PLATINUM JAPAN FUND

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PERFORMANCE

The strong performance for the September quarter continued in the current quarter resulting in cumulative returns of 40% in US$ terms in Korea, and 32% in Japan over the six month period. The renewed vigour of global growth leading to strong export performances in the major Asian economies, as well as the receding fears about high oil prices, were the driving forces. A note of caution is now warranted with the six month returns of both markets near the top of historical returns for similar periods.

In Japan, the market was led by property related shares which rose by 50% in the quarter, whilst financial shares took a breather. The rumour of a very large transaction in the property market at 3% cap rates was the catalyst for further gains. There was also interest in the laggard large cap technology companies such as Toshiba and Hitachi whilst oil stocks such as Nippon Oil suffered. Our investment in Livedoor also paid off as the retail investor re-entered the market driving Internet-related stocks higher.

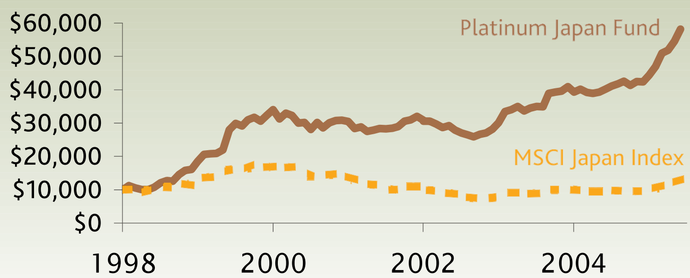
For the quarter the Fund rose by 14% in A$ versus an index gain of 16%. The comparison over the six month period was 37% and 39% respectively. Although lagging slightly in the most recent quarter, this is on the whole a relatively good performance considering our bias toward being more conservative as markets show enthusiasm.

DISPOSITION OF ASSETS

REGION	DEC 2005	SEP 2005
JAPAN	74%	70%
KOREA	17%	15%
CASH	9%	15%
SHORTS	19%	2%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 31 DECEMBER 2005



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

CHANGES TO THE PORTFOLIO

Throughout most of the quarter we held our overall position and participated in the run-up. At quarter end we became more cautious on the Japanese market in light of its 45% return for the year and observing that it is about 3-4% away from strong long term resistance. Additionally, the "obvious value" in the market has all but evaporated making the prospect of a more difficult 2006 likely. Having said that we still believe that Japan is one of the most prospective markets and good value can still be found on a stock-by-stock basis. The basis for a convincing break above this resistance will inevitably be found in the financial and heavy-electrical shares. We are positioned to benefit from this group's second wind.

Major changes to stock positions:

Stocks bought: Hitachi, NEC, TDK, Kyocera, Namco Bandai.

Stocks sold: Mitsui & Co, Aisin Seiki, Tokyu Corp, Sharp, Hana Financial.

COMMENTARY

Some of us may have fond memories of first Pong (1972) and the Atari games from the late 1970s and early '80s. In the thirty years since these simple (though at the time groundbreaking) games appeared, the computer game industry has grown into an industry that rivals the movie industry in sheer size, with budgets for some games on par with Hollywood films. Despite this phenomenal growth, some argue that the game market has matured. In most developed markets, those people who will play games already do so and in markets such as Japan, with fewer and fewer children born each year, the target audience for computer games is actually shrinking. The total market for game consoles in Japan is estimated to have shrunk 20% between the original PlayStation generation and the PlayStation 2. Despite this, we believe that there are opportunities.

History

The computer game industry to date can be roughly broken into three ten-year phases. Theft of ideas and little heed paid for intellectual property (arguably common in any nascent industry) in the beginning would shape the business practices of industry participants for many years.

The first phase was the heady start-up period from the mid-1970s to the early '80s and was ignited by the release of Pong by Atari. Pong was also the industry's first theft. Nolan Bushnell, Atari's founder, actually borrowed the idea from Magnavox, who had developed a prototype thinking such a device would help sell televisions. As time went by, Atari also struggled with counterfeit consoles and its strategy to minimise losses was to keep all game development in-house (by comparison, today less than 15% of Sony's PlayStation games are made by Sony) and keep programmers almost under lock and key. Eventually, however, many of these programmers "escaped", starting-up competing console companies or some of the first third-party software producers.

The end of the first and the start of the second era of the game industry came in 1983 as a price war between console and home computer makers sent many companies broke and gave Nintendo the opportunity to swoop in, hot on the heels of its successful arcade games, to dominate the market for the next ten years. Nintendo was much more receptive of third-party developers but they were somewhat heavy-handed in their control – game developers were limited in the number of titles they could release in a year and all titles had to pass Nintendo's rigorous quality controls.

