



P L A T I N U M

ASSET MANAGEMENT

The Platinum Trust Quarterly Report

30 June 2003

Incorporating the:

International Fund

Asia Fund

European Fund

Japan Fund

International Brands Fund

International Technology Fund

The Platinum Trust Quarterly Report

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Incorporating the:

International Fund

Asia Fund

European Fund

Japan Fund

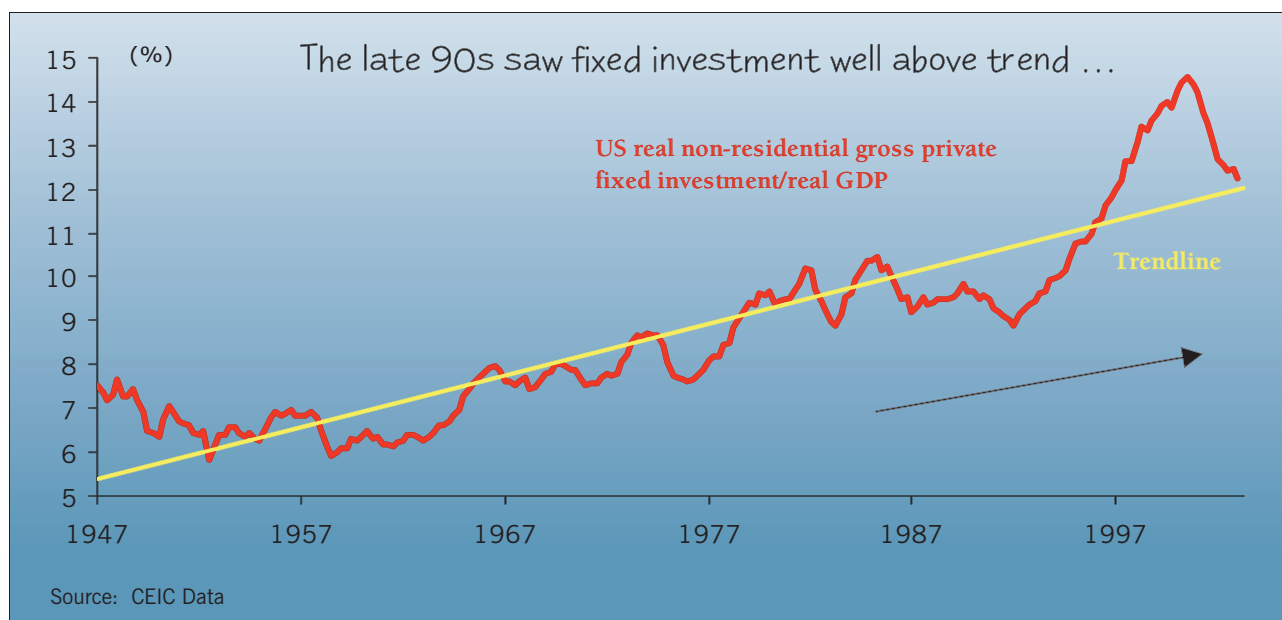
International Brands Fund

International Technology Fund

PERFORMANCE RETURNS TO 30 JUNE 2003

Fund	Fund Size	Quarter	1 year	2 years (compound pa)	3 years (compound pa)	5 years (compound pa)	Since Inception (compound pa)
International Fund	\$2,686mn	11.0%	-5.5%	1.9%	8.4%	15.9%	18.4%
MSCI * World Index		5.5%	-18.3%	-20.8%	-16.1%	-4.6%	5.8%
Asia Fund	\$9mn	7.7%	(launched March 2003)				8.1%
MSCI Asia ex Japan Index		7.3%					2.7%
European Fund	\$99mn	18.6%	-5.8%	-0.4%	5.3%	14.7%	14.7%
MSCI European Index		9.9%	-20.7%	-18.4%	-15.1%	-6.3%	-6.3%
Japan Fund	\$69mn	8.9%	-8.6%	-3.9%	-6.1%	23.0%	23.0%
MSCI Japan Index		0.7%	-28.5%	-26.6%	-23.8%	-5.5%	-5.5%
International Brands Fund	\$72mn	7.5%	-7.6%	7.6%	13.4%	-	12.5%
MSCI World Index		5.5%	-18.3%	-20.8%	-16.1%		-16.8%
International Technology Fund	\$36mn	14.9%	0.7%	-9.6%	7.7%	-	9.1%
MSCI World Technology Index		7.9%	-13.1%	-30.1%	-38.5%		-38.0%
* Morgan Stanley Capital International							
Micropal average int'l fund return (618 Funds surveyed)			-26.8%	- not even close to the index!			
Source: MSCI and Platinum		Refer to Note 1, page 32					

