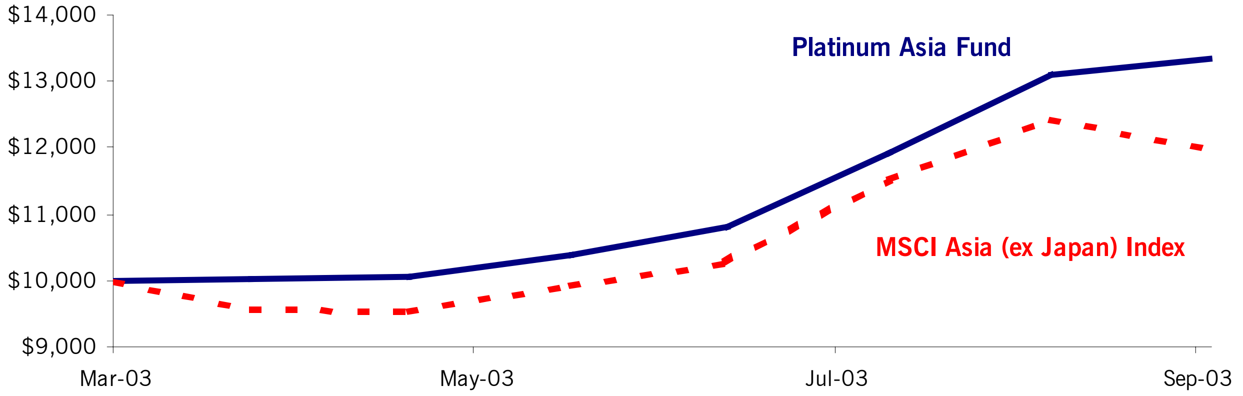
Platinum Asia Fund

Performance

REDEMPTION PRICE: $1.3217

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



Source: Platinum and MSCI

Refer to Note 1, page 4

Asian stock markets had another strong quarter rising over 14% in local currency terms (17% in Australian dollar terms). While markets such as China, India, and Thailand continued their healthy performances on the back of robust domestic economies, the big turnaround came from Hong Kong. Travel restrictions for residents of four cities in southern China were relaxed as of July 1, resulting in a surge of tourist arrivals in Hong Kong. Overnight empty hotels, restaurants, and shops were filled and the resulting turn in confidence in the local economy saw buyers return to the property market. It would appear that the deflationary fallout of the Hong Kong property bubble may have come to an end, particularly as these new travel rules will be apply to all residents of Guangdong province in the new year. Another market that continues to surprise is Indonesia where nascent signs of an improving economy, despite the Marriott bombing in August, has continued to lift stocks prices from very low levels.

The fund performed well for the quarter returning 23.4%. Holdings in India, Hong Kong, and Indonesia contributed nicely to performance. Bharat Earth Movers (Indian construction equipment) up 94%, Ramayana (Indonesian clothing retailer) up 40%, and the Hong Kong Stock Exchange up 24%, were amongst the fund's best performers. The disappointment for the quarter was the Korean holdings, which continue to suffer from a weak domestic economy even as exports to China boom.

Portfolio

The portfolio continues to be strongly weighted in India with 42% invested in that market. New positions in India include Jaiprakash, a construction company with expertise in large hydro-electricity projects, is well positioned to take advantage of the huge ongoing infrastructure program in that country. Bharat Earth Movers is the dominant manufacturer of construction equipment in India and should also benefit from infrastructure spending. Other additions include Giordano, a regional apparel retailer that has been struggling due to the weak domestic environment in its home market Hong Kong. In Malaysia the fund has invested in the local Toyota distributor UMW Holdings, which is poised to gain market share as a result of changes in protection for the auto market brought about by the ASEAN Free Trade Area (AFTA).

