PLATINUM JAPAN FUND

Jim Simpson Portfolio Manager

PERFORMANCE

The Fund experienced rather choppy trading conditions during the quarter. The tightening of lending conditions in China was the dominant theme in Asian markets, which adversely impacted Korea which fell by 14%. On the other hand Japan was surprisingly strong, rising by 1% as investors were encouraged by further signs that domestic activity is returning. The Fund rose by 5.2% in A$ terms over the quarter, essentially in line with the MSCI Japan index return of 5.4%, but this mainly reflected a substantial depreciation of the A$ against all major currencies. The A$ was particularly hurt by rising concerns over Chinese growth and its potential impact on resource prices. In Korea our larger stocks such as Seoul Broadcasting did poorly but some of our smaller names did very well. In Japan it was a mixed bag with financial and technology companies hurting the portfolio but auto stocks such as Toyota doing well.

Over the year to 30 June the Fund rose by 45.2% in A$ terms outstripping the MSCI Japan index which rose by 40.8%. Over the six years since inception, the Fund rose by 26.4% compound pa against the index which was essentially unchanged at 1%.

CHANGES TO THE PORTFOLIO

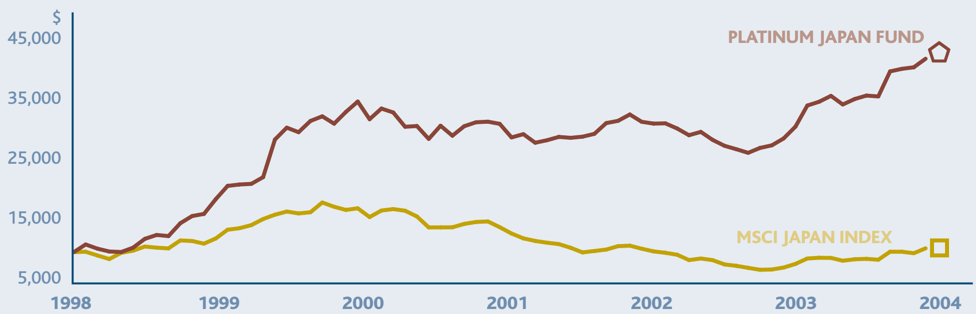
The major change this quarter was to raise cash holdings from 18% to 32% of the portfolio. This reflects a more cautious view of markets after the stunning gains of the past year. Some of the major holdings sold included Canon, Ajinomoto, Oki Electric and Credit Saison. There were some new additions to the portfolio including Nintendo, Toyota, Nippon Oil and Nippon Television. Nintendo is an old favourite of ours with large cash holdings and is seemingly gaining some initiative back from Sony as that company struggles with the direction of its business model. We reduced our positions in Korea as we became more concerned with the impact of a Chinese slowdown on its exports. Currency and hedging positions were largely unchanged from the previous quarter.

DISPOSITION OF ASSETS

REGION	JUN 2004	MAR 2004
JAPAN	58%	68%
KOREA	10%	14%
CASH	32%	18%
SHORT DERIVATIVES	-5%	-7%
LONG DERIVATIVES	5%	5%
NET DERIVATIVES	0%	-2%
NET INVESTED	68%	80%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION 1 JULY 1998 TO 30 JUNE 2004



Source: Platinum and FactSet. Refer to Note 2.

We recently reviewed Hitachi, a sprawling Japanese conglomerate with US$76 billion in sales and over 300,000 group employees. Much of the present interest in Japanese equities from international investors is predicated on the belief that corporate Japan has changed its attitude toward profitability and rewarding shareholders. Sadly, our findings at Hitachi suggest that this is a company where the substance of change does not confirm the wider enthusiasm about Japan! Whilst it is wrong to say that nothing is changing at Hitachi, the pace of change is less than that required by the realities of its businesses and suggests shareholder wealth may continue to be destroyed. Our review revealed the following:

- Whilst Hitachi has slimmed its board of directors and introduced independent operating companies it has only recently introduced a strategy committee to coordinate actions between the various divisions. This is well behind many of its peers which have acted on this some years ago.
- Few businesses have been exited and only 10% of employees have lost jobs over the past three years (mainly natural attrition). Whilst the company seems to have decided to exit the capital intensive semiconductor joint ventures such as Renasas and Elpida, nothing has been done with these joint ventures some years after their creation. Meanwhile companies such as Samsung Electronics continue to grow stronger.
- The company is a melange of diverse businesses lacking in any significant scale (see sales breakdown table). Although they are now talking about scale, they recently paid too much for the hard disk drive business of IBM and risk overpaying for auto parts businesses at the top of the auto cycle.

Hitachi is a powerful reminder that one needs to be selective in the Japanese equity market. The reality is that it has too much breadth and is number one or two in very few of the product categories in which it operates. In addition they are changing this situation at a pace slower than that required to become truly competitive. Comparisons with IBM, which has shed 30% of employees and most of its heavy duty businesses, and NEC which starts from a much slimmer product line and is moving more quickly, leave one decidedly jaded on the position of Hitachi. The only relative investment merit is the low valuation. This should not be wholly ignored because it is possible Hitachi experiences a *mea culpa*, but until then it seems like hard work for the company to make headway.

The economic recovery in Japan is delivering some quite nice surprises to corporate earnings as companies that have pared their costs, see stability in prices and volume growth feed straight through into profits. This is likely to be a fairly robust trend when we consider the period over which Japan's economy has been depressed as companies are likely to be restrained in adding new costs as a result. Indeed profits may receive a further boost from a fall in pension costs as the rise in equity markets and long term interest rates reduce the burden of future retirement costs. A good illustration of this impact is provided by Mitsubishi Corporation, one of the companies featured previously in our quarterly.