US REAL NON-RESIDENTIAL GROSS PRIVATE FIXED INVESTMENT/REAL GDP



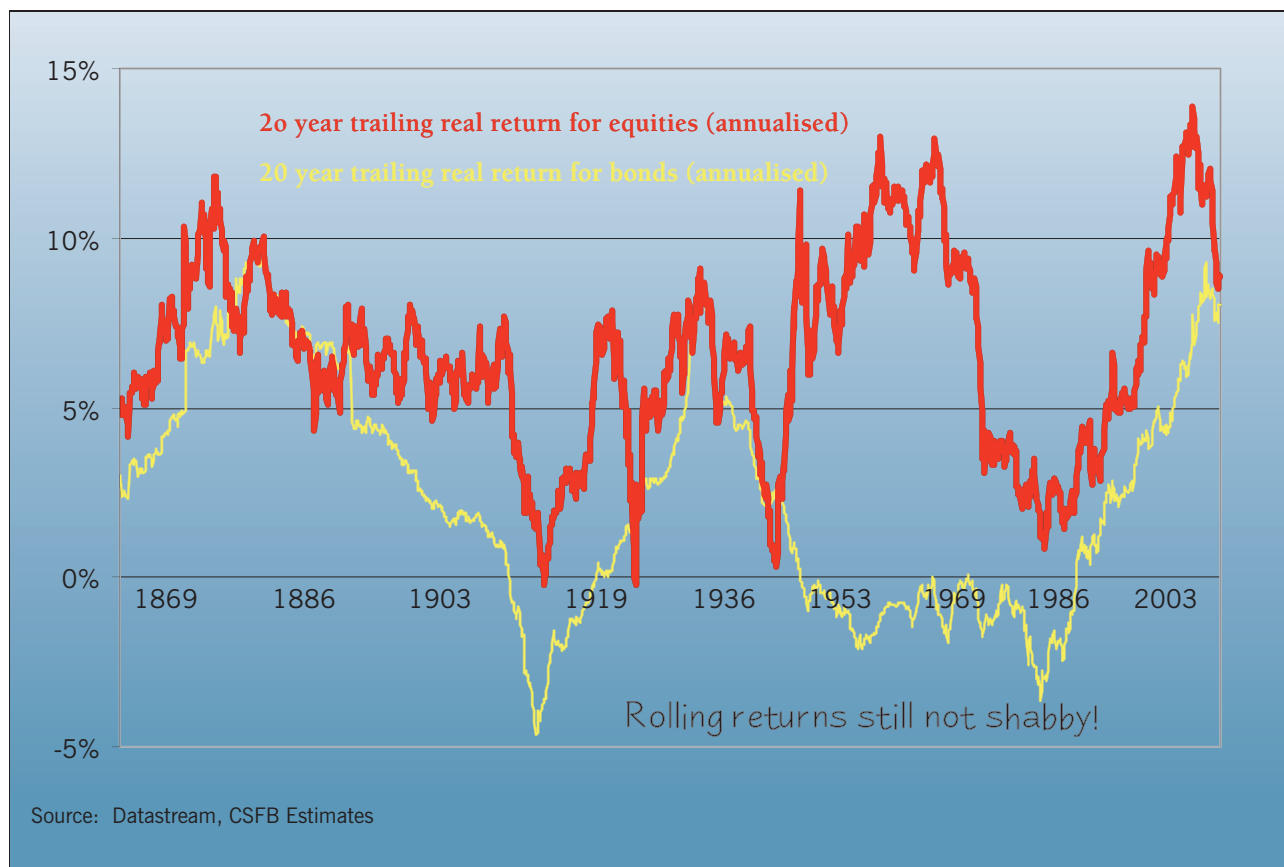
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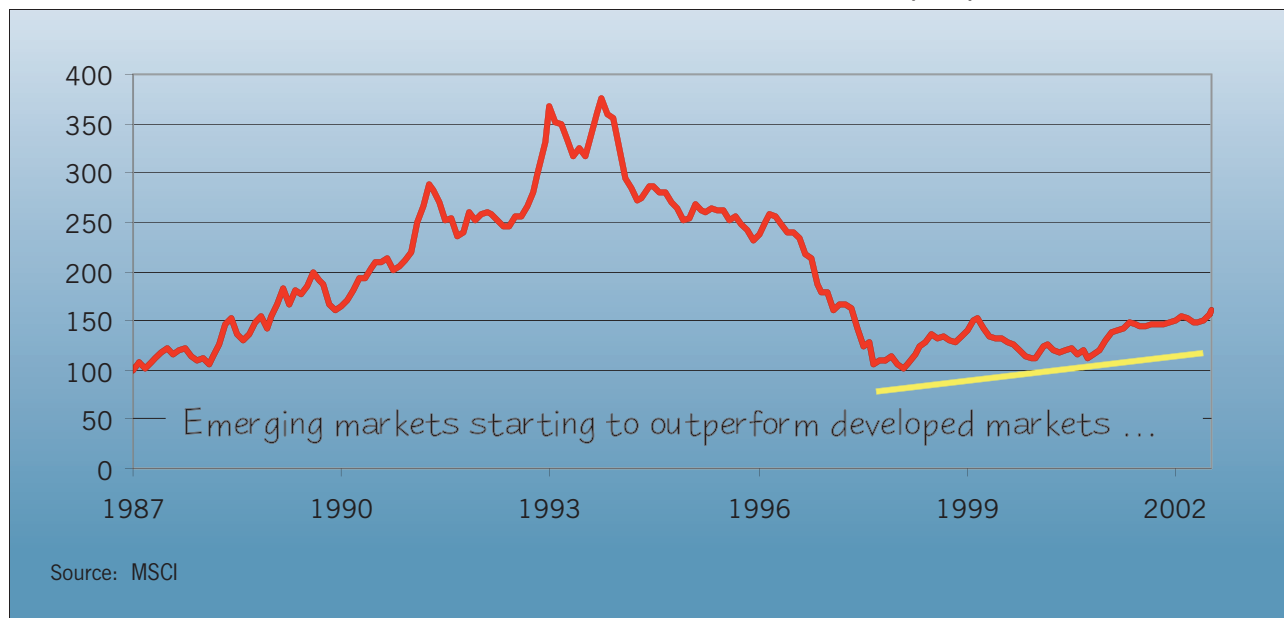
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20 YEAR ROLLING REAL RETURN FOR US EQUITIES AND BONDS



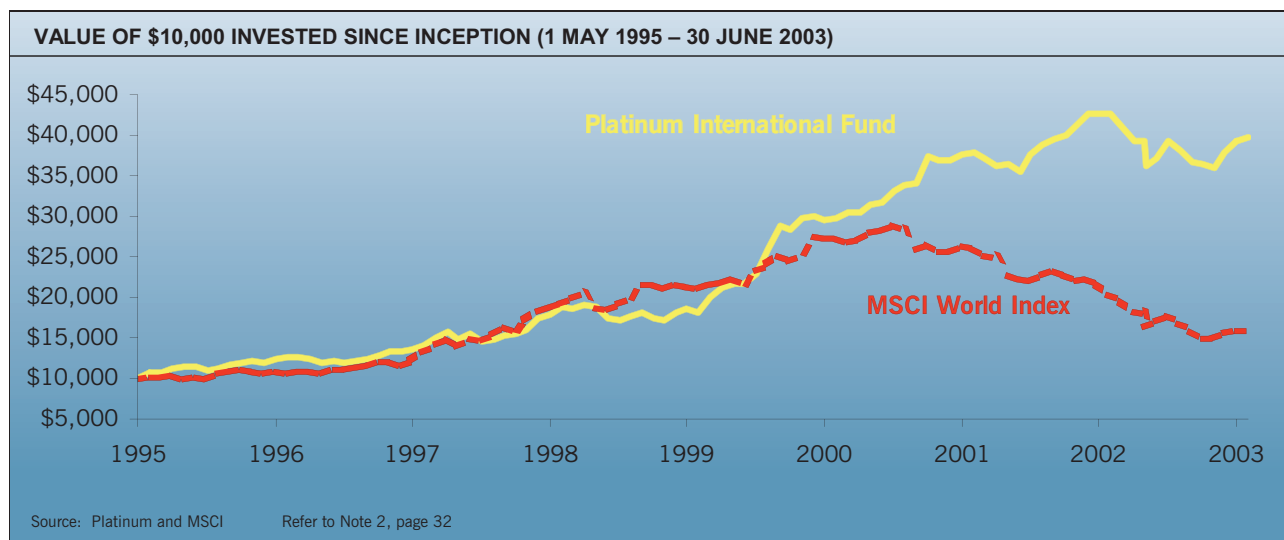
MSCI EMERGING MARKETS INDEX/MSCI DEVELOPED WORLD INDEX (US\$)