The fact that the Chinese economy is booming would be hard to miss even for the most casual observer of the daily news. Chinese factories ability to churn out all manner of manufactured goods from mobile phones to sandshoes at incredibly low costs, and the resultant loss of jobs in the West is a phenomenon that has been widely reported. And indeed there is an investment boom underway resulting in factories sprouting up like weeds in industries as diverse as cement and semiconductors. Generally it is all attributed to the low cost of labour, an undervalued exchange rate, together with China's entry to the World Trade Organisation in 2002. Key concerns are frictions that will arise as China's trade surplus mounts and how much of this new investment is well spent.

Explanations usually forwarded for China's re-emergence from its doldrums post the Asian crisis typically miss a number of important changes that have occurred. Indeed, our recent trip through China revealed that the cost of a factory worker has remained pretty flat over the last 10 years or so at around US$100 to US$150 per month. Entry to the WTO is less significant for boosting China's exports as many imply because China already had access to most markets. On the other hand, WTO membership implies an opening of China's markets to the rest of world. Even the concern over the trade surplus and the undervalued exchange rate may be somewhat misplaced, as it is probable that China will begin to run a trade deficit in early 2004.

An excellent report by Dr Jim Walker of regional brokers CLSA explores the recent fundamental changes that have occurred in China which have formed the foundations of the country's current investment boom. The centrepiece of these changes is the recognition of private property rights. In 1999 China began a process of transferring ownership of apartments and houses to individuals with all the benefits that one might expect that would entail. For the first time an individual could sell his home, take out a mortgage (because the banks now had collateral against which to lend), and upgrade to a new property or to renovate. So, are the vast housing developments being constructed across China evidence of a crazed investment boom or the result of individuals responding to the new situation in which they find themselves? By providing a source of collateral, the recognition of property rights provides an entirely new source of funding for investment, far greater than the closely watched foreign direct investment flows.

Another important change has been the move toward the "rule of law" (at least with regard to commerce) that has been reinforced by membership of the WTO. There have been significant revisions of the legal code to bring it into compliance with the WTO.

DISPOSITION OF ASSETS

Region	Sep 2003	Jun 2003
India	42%	47%
Hong Kong	12%	14%
Indonesia	7%	9%
Korea	7%	7%
Thailand	4%	6%
Malaysia	4%	0%
Singapore	1%	2%
Cash	23%	15%
Shorts	17%	

Source: Platinum

The WTO rules require fair and equal treatment of domestic and foreign parties and that China establish an independent judicial system for trade issues, decisions of which can be appealed to the WTO in Geneva. Investors should no longer face the problems of the foreign banks who in the mid nineties were fined for breaching rules that were outlined in documents which foreigners were banned from viewing! Indeed the changes should help reform the strongest trade barriers in China, which are those among the provinces.

Of course the issue remains how the new rules are enforced. The decision in the Beijing High Court in January this year that found in favour of Lego against local counterfeiters is a sign that things are travelling in the right direction. In recent discussions we had with one multinational doing business with provincial governments in both India and China, we were told that India had the advantage of contract enforceability. By contrast, in China the deal was likely to be reviewed if the official with whom you had negotiated moved on. Hence the constant obsession of business people (both local and foreign) in China with "guanxi" (connections). The move toward rule of law will provide a much improved atmosphere for investing in China, as much for locals as foreigners.

Anhui Conch Cement is a good example of the changes we have seen taking place at the better state owned enterprises (SOE). Anhui Conch was listed in Hong Kong in 1997 at which time the company had cement production capacity of 2.7 million tonnes pa. Subsequently the company has invested heavily in new capacity, often taking over smaller bankrupt producers to gain access to limestone reserves and port loading facilities along the Yangtze river, and by the end of last year the company had capacity of 20 million tonnes pa. Indeed cement demand is not growing this fast, but Conch's large new plants using dry kilns produce a much higher quality product at lower cost than the plethora of tiny incumbent producers. (It is estimated that there are over 7,000 cement companies in China). The company has financed the expansion through loans from domestic banks as well as local and foreign shareholders, and in 2002 is making decent returns on its investment despite a low cement price (by global standards) of around US$30 per tonne. The company plans to add a further 20 million tonnes of capacity by the end of 2005.

