Platinum Asia Fund

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Disposition of Assets

REGION	DEC 2012	SEP 2012
China (Listed Ex PRC)	20%	18%
China (Listed PRC)	7%	6%
Taiwan	4%	4%
Hong Kong	1%	1%
Greater China total	**32%**	**29%**
Korea	16%	16%
Thailand	13%	15%
India	10%	9%
Philippines	8%	8%
Malaysia	6%	5%
Singapore	6%	6%
Indonesia	2%	2%
Vietnam	2%	1%
Canada	1%	1%
Cash	4%	8%
Shorts	1%	1%

Source: Platinum

Performance

Performance (compound pa, to 31 December 2012)

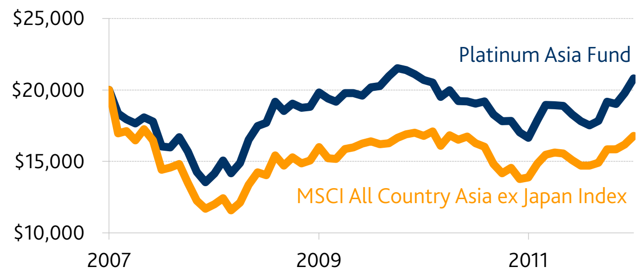
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	8%	25%	2%	1%	16%
MSCI AC Asia ex Jp Index	6%	21%	2%	-3%	9%

Source: Platinum and MSCI. Refer to Note 1, page 5.

Asian markets continued their rally from last quarter rising a further 5% in local currency terms and bringing the total return for the year to almost 20%. Appreciation of the regional currencies, with the notable exception of the Indian rupee, meant that these returns were slightly better for Australian investors, coming in at 5.9% for the quarter and 20.8% for the year.

Value of $20,000 Invested Over Five Years

31 December 2007 to 31 December 2012



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

Credit conditions have clearly eased in China, with credit growth accelerating in recent months at annualised rates approaching 20%. Residential property sales have continued to climb over the course of the year leading to confidence that the construction sector will start to recover over the course of 2013. China's transition to new political leadership has also given reason to be more optimistic about the country's ability to restart the reform process. This is discussed in our commentary section at greater length. Elsewhere, the other problem economy in the region, India, has shown some signs of improvement in the last months of the year with a turnaround in industrial production. However, the performance of regional markets can probably be as much attributed to external events. The US economy has continued to perform well, in spite of much discussion about "fiscal cliffs" and the bond markets of indebted European governments continue to improve during the quarter. But of particular interest was the promise of a more proactive economic policy from the new government in Japan, with regional markets accelerating from late November as the Japanese yen started to sharply depreciate.

The Fund performed well, returning 8.4% for the quarter and 24.9% for the year, both figures in excess of the underlying markets. These results bring the Fund's performance back in line with the market over the two and three year periods. While the portfolio broadly performed well, key contributors to performance came from holdings in Indian and Korean stocks. In particular, United Spirits (Indian spirits business) continued its strong performance rising a further 55% as Diageo finalised its purchase of a controlling stake in the company. Kangwon Land (Korean casino) was also a significant contributor as the government finally came through with a long awaited approval for the company to increase the number of gaming tables at its casino. On the other side of the ledger, while our Chinese stocks generally performed well, the US listed Chinese companies were weak as a result of a dispute between the Securities and Exchange Commission (SEC) and the major accounting firms that could leave the companies stranded without auditors.

Changes to the Portfolio

The net invested position of the portfolio increased from 91% to 95% over the course of the quarter. Baidu, the dominant Internet search engine in China, was added to the portfolio as the company (along with some of our other US listed companies) was caught up in the dispute between the SEC and the Chinese affiliates of the big accounting firms. The dispute is over access to audit papers of the Chinese companies listed in the US and impacts not only the Chinese companies but all US listed companies with business units in China. While the dispute remains unresolved, one would expect an eventual resolution given the implications for most *Fortune 500* firms. In addition to this issue, Baidu is also facing changes to the nature of its business as more Internet browsing moves to smartphones and what appears to be a general slowing in Internet advertising in China. While Baidu's revenue may slow from the extraordinary 50% plus rates of the past, we still expect the business to grow strongly for some years to come.