Platinum International Fund

Performance

REDEMPTION PRICE: CUM \$1.5840 EX \$1.5062



After the harrowing sell-off in late February, associated with concerns about the invasion of Iraq and deteriorating economic news, returns from almost all asset classes in the first half of 2003 have been positive. The true believers will now know that the Fed chairman does indeed have a magic wand! There will be sceptics like those left holding US dollars who have seen a good 14% drop (yoy) in their value relative to the euro or that barbarous relic, gold. This also gives a hint of the serious imbalances in the system, more of which we will pursue later. But for now, investors are focusing on the ever cheapening trend of money worldwide, and are seeing nascent evidence that a general expansion is in the offing. The combination of these factors is inducing investors to seek remunerative places for their wealth other than cash.

The accompanying table shows how the various industry groupings fared in the last three, six and twelve month periods. Note that over the year it's all pretty glum, accentuated of course, by the 19% lift in the A\$. Even in terms of the weak US\$, the MSCI World Index is down 2.4%. Over the shorter span, there has been a clear move away from defensive consumer staples to those areas that benefit from discretionary spending.

By country there was an equally interesting dispersion, with the seemingly most risky countries showing the best returns. Pakistan, Argentina, Venezuela, Sri Lanka and Israel have all risen more than 50% in US\$ over the last year, while the large

MSCI WORLD INDEX – INDUSTRY BREAKDOWN (A\$)

Sectors	3 mths	6 mths	1 year
Consumer Staples	-1.2%	-14.6%	-23.9%
Energy	-0.6%	-10.9%	-23.3%
Health Care	0.6%	-7.2%	-13.4%
Materials	2.4%	0.3%	-25.4%
Utilities	3.8%	-6.2%	-19.8%
Industrials	4.9%	-7.3%	-23.4%
Consumer Discretionary	7.9%	-4.6%	-19.9%
Information Technology	8.1%	-0.8%	-13.2%
Telecommunications	8.1%	-7.4%	-5.7%
Financials	9.3%	-5.6%	-20.0%

Source: MSCI

markets and those seen as sensitive to Western imports have been almost flat to down, by as much as 16% in US\$ at the extreme.

Against these figures, the performance of the Fund can be regarded as reasonable, with the loss for the year confined to 5.5%. More significant though is the long term outcome; over the last five years \$10,000 placed in the Fund, together with reinvestment of distributions, would be worth some \$21,500, while the same amount invested in the index (or a standard fund) would be worth \$7,900 today.

Changes to the Portfolio

DISPOSITION OF ASSETS		
Region	Jun 2003	Mar 2003
Western Europe	32%	32%
Japan	20%	20%
North America	15%	13%
Emerging Markets (incl. Korea)	12%	10%
Australia	0.3%	2%
Cash	21%	23%
Shorts	19%	30%
Source: Platinum		

In the last quarter we reported the aggressive buying of various German multi-nationals into the teeth of the market collapse. Our judgement that they were grossly over-sold proved correct and shares like Allianz, Munich Re and Metro came hurtling back this quarter. Although not reflecting their full value, the 45 to 80% rises persuaded us to reduce some of our German-based holdings and to eliminate Metro.

There were similar spectacular moves in IT and microbiology stocks. Here again we engaged in switching out of excited companies such as Nvidia (+78%), National Semi (+16%), and Agere (+53%) to replace them with Infineon Tech (the ex-Siemens DRAM chip maker), Agilent and Toshiba. In biotech we bought Vertex Pharmaceutical, which has a broad pipeline of potential clinical products directed at alleviating diseases from HIV to rheumatoid arthritis. At the same time we sold Millenium which had doubled on the excitement of its cancer drug.

We also added US\$ devaluation beneficiaries in the US; Weyerhaeuser and International Paper. These companies appeal to us because of their large lumber holdings and the fact that the global paper industry has consolidated and become more careful with incremental capacity additions.

We have also been adding to our holdings in Japan believing that the market has now bottomed. With

this in mind we have been buying the trading houses and the general insurance companies. The traders attract our attention on account of the repositioning of their enormous balance sheets towards concentrated investment in specific areas such as natural gas and resources. They have always been credited with high quality management but until they recognised the need to change their business emphasis, this potential lay fallow. We believe the gearing from these changes over the last five years will now become apparent. The insurance companies are in a similar position. Having made good and rising profits throughout the economic malaise of the last twelve years, the industry has consolidated. We have acquired the two largest players, Millea and Mitsui Sumitomo. Apart from their underlying profitability we like the fact that we are buying them below book value and for each yen of net asset value they have over two yen in share market exposure.

The other theme that we are pursuing is the emergence of a major bull market in India. As noted later, this has had earlier false starts but in the meantime the market has de-rated to unusually attractive levels. Liquidity is flowing, balance sheets are mended, surplus capacity is being absorbed and profits are rising strongly. Like the countries of the Pacific basin, India is trying to hold the value of the rupee steady with the US\$ and this is having the effect of injecting liquidity into the local market. This is happening just as the banks are all promoting consumer lending. We have acquired a range of companies from the State Bank of India and other recently privatised banks, to TV content and delivery provider ZEE TV, to the truck and car manufacturer, Tata Engineering.

Shorting

This has been an unprofitable exercise for the last six months. The injection of liquidity has reinvigorated the dubitable financial intermediaries and pollinated the earnings-manipulators. Fortunately we reduced the position markedly but our speed of response was well short of optimal.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Jun 2003	Mar 2003
Cyclicals/Manufacturing	Schindler, Siemens, Bayer, Linde, Océ	23%	21%
Financials	Assicurazioni Generali, Allianz, Alleanza	11%	9%
Medical	Yamanouchi, Takeda, Draegerwerk, Novartis, Merck KGaA	8%	9%
Gold and Other	Barrick Gold, Newmont Mining, Gold Fields	8%	8%
Technology/Hardware	Agere Systems, Infineon Tech, Samsung, AMD	8%	8%
Telecoms	Hellenic Telecom, Ericsson, NTT	7%	7%
Software/Media	Sky Perfect Communications, Seoul Broadcasting	7%	3%
Consumer Brands	Citizen Watch, Adidas Salomon, Lotte Confectionary	4%	5%
Retail/Services/Logistics	Hornbach	3%	7%

Source: Platinum

Currency

We remain principally hedged into A\$ at 58% and own euros, Swiss francs, yen and some Korean won. Although the US\$ may show some resilience in the

short term, we have no intention of owning more US\$.

