tonne, 200 HP truck) means imported trucks are not really in the running. The company entered the light commercial market in the eighties and won a leading position against the Japanese producers, and reproduced this when in the late nineties it entered the car market and became one of the sellers against the Japanese and Korean sponsored producers. As outlined in our report on India (see PIF report), there is significant investment in the road system in India which we believe will drive vehicle sales. Currently, the truck market is running at around 110,000 vehicles annually, down from the mid-90s peak of 151,000. We believe Telco's profits will increase substantially and at 13 times (depressed) earnings represents good value.

Container Corporation (Concor) is the sole provider of containerised rail transport in India. The company's role is to have wagons loaded, ready to be picked up by Indian Railways and at the other end to unload to trucks or to warehouse. The company was started in 1989 to provide a service that was otherwise problematic for Indian Railways given their vast bureaucracy. Concor has a mere 800 employees compared with Indian Railways 1.5 million. The company owns 51 rail-road inter-modal terminals in India along with 5,500 rail wagons and although a competitor could enter the market, these assets would not be easily duplicated. The business has grown at 15% pa and the shares trade at 7 times earnings.

DISPOSITION OF ASSETS

Region	Jun 2003
India	47%
Hong Kong	14%
Indonesia	9%
Korea	7%
Thailand	6%
Singapore	2%
Cash	15%

Source: Platinum

Commentary

The Chinese economy continued to grow at a rapid rate despite the fact that SARS almost closed down major cities such as Beijing in May. During the first five months of the year (and including the SARS impacted month of May) exports expanded by 34%, an impressive performance given a dull global environment and coming on the back of last year's export growth of 22%. Imports grew an impressive 45% over the same period reflecting an accelerating domestic economy and importantly, reducing the trade surplus which diminishes the longer term concerns of a protectionist backlash against China.

Our discussions with companies around the region continue to highlight the country's competitiveness as a manufacturing base with costs of production at almost inexplicable levels. It is our suspicion that this may ultimately be explained by a lack of adequate pricing of capital, which is consistent with a high level of private credit (160% of GDP and rising quickly) and significant levels of non performing loans in the banking system. However while the current account remains in surplus (and as such the country is not drawing on foreign resources to grow) and few signs of inflation at present, we would expect this juggernaut to continue to roll on. The current weakness of the US dollar may well reinforce calls for the Chinese renminbi to be revalued, but given the extraordinary level of costs and the ever present attraction of over one billion consumers, this would most likely be only a short term loss of momentum.

Any analysis of the Indian economy is never complete without input on the likely rainfall in the coming monsoon from the Indian Meteorological Department. That economists would repeat the weatherman's forecasts perhaps tells us all we need to know about practitioners of the dismal science. It does however reflect the historical importance of the agricultural sector to the economy. (For the record, better rains are predicted after a disappointing outcome last year!). Although not as spectacular as China, the Indian economy continues to perform well. Falling inflation and interest rates together with the ongoing privatisation of state banks has made credit more widely available and at reasonable rates. The result is strong loan growth, and although there are some concerns regarding whether this is sustainable, private sector credit remains at very low levels. For the moment, the Indian economy continues to expand at a steady pace. The long term picture for India is very promising but dependent on the governments willingness to push through much needed reforms. (See page 9 on our recent trip to India).

Elsewhere in the region, Thailand is proving to be one of the better performing economies. With the arrival of AFTA (ASEAN Free Trade Area), Thailand has attracted substantial foreign investment in the automotive business. Toyota is producing the "Vios" (a 1.5 litre car specifically produced for ASEAN) in Thailand, and because of the new trade rules under AFTA is able to sell the vehicle at a substantial discount to its other mid-range vehicles across ASEAN. Honda similarly is producing its equivalent vehicle, the "City", in Thailand. As a manufacturing base, Thailand is one of the few countries still able to attract manufacturing investment against the might of China. With the help of very low interest rates, the consumer has also made a strong comeback in Thailand resulting in strong housing and auto sales. The revival in the property market is in stark contrast to the last boom with the focus on end user purchases of affordable properties (A$20,000 to $40,000). The risk in this country remains the banking sector, where despite a major improvement in profitability, weak balance sheets present risks if interest rates were to rise.

Finally, it is worth noting the revival in the fortunes of Indonesia. Perhaps the most important development is the loss of credibility of the Islam radicalism in the wake of the Bali bombing. Indeed, a combination of a more stable political and economic environment has seen capital returning to the country, driving the current account up and interest rates down. For the moment, the economy remains moribund with all the companies we met on a recent visit complaining about weak consumer spending, but falling rates should prove to be a powerful tonic for the country in the medium term.

Andrew Clifford
Portfolio Manager

Notes

1. The returns represent the combined income and capital return for the specified period. They have been calculated using withdrawal prices, after taking into account management fees (excluding any performance fees), pre-tax, and assuming reinvestment of distributions. The returns shown represent past returns of the Fund only. 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, returns can be negative (particularly in the short-term).

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

   Platinum International Fund:
   Inception 1 May 1995, MSCI World Accumulation Net Return Index in A$

   Platinum Asia Fund:
   Inception 3 March 2003, MSCI Asia Free ex Japan Net Return Index in A$

   Platinum European Fund:
   Inception 1 July 1998, MSCI Europe Accumulation Net Return Index in A$

   Platinum Japan Fund:
   Inception 1 July 1998, MSCI Japan Accumulation Net Return Index in A$

   Platinum International Brands Fund:
   Inception 18 May 2000, MSCI World Accumulation Net Return Index in A$

   Platinum International Technology Fund:
   Inception 18 May 2000, MSCI Global Technology index in A$

   The investment return in the Funds is calculated using withdrawal prices, after taking into account management fees (excluding performance fees), pre-tax and assuming 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.