In the early 1990s, Nintendo was working with Sony to develop a console that used CD-ROMs as the storage media but after the two couldn't agree on royalty payments, Sony went on to use the results of this joint development to create the first PlayStation, released in 1994. Because Sony had very little internal game development ability, they had no choice but to throw open the gates to third party developers, which turned the industry on its head. With very few restrictions, lower royalty payments and very cheap media (CDs versus Nintendo's ROM cartridges) developers abandoned Nintendo in droves. This signalled the end of Nintendo's glory days and the start of the third era – Sony's reign.

Sony went on to solidify its position with the PlayStation 2, a technically superior console that beat its competitors to market by almost two years and capitalised on the rising popularity of DVDs to sell units. Now ten years since the release of the first PlayStation, if history is any indication it may be about time for another shake-up. It also happens to coincide with the release of a new round of consoles, with Microsoft's Xbox360 released late in 2005 and both Sony and Nintendo consoles due in 2006. It promises to be an interesting time as Sony, Microsoft and Nintendo go head-to-head again.

The fourth era – on-line gaming and rediscovery of casual gamers

Supporting the mature market observation, we are seeing consolidation among participating companies. For example, Square Soft and Enix, two of Japan's pre-eminent game developers merged in 2002, more recently acquiring another game developer, Taito, the creator of Space Invaders. Sega merged with what is essentially a slot-machine maker and this year, Bandai (of Tamagotchi fame) merged with Namco, the creators of Pac-man.

There is, however, an argument that while there are still opportunities for growth, an ever-escalating quest for more visually realistic and immersive games is alienating casual gamers. Also the burgeoning cost of developing such games, with the associated financial risk, is encouraging the recent rash of mergers. The cost of game development has ballooned too – Square Enix's flagship game, Final Fantasy, is estimated to now cost close to $50 million to produce. The average cost of game development has doubled in recent years to $5 million per title.

A good allegory to this rising complexity would be to look at the evolution of the game controllers. For example, the first Nintendo console, the NES, released in 1983 had a four-way direction controller and just two buttons. The PlayStation 2 now has, in addition to the four-way controller, ten buttons (with cryptic symbols instead of letters) and two analogue joysticks.

Will it be a repeat of the last generation of consoles where Sony dominated and the industry painted itself further into a corner with increasingly difficult games, or will we see a renaissance of sorts with real attempts made at recapturing demographics beyond teenage boys and young men? Sony and Microsoft seem to be taking the first path – battling it out on pure technical superiority of their hardware in an attempt to produce the most visually impressive, realistic games. On the other hand, in a somewhat ironic move for a company that built its success on hardware superiority, Nintendo, is advocating a shift in emphasis away from pure performance and is betting that people are ready for a return to games that are accessible to all and fun.

All three players are making very big bets. The costs incurred by Sony and Microsoft in developing their new leading-edge platforms are huge and both seem set on making losses of as high as $200 for each console, simply to avoid undue sticker shock by the consumer. Nintendo's path carries less financial risk, but by introducing a completely new controller and not being as aggressive in terms of performance, they risk marginalising themselves into irrelevance if their product is seen as inferior. This would further exacerbate the problems Nintendo would have in convincing third party developers to produce games for their platform, with unattractive consequences for their market share.

A further issue facing console makers relates to the approach they adopt to encompassing on-line gaming. While on-line gaming popularity has been largely limited to PCs and a small subset of games, the penetration of broadband and also wireless Internet access in homes means that on-line games will be an important part of the next generation of game consoles. (Very few people have phone lines located conveniently close to their TVs, making it difficult to get consoles connected). A good on-line presence is also a necessity if they are to have any success in large untapped markets such as China, where consumers have already had a taste of addictive on-line games through Internet cafes.

We believe that the most successful companies will be those that have rich game franchises and strong development abilities. For these reasons, we especially like Nintendo and Square Enix. Despite being labelled a "has-been", we feel that Nintendo has learnt from the errors that cost it its leadership ten years ago. Nintendo is positioning itself away from the battle between Sony and Microsoft but remains very strong in its core market and is making innovative attempts to expand its user base. Its deliberate, if not overly cautious approach, to on-line games is also proving successful. Similarly, Square Enix has a number of enduring best selling titles and is one company that realised the importance of on-line games and mobile gaming early on. Its biggest risk may be its close ties to Sony, but as it has shown in the past, it has no qualms about supporting competing platforms and has in fact bolstered cross-platform development abilities.

CONCLUSION

Bulls thunder on, returning many of the comments you would have read on these pages over several quarters. We are still able to identify some wonderful opportunities and hence remain optimistic.

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 All Country World Net Index

Platinum Asia Fund:
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:
Inception 18 May 2000, MSCI All Country World Information Technology 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.

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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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