Commentary

Since 2001 we have been writing about the three phases of a bear market.

This most recent rally is in keeping with the traditional pattern and was anticipated in our March communication. As has been noted on several occasions, we find it difficult to believe that the large Western economies are on the cusp of a new bull market. **By contrast we see the Eastern hemisphere as beginning a major upward thrust.** Some may find this improbable by virtue of their belief that without the benefit of an expanding US economy, Asia and the emerging economies cannot prosper.

This may be less contradictory than it appears at first sight. Supposing that the Fed and other Central banks' actions contribute to a gradual improvement in aggregate demand, it is not necessarily so that company earnings as a whole will grow strongly once their initial spurt caused by cost cutting and utilisation benefits has passed. In the period of weak prices in Britain in the **last quarter of the 19th century, profit share of GDP contracted and thus lagged the rise in the economy.** Companies faced intense margin pressure and it was a period of feverish mergers.

With the anaemic growth that seems probable in the next few years, we would expect the distribution of profits to shift within the corporate sector and also between labour and capital. Globalisation brings Asian labour costs to the supermarket checkout of the West and even in the event of a revaluation of the Chinese renminbi – there are movements to depress profit growth. Some segments of the economy will benefit from cheap imports while others will lose to foreign competition in traded goods and specific services (eg. call centres and information technology).

Our circumspection stems from the exponential use of debt to support current consumption levels, most notably in the Anglo Saxon countries. Falling interest rates have allowed many households to exercise their right to refinance their mortgages, often releasing equity that is then spent. Even after the sharp rise in housing prices, the amount of residual equity is at an all time low in the US (similar patterns apply in Australia, the UK and Holland). As a further warning we note the experience of the 1930s.

Through time the idea has grown that it was solely the raising of interest rates that set off the Great Depression. In fact, the cost of margin borrowing rose progressively through the late 1920s and the New York discount rate rose from 3% in 1925 to 6% in late 1929 and then dropped precipitously with the collapse of the stock market to a low of 1.5% in the late summer of 1931. Unlike today, the linking of currencies to gold constrained the creation of liquidity so when Britain, and later Japan, abandoned the gold standard in September and December of 1931 respectively, and the US chose to hold firm, it was forced to raise rates. This was a relatively short-lived affair as the loss of competitiveness caused massive lay-offs throughout 1932, and in March 1933, the US too left the gold standard, banned the export of gold and effectively devalued the dollar. **Without the constraint of gold reserves, the treasury could provide unlimited amounts of liquidity.** Short rates plunged, the stock market soared and gold expressed in US dollars progressively rose from \$20 to \$35 and was then officially capped in February 1934. Interestingly, the big move in gold only started once **ownership of monetary gold by US citizens became unlawful** in April of 1933.

Where this merry-go round is leading is that **so long as foreigners are content to own the US\$, the system can muddle through.** However, with a massive current account deficit, such faith cannot be taken for granted. It puts immense pressure on its European trading partners who are subject to the loss of competitiveness of the euro and time will test their resolve to bear this burden (of competitive devaluations). The rest of the requisite savings needed to fund the US deficit is coming from Asian investors - to the tune of over US\$200 billion pa. These countries are still pursuing mercantilist policies which favour keeping their currencies aligned to the US\$ and hence the Chinese renminbi. Their central banks are actively intervening which tends to both facilitate credit growth at home and fund the purchase of US government and commercial paper noted above. This is all very well while their economies operate below their potential as the over-investment in the run-up to the 1998 IMF crises is absorbed and debt repaid. At some stage it will become clear that there is a cost to this exercise and that the longer term solution resides in encouraging more domestic driven activity ie. consumption growth. This will diminish their ability to fund excess US demand. Combining these various strands, **one can envisage episodes of excited currency speculation and a growing call for the Chinese to revalue the renminbi.** In this scenario,

the dearth of alternatives could find gold becoming a fashionable hedge notwithstanding its lack of yield in a still low yield world where investors hesitate to over-expose themselves to the euro.

Such a scenario discourages us from paying high valuations in the West when we find companies in Asia - with reciprocal benefits - selling on low valuations. It is true that their transparency is sometimes capricious but their growth prospects and valuations are enticing. Careful stock selection is of paramount importance.

In keeping with our favourable view of the East, we have just spent nine days visiting **Indian companies.** We have followed their progress since the early nineties. On earlier visits we were concerned about valuations and the political will of the government to embrace change. Even though economic reform has been tantalisingly slow, the economy has grown faster than most through the nineties at around 5% pa. Under the present coalition headed by the BJP, **the pace has accelerated.** Privatisation of State banks and industrial enterprises is being accompanied by deregulation of State run industries. Import restrictions have been removed and tariffs reduced. Like other mixed economies, the government is faced with awkward choices as it removes distortions in one area, to throw-up hardships elsewhere. Rubic cube-like, the reduction of subsidies to both fuel and fertilisers, harms part of the farming community yet places them on a commercial footing as inputs elsewhere. In a working, if chaotic democracy, where politicians are not always reliable, the outcry from these reforms can be thunderous. In several ways it reminded us of our experiences in Latin America in the early nineties. While still in the early stages and recognising that bad habits die slowly, the gains to efficiency are already clear. Most important of all is that once companies become truly private, the **patronage** enjoyed by politicians and top bureaucrats **gradually withers.**

Another important element of deregulation is the opening up of the ports to private enterprise and the road building initiative. The so-called **golden quadrilateral, to link up the great cities** of Mumbai, Chennai (Madras), Calcutta and Delhi is due for completion in late 2004. The entire route of 5,846 kms will then be a four lane highway (sans cows), and will completely transform the movement of goods and people within the sub-continent. This is being complemented by the North-South/East-West corridor which is due for completion in 2007.

Evidence of obstruction to “Nirvana” is seen everywhere and probably the worst offenders are the ruling elite. Clearly many have benefited from influence peddling, though there is **corruption at every level**, and of great concern is **weak tax enforcement**. So today, State expenditure accounts for approximately 20% of GNP, which is about twice the tax base. Fortunately there is a high savings rate which allows this deficit to be funded out of bond sales but it also inhibits the Government’s ability to help redistribute income. Continuation along the current course looks irreversible, but so it must be

for our investment case to yield the enormous rewards that await long term investors.

