PLATINUM ASIA FUND

Andrew Clifford Portfolio Manager

In May, the People's Bank of China ordered that Chinese banks stop lending to certain industries that it believed were overheating. This measure, along with other policy changes in China, led to concerns about a slowdown in that country's growth and a subsequent sell-off in regional markets. Adding to the woes was a surprise election result in India which saw the strongly pro-reform BJP government removed and a sharp set-back for Indian stocks. Besides the heavy falls in Chinese (down 8%) and Indian (down 12%) stocks, markets that have benefited from the China story such as Korea (down 14%) and Taiwan (down 10%) also fell heavily. Peripheral markets such as Thailand (up 3%), Indonesia (up 5%), and the Philippines (up 13%) were the better performers.

The MSCI Asia Ex Japan Index fell by 8% over the quarter, but due to the depreciation of the Australian dollar, the fall in the index was reduced to 0.8% in Australian dollar terms.
By comparison the Fund fell by 5.2% with the major losses incurred by the Fund's Indian stock holdings, particularly the bank holdings which have suffered from rising bond yields and concerns that the government will direct banks to increase subsidised loans to the agricultural sector. Short positions in the Indian and Chinese H share indices reduced the portfolio losses by more than 50%. Amongst the portfolio's better performers were DC Chemical (Korea, specialty chemicals), China Mobile (PRC, Mobile phone network), and Central Pattana (Thai, shopping centres). Over the last 12 months the Fund returned 31.6% while the MSCI Asia Ex Japan index (in $A) returned 25.5%.

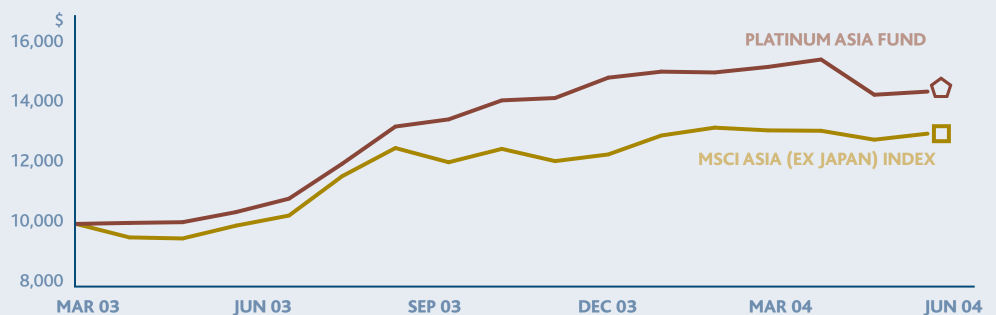
DISPOSITION OF ASSETS

REGION	JUN 2004	MAR 2004
CHINA	**3%**	**4%**
HONG KONG – CHINA H SHARES *	**8%**	**8%**
HONG KONG	**2%**	**2%**
TAIWAN	**13%**	**12%**
GREATER CHINA TOTAL	26%	26%
INDIA	**30%**	**36%**
KOREA	**13%**	**13%**
INDONESIA	**4%**	**5%**
THAILAND	**4%**	**4%**
SINGAPORE	**3%**	**3%**
MALAYSIA	**1%**	**1%**
CASH	**19%**	**12%**
SHORT	**1%**	**14%**

Source: Platinum

* H Shares are shares of Chinese State Companies listed in HK

VALUE OF $10,000 INVESTED SINCE INCEPTION 3 MARCH 2003 TO 30 JUNE 2004



Source: Platinum and Factset. Refer to Note 2.

CHANGES TO THE PORTFOLIO

After the sharp falls experienced by the Indian and Chinese stocks during May, the Fund bought back its short positions in stock index futures in these markets, thus removing the downside protection these represented. The Fund also took advantage of the fall in prices to add to many of its current holdings, in particular in the Indian banking stocks and Taiwanese stockbrokers. New stocks included a Chinese (Hong Kong listed) gas utility and a Taiwanese packaging business with a fast growing Chinese subsidiary.

At quarter end, the weighted historic average price-earnings ratio for the portfolio was 11 times. With many of our holdings expected to increase their earnings in excess of 15% pa in the coming three to five years, this is a very attractive valuation. Thus it is likely that the high cash holdings in the portfolio at June 30 will fall over the course of the next quarter.

OUTLOOK

The major focus of the Asian markets during the quarter was an additional round of policy measures implemented by the Chinese government aimed at slowing investment in certain sectors of the economy. In essence the measures put in place by the central bank have potentially increased the cost of borrowing, tightened the availability of bank loans generally, and placed a moratorium on lending to projects in industries that have seen very high levels of investment, such as steel, cement, automobiles, aluminium, and property. Bans on new sales of land by regional governments have also cut an important funding source for infrastructure projects.

The announcement of these measures in late April and early May resulted in much debate as to whether they would result in a hard or soft landing or for that matter any landing at all! During May we spent two weeks visiting companies in China, Hong Kong, and Taiwan, with a focus on companies with mainland businesses. It was clear from our discussions with companies in the targeted industries that new funds would not be forthcoming from the Chinese banks and although the banks had not yet used their new flexibility to raise lending rates, this was expected to occur as the year progressed. There is little doubt that these measures will slow investment in these industries.