Other companies caught up in the dispute with the SEC included the Fund's other Chinese Internet plays, Sina (microblogging) and Youku (online video), positions which were also added to. China Vanke, one of the leading residential property developers, was also added to the portfolio. The company's shares listed in the poorly performing A and B share markets in China have not moved with the improving sales of property unlike their counterparts listed in Hong Kong. A number of positions were reduced as they approached our assessment of full value including Airports of Thailand, United Spirits, Kasikornbank, and China Mobile.

Andrew Clifford

Commentary

China's New Leaders

The change in leadership in China has come at a critical moment in the country's development as it has become clear that the economy's dependence on exports and investment needs to change. The country's senior new leadership was announced on 15 November 2012; Xi Jinping is set to take over as the President of China in March this year. In addition, six other members of the Standing Committee were announced.

Given the lack of progress in economic reforms in recent years, expectations have been low as to how the new leaders will handle the country's economic challenges. Will they continue to procrastinate on important and difficult decisions or will they take constructive steps to set China upon a bold and sustainable path of economic reform and development? It is encouraging that media reports of the new leaders conveyed a sense of urgency for structural change. Clear emphasis is on tackling corruption, reducing the income divide, upholding and promoting rule of law, and to be a government *for* the people. For the first time in many years, there is positive energy in the air. Beyond and above most pundits' pessimistic expectations, visible reforms *are already* underway merely a month into the job. The capital account is gradually getting prised open, and rural land and natural resource prices are moving towards market mechanisms. Further, the much delayed reforms for more equitable income distribution are being set in place and relaxation of the *hukou* system (which restricts movement of the individual) are now firmly on the policy agenda.

Worth noting also is the new leaders' unconventional style that initially raised eyebrows across China but did wonders for them in regaining the trust of the Chinese people. The new leader, Xi Jinping, set out eight rules of frugality (mostly pertaining to cutting down on lavish spending and ceremonies at official functions) for the previously invulnerable Politburo members to follow. Officials were asked to speak their mind and not read off script. The expectation is for this counter-cultural style to be propagated throughout the government agencies. Importantly, Xi coined the new catch phrase of the "China Dream" representing the great revival of the Chinese nation to be achieved by opening-up and reform.

There was no red carpet, no red communist banners, no road blockades as the newly minted leader of China visited the city of Shenzhen in his first official outing. This trip symbolically retraced Deng Xiaoping's visit 20 years ago that ushered in China's economic prosperity. On a cold winter's day on 31 December, he visited unsuspecting farmers in impoverished Hebei villages (average per person income is less than USD150 pa). He was used to directly talking to ordinary folks in his previous roles and he was not about to change that now that he is the head of the country. These endearing gestures set an example for other government officials and have consolidated his credential as a leader of the people. Nowhere was the sense of optimism better felt than in China's cyberspace, an area in which the new leaders seem more confident. Sina Weibo (China's Twitter) was abuzz with excitement following the new leaders' visits and speeches were recounted blow-by-blow, with renewed hope and palpable anticipation.

Despite this strong start, manoeuvring through the complex political labyrinth of the Chinese Communist Party will not be easy. It is therefore encouraging that the senior leadership, the Central Politburo Standing Committee, appears to have the right background and ambition to fulfil the difficult job ahead. The Standing Committee is the top leadership of the Communist Party of China and the number of people in this elite group has been reduced from nine to seven which some claim will allow the Committee to make policy decisions more expediently. Out of the seven members of the Committee, four would be classified colloquially as "princelings" which is generally defined as a person from families of senior Party revolutionaries. Nowadays, princelings occupy powerful positions in government and businesses. Having this network within the government, and outside, perhaps can get tasks accomplished more easily.