We have not lost interest in Asia or Europe. Nearly all are following loose monetary policy that can help asset prices. As noted earlier, the strong euro is a depressant so it is encouraging that the recent IG Metall strike was abandoned with loss of face for the union as members walked across picket lines. This is a significant, if overdue, recognition of the new order.

Conclusion

Even we have been surprised at the continuing vigour of these stock market rallies in the first week of July. Selling pressure has completely subsided and money is evidently moving out of bonds into shares. The prospect of the Fed sitting on interest rates for some while has fired up investors’ belief that the economy will respond positively.

It is probable that our shorts and currency positioning will detract from our performance in the short term. Hopefully, our large exposure to Asia, and Japan in particular, should partially compensate. While these comments may hint of complacency, our experience is that it is improbable to fine-tune market timing and better to focus on the larger trends.

Kerr Neilson
Managing Director

Trip to India – July 2003

The current phase of economic liberalisation started in the early 1990s and though it has been a halting process, it has continued to gain momentum. The Indians are generally of the view that it suits both sides of politics for the process to continue. The government is pushing reforms on two fronts:

- Privatisation (overseen by the Ministry of Disinvestment) and deregulation of state dominated industries – banking, petroleum, telecom, power, roads, etc.
- Legislative reform eg. the power sector, and more effective debt recovery laws.

It is worth discussing some specific examples of this process, in addition to some of the less than obvious effects. India is the world's most populace democracy and the benefits of this include freedom of speech, pluralism and some sense of the rule of law; the major cost is that much-needed reforms tend to be delayed due to short-term political expediency. Whilst this pattern is common to most democratic countries, the size of the population and the extent of the wealth disparities represent unique challenges. For example, all farmers/rural workers are exempt from income tax, pay very little for electricity and receive the benefit of heavily subsidised fertiliser, kerosene and LPG. Whilst many of these farmers/workers are desperately poor and any humane government would extend to them some form of support, many are also comparatively well-off (as our city based Indian friends never failed to point out). The blanket approach to rural welfare places a significant burden on the overall economy and discriminates against the urban poor. However, unwinding this is far from easy; it requires a crisis. This is best illustrated by the ongoing reform of the power sector.

The State Government Electricity Boards (SEBs) account for almost all power distribution and around 70% of generation – the Centre Government accounts for most of the remaining generation. Due to massive subsidisation of rural consumers (who account for 30% of consumption and almost no revenue) and power theft (25% of all power generated is lost in transmission and distribution), the SEBs are currently losing US\$7 billion pa (1.5% of GDP). This deterioration (from a breakeven situation five years earlier) has led to significant under-investment. To illustrate, over the recent past

India has only managed to add 4GW pa in capacity; China adds 20GW in a normal year. Consequently, India suffers a base load deficit of around 8% which may itself be underestimated on account of non-availability.

The Centre Government has used the blackouts and brownouts to force change on the States. The Centre has forgiven the debts owed by the SEBs for power purchased from the Centre and in return has obligated the States to carry out tariff reform and to lower unaccounted losses. If a particular state fails to undertake reforms, the Centre can refuse supply (voters dislike blackouts more than paying a fair price for power) and that State will also forego much needed new project funding. The reform minded States (eg. Karnataka, Andhra Pradesh, Rajasthan, etc) are attracting the lion's share of this funding and consequently these states are also attracting new business investment with the lure of uninterrupted power supplies. Hence, interstate rivalry is becoming a major positive force driving reforms. Our discussions with the power utilities and equipment suppliers corroborated the top down story and indicated that action is also taking place at ground level. For example, in Delhi, one of the first cities to privatise its electricity distribution, we saw billboards advertising amnesties for the return and replacement of electricity metres that had been tampered with (see photo page 11).

One other bright spot is the government sponsored road building program. For those who have visited India, the notion of travelling at high speed on a modern tollway, with not a brahman bull in sight, would seem improbable – now it is a reality. The National Highway Authority is in the process of connecting the four major metros Mumbai, Delhi, Calcutta and Chennai with 5,846 kms of dual carriage highway by 2004 - grandly titled the Golden Quadrilateral. The geographical extremities of the sub-continent (Indians often describe their country as a continent) are to be connected by the 7,300 km North-South/East-West corridor by 2007. These projects are progressing on schedule and the benefits are already apparent. State governments have also increased road funding and fly-overs at major intersections are now common in Mumbai and Delhi. As ease of movement improves and the cost of transport falls there will be a huge increase in intra-Indian trade; the economic multiplier on this type of

investment is significant. Much remains to be done, and in a low interest rate environment, we believe infrastructure spending will increase across all areas, eg. airports, ports, railways, power, water and sewage, etc.

A common perception of India is that it is a country strangled by bureaucracy. Deregulation and privatisation is slowly changing this. As industries are sold off/opened up, the politicians/bureaucrats lose their ability to ration scarce resources (be it a phone connection, a loan from a bank, etc) and in the process extract a bribe from the frustrated consumer. The best example of this is telecom – the government has been progressively deregulating the sector since 1994 and in the last year mobile phone subscriber numbers doubled to 13 million. Prior to deregulation, consumers were at the mercy of the state owned monopoly – tales of people waiting thirty years for a telephone connection was barely an exaggeration.

Whilst the opportunities for patronage are declining, the bureaucracy is far from tamed and red tape remains a major problem. One of the petroleum companies we met proudly described the success of their new 7-eleven style retail outlets. After the meeting we dropped by one such outlet and found a slick fit-out with no merchandise for sale - the bemused manager explained that they had been temporarily closed down for failing to complete all thirty forms required for the licence!!

My sense is that the long history of bureaucratic abuse has fostered a deep mistrust of government and a belief that the only way to get ahead is to bypass the system. Whilst most India watchers would understand that the government deficit at 10% of GDP is a major problem – what they may not comprehend is that this is largely because the tax base is extremely narrow – only an estimated 15 million individuals pay income tax. As the power of the bureaucracy declines and private affluence grows, it will be interesting to see whether a large class of tax payers emerge that demand better services from government. If it does, India's deficit would decline rapidly and much needed infrastructure investment would boom.