This may be a positive for some participants. A cement company that has already invested in new capacity may well benefit if its competitors are held back due to a shortage of funds, whereas suppliers of capital equipment to the cement industry will undoubtedly see their orders cut. In certain areas the impact is already being felt. In May, auto sales were down 20% from April as banks stopped approval of auto loans. In an industry where capacity is expected to double between the end of last year and 2006, the impact on profits should be severe. Elsewhere, Japanese and Korean construction equipment companies have seen a dramatic downturn in orders from China. The statistics also show a slowdown in lending growth by banks to below 20% pa from 25% pa toward the end of 2003.

But the general question of the impact on the broader Chinese economy is difficult to answer. Official statistics place gross investment at over 40% of China's economy, and even though these numbers likely overstate the reality, it is nevertheless the case that investment has been the driving force behind the country's economic growth in recent years. It is estimated that the targeted industries account for around 10% of China's output. For an economy that has been growing at rates in excess of 10% pa (compared with the official rate of 8% or so), one could probably argue that impact will be relatively muted.

An alternative view of China proposed by some commentators is somewhat more bearish than our own. Their position is that China has been through an extraordinary investment boom and the measures taken to slow the economy could precipitate a major bust. Further, the need to use such crude policy measures such as credit rationing highlights the weakness that a dysfunctional banking system represents to the Chinese economy. The short version of our rebuttal is that while the current account remains in surplus we would remain relatively comfortable that the economy is far from crisis. On the question of the banking system, it indeed remains the weak link. However it is the recognition by the central bank that the banking system is not yet assessing credit risk effectively and it is safer and faster to direct lending than leaving it in the hands of incompetent or corrupt loan officers. While such an approach maybe an anathema for many free market economists, it appeals to us as a pragmatic solution in an imperfect world.

The uncertainty introduced by the austerity measures has seen investors enthusiastically selling Chinese stocks having only at the end of last year embraced the certainty that China's growth would be never-ending. The China H share index fell by over 20% from the high reached in January. It remains the case that investing in high growth sectors (whether a country or an industry) exposes one to much greater volatility than more mature areas. The set back in China shares, although not well anticipated, should not be of particular surprise to investors. And indeed this setback has provided the opportunity for the Fund to invest in a number of Chinese businesses at much improved prices. As the austerity measures flow through the system, this should continue to provide opportunities to add further to our portfolio of Chinese businesses at attractive prices.

The other event of note during the quarter was the Indian election where the reformist BJP coalition government lost power in a contest they were expected to win. In hindsight, the economic prosperity brought by the BJP's reforms had not been spread evenly between urban and rural areas, and thus the popular support for the government that was assumed was simply not there. Concerns about the new government, together with the ongoing sell off in regional markets, saw the Indian market fall 20% in two trading days.

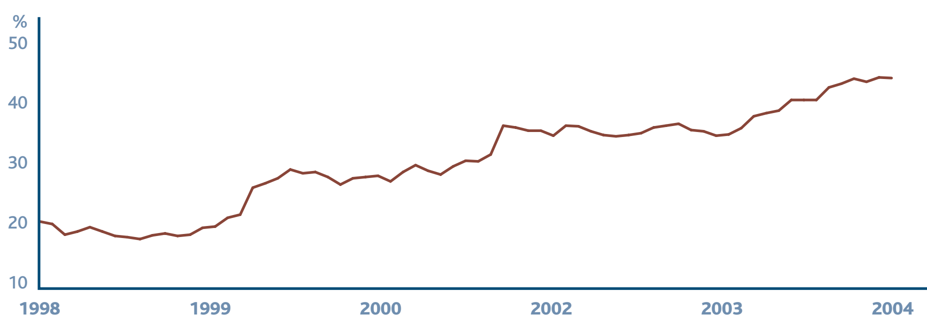
The reform process began in India in 1991 when the Congress government of the day had their hand forced by a current account crisis. Subsequently, the pace of reform has been more a function of the strength of the governing coalition's majority rather than ideological differences between BJP and Congress led governments. In this regard the new Congress led coalition is clearly weaker than the outgoing government due to its dependence on the votes of the Communist and Marxist parties. On a positive note, the new government has already made the difficult decision to increase retail energy prices to reflect higher oil prices. On the other hand, there is a move to enforce the rules regarding so-called policy loans that the banks must extend to the agricultural sector.

Although the new government has stated its intention to continue the reform process, only time will tell of its determination to follow through. One positive of the new government is the end of the BJP's promotion of Hindu nationalism which had the potential for major conflict between the Hindu and Muslim population. Our view remains relatively sanguine on India. The departing government had achieved much in opening the economy and whether further progress is made in the reform process, capital expenditure should continue to build and drive the economy. In the meantime the sell off in the stock market has allowed the Fund to acquire stocks at very attractive prices.

The weakness of regional stock markets, together with the strong earnings growth of recent times has left the markets trading at highly attractive valuations. The one concern is the lack of willingness by local investors to buy their own markets, with trading in most markets having been dominated by foreigners over the last year or so. This is a phenomenon at its most extreme in Korea where foreigners now hold over 40% of the market. We are not aware of any good explanations of local reticence to invest and the high participation by foreign investors would generally be seen as a contrary indicator and argue against strong future performance by these markets. Nevertheless the combination of low valuations and likely strong earnings growth makes these markets highly appealing. However, strong bull markets are unlikely to return without the local investors. In the meantime, we should experience appreciation at least in line with earnings growth of the Fund's holdings.

Andrew Clifford Portfolio Manager

FOREIGN OWNERSHIP OF KOREAN STOCK MARKET



Source: CLSA

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 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 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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The Platinum Trust Product Disclosure Statement No. 5 (**PDS**), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's web site, **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.

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