PLATINUM ASIA FUND

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Portfolio Manager

PERFORMANCE

PERFORMANCE (compound pa, to 30 June 2007)	QUARTER	1 YR	2 YRS	3 YRS	SINCE INCEPTION
PLATINUM ASIA FUND	13.4%	32.1%	30.2%	35.6%	34.0%
MSCI AC ASIA EX JAPAN	10.5%	27.2%	27.6%	23.7%	23.1%

Source: Platinum and Factset. Refer to Note 1, page 41.

Asian markets had a very strong quarter as fears of slowing global economic growth receded. With the exception of Vietnam (down 3%), which was having a breather from its extraordinary bull market, all the regional markets showed impressive gains. Of note was Korea where the market advanced 20% as domestic investors continued their enthusiastic return to buying shares. China A shares (up 20%) and H shares (up 25%) continued their strong runs, although interestingly the A share market struggled in the second half of the quarter after increases in interest rates and reserve requirements for the banking system were announced, along with increases in stamp duty for share transactions.

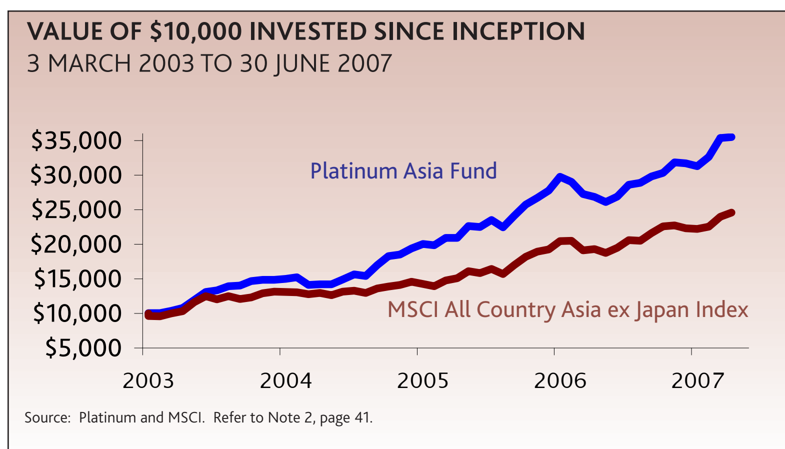
Among the Fund's best performers for the quarter were the Korean shipbuilders, Hyundai Heavy (up 83%) and Samsung Heavy (up 80%). A number of Chinese holdings were also significant contributors including Zhengzhou Yutong Bus Co (bus manufacturer, up 67%), Baidu (internet search engine, up 74%), and Gome Electrical (appliance retailer, up 37%). The major drag on the portfolio was currency positioning: the Fund had only a small exposure to the Australian dollar which appreciated considerably against its regional counterparts.

DISPOSITION OF ASSETS

REGION	JUN 2007	MAR 2007
CHINA (LISTED EX PRC)	24%	5%
HONG KONG	7%	8%
CHINA (LISTED PRC)	4%	17%
TAIWAN	4%	5%
GREATER CHINA TOTAL	39%	35%
KOREA	15%	14%
INDIA	14%	12%
THAILAND	9%	8%
MALAYSIA	6%	8%
INDONESIA	3%	3%
SINGAPORE	2%	2%
CASH	12%	18%
SHORTS	8%	12%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
3 MARCH 2003 TO 30 JUNE 2007



Source: Platinum and MSCI. Refer to Note 2, page 41.

CHANGES TO THE PORTFOLIO

A number of new names were added to the portfolio after our visit to China in May. Shanghai Prime Machinery Co manufactures turbine blades used in power generation equipment. While the business dominates the local market, it has now broken into the export market which represents a major growth opportunity. Scud Group is a manufacturer and retailer of mobile phone batteries for the replacement market which, unlike in developed economies is large and growing due to the longer life cycle of phones in China. Korea Investment Co, a Korean stockbroker which is well positioned to take advantage of the developing market in managed funds in that country, is another new holding. Also, additional purchases of Samsung Electronics and Taiwan Semiconductor (TSMC) were made as market concerns over growth prospects for the technology sector had caused these stocks to linger at attractive price levels.

Maxis Communications (Malaysian mobile phone operator) was sold after the major shareholder made an unfortunately (for us) successful bid to privatise the company. Elsewhere, we sold out of two of our very profitable China A share investments, Shanghai International Airport and Daiqin Railway, as they moved well above our target levels.

COMMENTARY

The bull market in the Shanghai stock market continued this quarter, with the index now standing at levels almost four times higher than the low reached two years ago. Although China's economic growth has been grabbing the headlines for over five years, it is worth noting that up until mid 2005 it had been one of the worst performing stock markets for the prior three years. The change that occurred in 2005 was a sharp acceleration in company profits when many had expected the ongoing investment boom to cause margin compression for Chinese companies.

In addition, an undervalued exchange rate has allowed current account surpluses to balloon and capital inflows to remain strong, leading to a plentiful supply of liquidity in money markets and thus low interest rates. There is no better combination than cheap money and strong profit growth to get a stock market moving higher. Efforts by authorities to hold down asset prices, most notably the Shanghai property market, where prices have stagnated over the last two years, have only exacerbated the situation with more money now available to play the stock market.