From a combination of growing IT services, exports and remittances from wealthier Indians' living abroad, the external account has been transformed from a deficit highly sensitive to the oil price (70% of the oil requirement is imported) to one in healthy surplus with Central Bank forex reserves accumulating at a rapid rate – at around US\$20

billion pa and US\$70 billion in aggregate – the eighth highest in the world. These external surpluses are feeding into domestic liquidity and depressing the cost of finance. Over the past five years the cost of a motorcycle loan has fallen from 25% to 15% pa and the cost of a mortgage has fallen from 13% to 8% pa. Further, the opening up of the banking sector to private competition has increased the availability of consumer credit. The significant increase in the affordability of debt finance has been feeding high growth in new home investment and demand for durables such as cars and motorcycles. With consumer debt as a proportion of GDP at a very low 2%, this growth can continue for the foreseeable future.

The average Indian household remains extremely risk adverse – 95% of assets comprise gold, bonds, bank deposits and property - equity holdings are less than 5% and as noted there is little consumer debt. The aversion to equities is largely a result of a share market that has gone sideways for ten years following the scams of 1994. In addition, most years have been punctuated by some unrest - either, domestic or border related. More recently the economy has suffered under the excess capacity left by the general Asian investment cycle that peaked in 1997 and the bursting of the global stock market bubble in 2000. Consequently, in an environment where the ten year bond is yielding 6%, inflation is running at 5%, and the PE of the stock market is around 10x with corporate earnings growing at +10%, we believe there is significant room for households to increase their investment in equities.

The major risk to the India story is that populist governments will always be tempted to pander to Hindu Nationalism at the expense of the Muslim minority. Whilst real set-backs are likely to occur, we believe that India will remain on a relatively high growth path, especially by western standards. In terms of understanding the country and the stock market, we came away thinking that we still have much to learn.

Some key demographics (as best we can guess) and interesting facts to help build the picture:

- Population of 1.1 billion people and young - 34% <15yrs versus 20% in Australia.
- Wealth disparities are enormous: <0.5 million very rich households account for 20% of

household income, the next 40 million account for 60%, the next 40 million for 12% and the bottom 110 million for 8%.

- The distribution of income between urban, semi-urban and rural areas is roughly 50%, 25% and 25%, respectively. Rural income is derived from the 30% of GDP accounted for by agriculture, however, the disparity here (as in all areas) is enormous – approximately 20 million agricultural “owners” account for 80% of income whilst the residual 20% is split between 280 million agricultural workers.
- The dispersion of population by concentrations is enormous: 33 cities >1 million population account for only 10% of the population and 600,000 villages of less than 10,000 (average of 1,600) account for 60% of the population.
- Religious groups: Hindu 81.3%, Muslim 12%, Christian 2.3%, Sikh 1.9%, other groups including Buddhist, Jain and Parsi 2.5%.

India:

- Is the second largest cement producing country in the world.
- Has the second largest pool of engineers and scientists in the world.
- Of the Fortune 500 companies, 220 outsource software related services to India.
- Is home to the second largest number of pharmaceutical plants approved by the US Food and Drug Administration outside the US.
- With 800 movies produced per year, by volume, Bollywood overshadows Hollywood.
- The Kumbh Mela festival (an age old hindu festival), held every 12 years in the city of Allahabad, attracts 25 million visitors.
- The Indian city of Varanasi is the oldest continuously inhabited city in the world today.

Source: CLSA Emerging Markets, et al

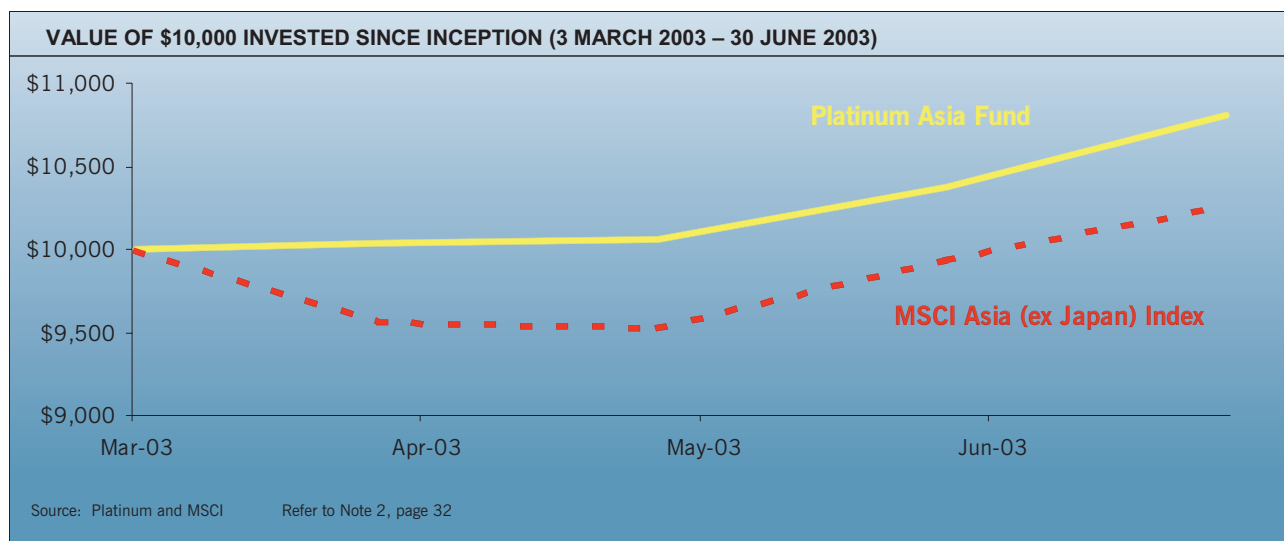
Jacob Mitchell
Investment Analyst



Platinum Asia Fund

Performance

REDEMPTION PRICE: CUM \$1.0779 EX \$1.0709



Asian stock markets turned in a strong performance in the latest quarter rising over 16% (MSCI Asia ex Japan Index, local currency). Post the Iraq war, investors worldwide have shown greater willingness to take on higher risk assets, especially those sensitive to assumptions regarding world growth. In addition, the weakening US dollar boosts export prospects for the regional economies whose currencies are managed against or pegged to the US currency. Finally, the subsidence of the SARS epidemic removed an additional concern that had been hanging over the region.

Of particular note was the performance of Thailand (up 24%) and Indonesia (up 33%). The Thai domestic economy continues to gain momentum on

the back of increased consumer spending. The Indonesian market has been driven by falling interest rates with the benchmark 90 day SBI rate now below 10% having been as high as 15% in the previous 12 months. The notable laggard was Hong Kong (up 8%) where the SARS epidemic had the greatest economic impact driving unemployment to over 8%, an unhelpful outcome for an economy and stock market still trying to overcome the fallout from the mid-nineties property bubble.