Outside of this privileged group, Li Keqiang, who is not a princeling, is set to succeed Wen Jiabao to assume the key role as China's next Premier in March. He was a student in Economics and Law at the highly regarded Peking University and played a vital role in formulating economic policies for China over recent years. He sponsored the World Bank report, *China 2030*, jointly published by the World Bank and China's Development Research Centre. The report highlighted immense risks from the lack of reform and outlined key steps to move forward. Li recently reiterated that reform is China's biggest dividend and that "those who refuse to reform may not make mistakes, but they will be blamed for not assuming their historical responsibility".

Xi Jinping, the incoming Chinese President, is son of Xi Zhongxun, who was one of the first generation of leaders in the People's Republic of China. The elder Xi was perhaps best known favourably for his economic reform credentials. He played a leading role in the creation of the Special Economic Zone in Shenzhen which grew from a fishing village near Hong Kong to a world-class manufacturing hub and metropolis. This paved the way for economic liberalisation for the rest of China. Sadly, a reformer at heart, he was sidelined for his staunch support of the Party General Secretary Hu Yaobang, who was purged for his policies of more rapid political liberalisation and whose death triggered the Tiananmen Square tragedy in 1989.

Born in a privileged family of party revolutionaries, Xi Jinping's childhood life fluctuated with his father's tumultuous political career. During his teenage years, Xi Jinping's father had a fall out with Chairman Mao, and was demoted from Vice-Premier of China to become Deputy Manager of a tractor factory. During the Cultural Revolution, Xi Jinping was sent to an impoverished village situated in Shaanxi Province, where he endured seven years of hardship. Eventually his family was rehabilitated by the government at the end of the cultural revolution, when the elder Xi assumed a senior government role in Guangdong Province. Upon completion of his studies in Beijing's prestigious Tsinghua University, he served as secretary for his father's former subordinate, the then vice premier and Secretary-General of the Central Military Commission from 1979 to 1982. Subsequently, he worked in the Hebei Government and then took various senior roles in the government of the economically vibrant coastal Fujian and then Zhejiang provinces. His successful stewardship of these thriving provinces demonstrates adeptness in economic management.

Xi is viewed positively by foreign dignitaries. Described as "the kind of guy who knows how to get things over the goal line" by former US Treasury Secretary Paulson, and "a thoughtful man who has gone through many trials and tribulations. A person with enormous emotional stability who does not allow his personal misfortunes or sufferings to affect his judgement. In other words, he is impressive" by Former Prime Minister of Singapore Lee Kuan Yew. Significantly for this leadership transition, Xi was given the role of the Head of the Military Commission immediately, in contrast to his predecessor Hu Jintao who had to wait two years to assume this strategically vital position. Xi enjoys strong connections with the military thanks to his previous roles and his family. His wife is a famous singer, currently serving in the People's Liberation Army at the rank of major general. With ties to the military and successful track record of pro-market economic reforms, the new leadership has all the qualities one might want at this challenging time. In a short space of time the new leadership is making the right moves, reform momentum is quietly gathering pace, and we would expect to hear a lot more concrete policies in the near future.

Joseph Lai

Outlook

With China's economic growth on the upturn, together with a better global environment (at least for the moment), we would think it likely that Asian stock markets continue their good run of the last six months.

However, with many issues remaining, one shouldn't expect smooth sailing. Reform in both China and India is critical for the ongoing development of these economies. The change of leadership in China looks promising and as reported in our last quarterly, there have been some developments in India though much still needs to be done. Remember too that most of the developed world remains heavily indebted.

The best guide for future returns remains the valuations of the Fund's holdings. On this front we remain optimistic for continuing good returns over the medium term. However, post the performance of the last six months, one should be cautious about expecting too much too soon.

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 historical 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).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 December 2007 to 31 December 2012 relative to their Index (in A$) as per below:
   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net 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.

3. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short derivatives.

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