An interesting phenomenon of the bull market is how shares of the same company typically trade at significantly higher prices in the Chinese domestic stock market (the A share market) than they do when listed in offshore markets such as Hong Kong (H shares). On dual listed stocks the A share premium has increased from an average of around 40% to over 70% in the last 2 years. The reason this occurs is that the stocks listed in China are predominantly bought and sold by Chinese investors who are precluded from trading in the Hong Kong market. Thus while the domestic share prices are set by domestic investors, the offshore prices are set by foreigners, with the two groups having different opportunity sets, and impacted by different economic variables

(e.g. domestic Chinese interest rates versus global interest rates). The result is a very different price in the two markets for an almost identical claim over the same business.

However there has been considerable discussion amongst commentators about whether this gap might be closed, with the H shares rising to the level of the A shares, due to an expansion of the Qualifying Domestic Institutional Investor (QDII) system. QDII allows Chinese financial institutions to offer portfolios of offshore assets to their domestic customers. Until recently, the program had been restricted to fixed interest type investments and was only offered by banks. This has been changed to allow access to some foreign stock markets, with the product now available from a wider range of financial institutions including stock brokers and fund managers. Now Chinese investors, via the QDIIs, will have access to Chinese companies trading in Hong Kong at much more attractive valuations. Moreover, many of the blue chip Chinese companies such as China Mobile, are not listed domestically, thus giving Chinese investors access to some of the country's best companies for the first time.

How enthusiastically Chinese individuals take up the opportunity to invest offshore may be tempered by many of the restrictions placed around the products that can be offered (e.g. products can only have a 50% equity weighting) and indeed the size of the quota available will limit the impact of Chinese money coming into Hong Kong. Longer term though, the moves would appear to be part of an ongoing loosening of capital controls and ultimately it is hard to see how this will not boost the prices paid for not only Chinese companies listed in Hong Kong, but also for the broader market. Certainly this has been a major part of the enthusiasm shown for Hong Kong listed stocks during the last month or so, but as we have seen with the Chinese yuan exchange rate (since the change to a more flexible mechanism), a significant regulatory change need not play out in the market immediately.

The other opportunity presented by the difference in "A" and "H" share valuations is for those Chinese companies that have only an H share listing, to issue A shares at a premium price. Potentially these companies could even use the funds to buyback outstanding H shares. It would seem such a benefit is unlikely to accrue despite official encouragement for A share listings by H share companies (to facilitate investment in these "blue chip" names by Chinese individuals), because to issue A shares at a premium to their Hong Kong price is not politically palatable. This was at least the experience for Ping An Insurance, the first such case of a domestic listing in March this year by a Hong Kong listed entity, where the A share offering was priced in line with the Hong Kong market. Subsequently, the A share has traded at a substantial premium to the Hong Kong market.

Although the possibility of Chinese money spilling into the Hong Kong market is an interesting question, it is perhaps more important to examine whether the Chinese bull market has further to run. Although making such predictions is fraught with danger, history has many bull markets that we can look to for guidance. An undervalued exchange rate driving a large and growing trade surplus, together with strong capital inflows, and limited opportunities for domestics investors to move money offshore, would proffer the Taiwan bull market of 1985 to '90 as a reasonable case study. Once that bull market was underway, even though the exchange rate started to appreciate halting the rise in trade surpluses, and the authorities unveiled measures such as capital gains tax to slow down the market, and allowed some flow of funds offshore, it wasn't until interest rates increased substantially that the market lost its momentum. Despite these attempts to halt the rise of the Taiwanese market, it appreciated 12 fold before the bull run came to an end. There is an uncannily similar situation in China today, where not only have we seen the introduction of QDII but also increases in stamp duty on stock

trading and talk of imposing capital gains taxes. The Chinese yuan is also appreciating but yet to make an impact on the trade account.

Before one extrapolates the Taiwanese experience to the current market in China it needs to be recognised that the Chinese authorities are highly likely to have a good understanding of the forces at work (and of the subsequent damage to the economy that can result). Their policy decisions may well result in different outcomes. In particular the communist party still has strong control over the major banks in China and thus further credit controls could slow down the rapid increase in money supply that is fuelling the bull market. The other point to note from history is that during the Taiwanese bull market, the market suffered two major setbacks of 50% and 35%. It is highly likely that the Chinese market will suffer similar setbacks, possibly as a result of policy measures aimed at doing just that, or external events such as higher global interest rates.

So how should one invest in such an environment? As always our approach is to focus on the individual companies, and an examination of the Fund's China holdings (a combination of listings in Hong Kong and China) shows that the majority of companies are trading at mid teen multiples of 2007 estimated earnings. Given the high growth rates we expect from these businesses, the valuations remain attractive, although admittedly somewhat higher than we were paying two years ago. On a recent trip through China we met with over 40 companies, only a handful of whom we had met previously. What was interesting was that with a number of companies, after years spent establishing a position in the export markets, the big orders were only now starting to arrive generating significant investments in new capacity. The ongoing emergence of new industries to take up the running from those that may be at the end of an investment cycle has been a constant pattern of China's economic development in recent years. Among various factors, the ongoing investment opportunities that are arising for Chinese companies, together with the fact that we can still purchase them at sensible prices, leads us to conclude that the bull run in China is far from over. Nevertheless, one should expect a wild ride.

The Fund currently has 28% invested in Chinese companies, of which 7.2% is listed in China and 23.6% in Hong Kong and other markets[1].

1. The numbers quoted here differ from those shown in the Disposition of Assets" as some of the holdings that are listed in China are held via derivatives and are not included in the total for PRC investments in this table.