What concerns some commentators is that competitors imitating Conch's success will add a further 180 million tonnes of capacity in the next 3 years, a large number when compared with the country's annual consumption of 650 million tonnes (which for the record is about one third of global consumption). But it is hard to see the flaw in an investment that ultimately represents an upgrade of cement capacity to a lower cost high quality product, especially in a country that will continue to consume large amounts of the stuff. Undoubtedly a lot of old inefficient capacity will be closed, and is in fact closing, but this is simply the "creative destruction" of capitalism at work in China. This is not say the industry won't overshoot in its investment (it most likely will) but for the moment the capital-spending boom in the cement industry looks soundly based.

At the other end of the spectrum of China's capex boom is SMIC. SMIC is a privately funded entity that has built China's first leading edge semiconductor fabrication line, and is competing in the global market against the leading "semiconductor foundry" companies such as TSMC (Taiwan), UMC (Taiwan), and Chartered Semiconductor (Singapore). Many view this investment as politically inspired with China wanting to prove it's technology credentials to the world, and point to the fact that China's low cost labour is of little if any advantage in this capital intensive business. But this point of view misses the fact that China has no particular disadvantage either and imports over 90% of its semiconductor chips. Further the project has been funded privately (primarily by Taiwanese money) and is acting as a magnet for talented overseas Chinese scientists. We suspect that SMIC will succeed in establishing itself as a major semiconductor foundry, but whether it does or doesn't, that private investors are prepared to lay down significant sums in establishing a business in China when there is no significant advantage says much about their confidence in China.

The major risk to China's ongoing development is the growing gulf in incomes and opportunities between the urban areas and the struggling rural sector. However, recent reforms have been put in place to address the issue, the most important of which is the Rural Land Contracting Law under which farm households will be granted 30 year leaseholds over their land. Never before having had tenure over their land for more than the next crop, the Chinese farmer has had little incentive to invest in his land. The leasehold not only grants this tenure but will also be tradeable. The farmer will be able to use his leasehold as collateral to borrow funds for improvements, lease their land to his neighbour, or elect to sell up and move on. In conjunction with these changes, relaxation of the "hukou" (internal passport) system, individuals can much more readily move to urban areas to take advantage of job opportunities, without forgoing title to their land as previously would have occurred. Similar reforms in Taiwan in the 50s saw substantial increases in crop yields and thus farm household incomes in the following decade. If China is similarly successful, not only will a major risk have been removed, but a major new source of growth created.

We believe that the prospect of an unlimited market will inevitably create a recurrent boom – bust scenario in China. But for the moment, the current expansion is still relatively young and any disappointments are more likely to come from external than internal sources. For the moment, the fund has relatively light exposure to Chinese companies, but this is primarily a result of the better value on offer in Indian stocks, in what is at least an equally exciting economic environment. Nevertheless, China will continue to be a major focus of our research efforts in the region.

<u>Andrew Clifford</u>
<u>Portfolio Manager</u>

1. DISCLAIMER

Platinum Asset Management Limited ABN 25 063 565 006 AFSL 221935 as trustee for the Platinum Asset Management Trust (*Platinum*) is the issuer of units in the Platinum Trust Funds (*the Funds*).

The Platinum Trust Product Disclosure Statement No 4 (PDS), *for Australian investors,* and The Platinum Trust Investment Statement No 8 (IS), *for New Zealand investors*, provides details about the Funds. You can obtain a copy of the PDS or IS from Platinum's web site, www.platinum.com.au, or by phoning our Investor Services staff on 1 300 726 700 (*Australian investors only*) or 02 9255 7500

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

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2. NOTES

(a) 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).

(b) The investment returns depicted in this graph are cumulative on A$10,000 invested in the Fund since Inception relative to the its index(in A$) as per below;

Platinum Asia Fund:

MSCI Asia Free ex Japan Net Return Index in A$. The inception date of the fund was 3 March 2003.

The investment return in the Fund 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 Index. The Index is provided as a reference only.