Offsetting the performance of the markets was the rise in the Australian dollar which reduced the quarterly return on the MSCI Asia ex Japan Index to 7.3% in Australian dollar terms. The Platinum Asian Fund returned 7.7% for its first quarter.

Portfolio

At the end of the Fund's first quarter, 47% was invested in Indian stocks. This market is providing us with an inordinate number of opportunities to invest in companies with good growth prospects on very low multiples of earnings, and more often than not are paying a decent dividend yield while we wait for any capital appreciation. This is a combination we find hard to resist and one we have not seen for some time.

The State Bank of India (SBI) is the largest bank in India, accounting for around 30% of the Indian banking system. The bank provides finance to a wide spectrum of Indian commerce from large blue chip companies (22% of lending), small to medium size enterprises (51%) and consumers (17%). SBI has an extensive network of branches, which in many locations act as agent for the government in

collecting taxes and issuance of currency. All the government banks have been undergoing a methodical modernisation program since the early nineties. Computerisation of SBI's branch network has seen the number of employees fall from a peak of 240,000 to 200,000. The next step will be a centralised solution that will link all branches to a central server, further cutting costs and allowing customers to access accounts from any location! Meanwhile, low interest rates are resulting in strong demand for credit that should see earnings grow at around 15% over the next two to three years. Longer term, the concern will be the quality of the loan book but we believe we are still in the early stages of the cycle. The stock is trading on 5x earnings and a 10% discount to book value.

Tata Engineering and Locomotive Company (Telco) started in the truck business in the fifties with technical assistance from Daimler which continued until the late sixties. Subsequently the company continued on independently and became the dominant manufacturer of heavy vehicles in the country, consistently maintaining a market share of around 70%. A combination of local requirements (Indian trucks have low power to weight ratios as the appalling state of the roads diminishes the importance of acceleration, while a premium is placed on durability on account of chronic overloading) and very low prices (as little as US\$20,000 will buy you an 18 tonne, 200 HP truck) means imported trucks are not really in the running. The company entered the light commercial market in the eighties and won a leading position against the Japanese producers, and reproduced this when in the late nineties it entered the car market and became one of the sellers against the Japanese and Korean sponsored producers. As outlined in our report on

India on page 9, there is significant investment in the road system in India which we believe will drive vehicle sales. Currently, the truck market is running at around 110,000 vehicles annually, down from the mid-90s peak of 151,000. We believe Telco's profits will increase substantially and at 13 times (depressed) earnings represents good value.

Container Corporation (Concor) is the sole provider of containerised rail transport in India. The company's role is to have wagons loaded, ready to be picked up by Indian Railways and at the other end to unload to trucks or to warehouse. The company was started in 1989 to provide a service that was otherwise problematic for Indian Railways given their vast bureaucracy. Concor has a mere 800 employees compared with Indian Railways 1.5 million. The company owns 51 rail-road inter-modal terminals in India along with 5,500 rail wagons and although a competitor could enter the market, these assets would not be easily duplicated. The business has grown at 15% pa and the shares trade at 7 times earnings.

DISPOSITION OF ASSETS

Region	Jun 2003
India	47%
Hong Kong	14%
Indonesia	9%
Korea	7%
Thailand	6%
Singapore	2%
Cash	15%

Source: Platinum

Commentary

The Chinese economy continued to grow at a rapid rate despite the fact that SARS almost closed down major cities such as Beijing in May. During the first five months of the year (and including the SARS impacted month of May) exports expanded by 34%, an impressive performance given a dull global environment and coming on the back of last year's export growth of 22%. Imports grew an impressive 45% over the same period reflecting an accelerating domestic economy and importantly, reducing the trade surplus which diminishes the longer term concerns of a protectionist backlash against China.

Our discussions with companies around the region continue to highlight the country's competitiveness as a manufacturing base with costs of production at almost inexplicable levels. It is our suspicion that this may ultimately be explained by a lack of adequate pricing of capital, which is consistent with a high level of private credit (160% of GDP and rising quickly) and significant levels of non performing loans in the banking system. However while the current account remains in surplus (and as such the country is not drawing on foreign resources to grow) and few signs of inflation at present, we

would expect this juggernaut to continue to roll on. The current weakness of the US dollar may well reinforce calls for the Chinese renminbi to be revalued, but given the extraordinary level of costs and the ever present attraction of over one billion consumers, this would most likely be only a short term loss of momentum.

Any analysis of the Indian economy is never complete without input on the likely rainfall in the coming monsoon from the Indian Meteorological Department. That economists would repeat the weatherman's forecasts perhaps tells us all we need to know about practitioners of the dismal science. It does however reflect the historical importance of the agricultural sector to the economy. (For the record, better rains are predicted after a disappointing outcome last year!). Although not as spectacular as China, the Indian economy continues to perform well. Falling inflation and interest rates together with the ongoing privatisation of state banks has made credit more widely available and at reasonable rates. The result is strong loan growth, and although there are some concerns regarding whether this is sustainable, private sector credit remains at very low levels. For the moment, the Indian economy continues to expand at a steady pace. The long term picture for India is very promising but dependent on the governments willingness to push through much needed reforms. (See page 9 on our recent trip to India).

Elsewhere in the region, Thailand is proving to be one of the better performing economies. With the arrival of AFTA (ASEAN Free Trade Area), Thailand

has attracted substantial foreign investment in the automotive business. Toyota is producing the "Vios" (a 1.5 litre car specifically produced for ASEAN) in Thailand, and because of the new trade rules under AFTA is able to sell the vehicle at a substantial discount to its other mid-range vehicles across ASEAN. Honda similarly is producing its equivalent vehicle, the "City", in Thailand. As a manufacturing base, Thailand is one of the few countries still able to attract manufacturing investment against the might of China. With the help of very low interest rates, the consumer has also made a strong comeback in Thailand resulting in strong housing and auto sales. The revival in the property market is in stark contrast to the last boom with the focus on end user purchases of affordable properties (A\$20,000 to \$40,000). The risk in this country remains the banking sector, where despite a major improvement in profitability, weak balance sheets present risks if interest rates were to rise.