The table below shows that both a sharp rise in plan assets (due to rising equity prices) and a modest fall in the pension benefit (due to rising discount rates) significantly reduces the unfunded plan status and the attendant amortisation costs related to this unfunding. Indeed total pension expense is forecast to fall by 42% (¥45bn to ¥26bn) and this will result in a 15% rise in total Mitsubishi profits all else being equal. This is significant. This type of benefit could be repeated across a wide section of corporate Japan which may create some interesting opportunities. On a wider level a similar positive impact will be seen on the life insurance companies where rising long term rates take the

HITACHI SALES BREAKDOWN

POWER AND INDUSTRIAL SYSTEMS	23%
IT SYSTEMS	22%
ELECTRONIC DEVICES	13%
MATERIALS AND COMPONENTS	13%
LOGISTICS	12%
CONSUMER PRODUCTS (Hitachi still makes TVs and washing machines!)	12%
FINANCE	5%

Source: Hitachi

MITSUBISHI CORPORATION PENSION PLAN SUMMARY

(¥BN)	MAR 03	MAR 04	MAR 05 EST
PENSION BENEFIT OBLIGATION	528	465	479
PLAN ASSETS	310	401	410
FUNDED STATUS	-218	-64	-69
UNRECOGNISED LOSS	303	124	114
DISCOUNT RATE	2.0%	2.9%	2.9%
EXPECTED ROA	3.1%	2.2%	2.2%
SERVICE COSTS	18	21	16
AMORTISATION	13	23	8
TOTAL PENSION COST	35	45	26

Source: Mitsubishi Corporation

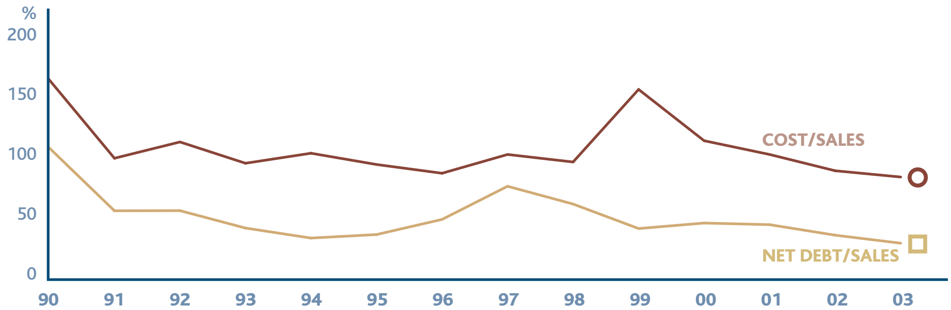
pressure off them to sell equities as they become solvent again. This should dramatically help demand for equities as this group of investors have been large sellers of the market for many years now.

The Korean equity market continues to struggle with a sluggish domestic economy and more recently the likelihood of a loss of impetus from Chinese exports. On the domestic scene the main issue is the enormous debt overhang created from a huge cycle in credit card debt accumulated during 2001/02 as the government tried to stimulate the economy and bring more transactions into the fiscal net. This has resulted in the curious situation that 70% of consumer spending in Korea is now on credit cards versus 20% in the US! The bottom line is that Korea is at odds with most other Asian economies which are seeing domestic cycle upturns with attendant consumer debt accumulation. Despite the short term problems Korea remains one of the cheapest equity markets in the world, especially when you consider the size of the economy. We recently reviewed some data which supports the view that top Korean companies have dramatically improved both their profitability and financial position yet are valued close to their cheapest valuations of all time. The two charts below, which summate data for the top 12 corporates by market cap (ex banks) and which account for 50% of total market capitalisation, illustrate our point. What we can see is that post the Asian crisis of 1997/98 Korean corporates have become much more sensitive to the risks of debt and have curbed excessive capex, resulting in rising profits and falling debt levels. However, valuations are now at all time lows despite the companies being in much better shape than they have ever been before.

The advent of policy tightening this quarter in both the United States and China is likely to cool down global equity markets, especially in light of the huge gains made over the past year. However we remain convinced that Japanese equities are quite well placed in this environment as policy tightening is likely to be delayed in Japan as the authorities adopt a cautious view in light of past difficulties to sustain recoveries. Corporate profits are also likely to be very supportive of the market. We feel that the portfolio is well positioned in some well priced, exciting growth stories and expect that the Japanese market can do well over the balance of 2004.

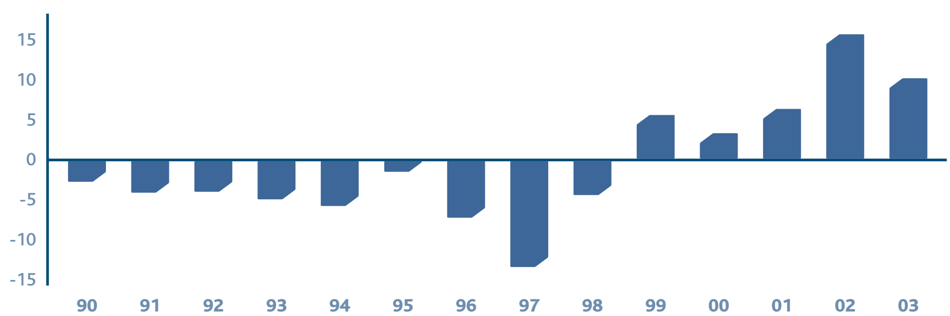
Jim Simpson Portfolio Manager

KOREAN CORPORATE VALUATIONS



Source: Factset

KOREAN CORPORATE FREE CASHFLOW KRW TRN



Source: Factset

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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