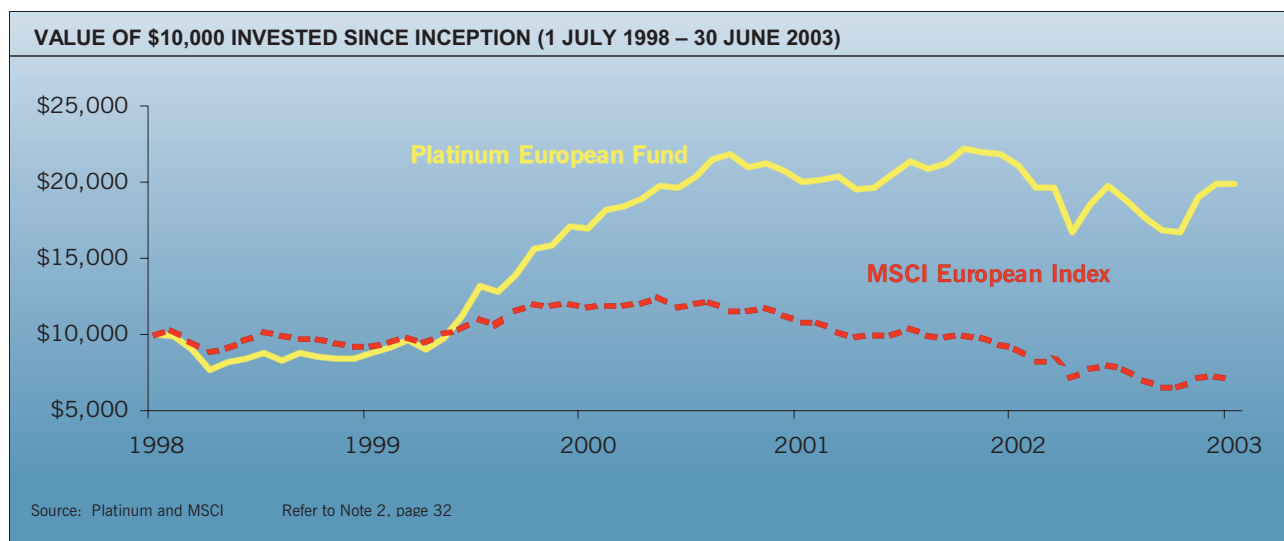
Finally, it is worth noting the revival in the fortunes of Indonesia. Perhaps the most important development is the loss of credibility of the Islam radicalism in the wake of the Bali bombing. Indeed, a combination of a more stable political and economic environment has seen capital returning to the country, driving the current account up and interest rates down. For the moment, the economy remains moribund with all the companies we met on a recent visit complaining about weak consumer spending, but falling rates should prove to be a powerful tonic for the country in the medium term.

Andrew Clifford
Portfolio Manager

Platinum European Fund

Performance

REDEMPTION PRICE: CUM \$1.5195 EX \$1.4854



Stocks rebound, extraordinary moves becoming ordinary!?

European stock markets recovered some ground in the June quarter, increasing 16% in local currency terms. Technology (computer services +40%, software +30%) and financial stocks (insurance +29%, banks +21%) led the gains, while consumer staples (food +2%, beverages flat) reflected a reduced "appetite for safety". "Cyclical" sectors such as paper (+7%) and energy (+7%) showed only modest gains as the strong euro undercut the benefits of hoped-for economic recovery. Germany, after another battering in the early part of 2003, was the strongest individual European market rising one third, while the UK (+12%) had the smallest gain among the main markets.

Among individual stocks, the sharpest upward moves were seen among the deeply distressed insurance companies across the continent (Swiss Life +175%, Royal & Sun Alliance +103% and Allianz +76%), and also in the German banks (Hypovereinsbank +109%, Commerzbank +96%). In fact almost all the big gains in the quarter involved the shares of struggling

(in many cases heavily indebted) companies bouncing back from bankruptcy-like lows. Altogether 29 shares among Europe's largest 500 were up by 50% or more in the June quarter; only about 50 companies saw their share prices decline, indicating the breadth of the advance in recent months.

The Australian dollar continued to rise steadily against the European currencies over the quarter, so that the MSCI Europe index returned 10% in A\$. The Platinum European Fund increased by 19% over the quarter, as its holdings in Germany performed strongly, and the 55%-60% hedge into A\$ afforded some protection from the rising exchange rate.

June 2003 marks five years since the commencement of the Platinum European Fund. Over the five years the Fund has compounded at 14.7% pa, while MSCI Europe has lost 6.3% pa. Alternatively, \$10,000 invested in the Fund in June 1998, with income reinvested, has become \$19,860 today, while the market has reduced June 1998's \$10,000 to \$7,215.

Commentary

Economic "recovery", plentiful credit, and oversold markets

The dreadful circularity of the insurers' behaviour (as stocks fell, they needed to sell to maintain statutory ratios thus causing stocks to fall further, etc) was

described in the last quarterly report, and it coincided with worries about the "war" in Iraq, pessimism about economic prospects, and bond markets whose strength led the momentum investors (most institutions) to switch from stocks to bonds.

The exaggerated downward moves resulting from these factors meant that stock markets had to rebound, which is just what happened in April and May.

The commentators (stockbrokers, newspapers, etc) generally fit the words to the music, and never more so than when economic prospects are as confusing as they have been in the last 6-12 months. Thus when the stock market was suffering in the months up to March, it was clear that "deflation" was virtually certain, that Germany was to be the "next Japan", and that the incompetence of the European Central Bank meant European stocks should trade at structurally lower valuations than, say, those in the US. By contrast, the headlines today insist that the US economy is recovering, that the rest of the world will follow, and that monetary policy "works", and thus it is not surprising that "the bear market is over". It is hard to say which of these conclusions is more exaggerated!

With the rise and rise of what may be thought of as marketing-driven funds management, it seems that the "institutional perversion" in the stock markets is greater than ever - and this is, in the context of general economic confusion, the best explanation of the volatility in share prices.

Marketing-based fund managers attempt to produce a return – positive or negative – that is close to the index return; they then rely on their marketing department to attract/retain investors. The behaviour of such managers exacerbates trends in the stock market because they run fully invested portfolios, and as their investors panic in and out in response to market movements (ie. almost always after the fact) the manager sells low and buys high.

The key point is that there are proportionately more direct participants in the stock market making decisions primarily based on share price momentum (and thus not enough fundamental investors to take the "other side"). Thus while little has changed in the knowable macroeconomics of Europe in the first half of calendar 2003, and the stock market is flat, the volatility of markets over the six months has been remarkable.

Thus while an argument could be run explaining in economic and political terms the sell-off and rebound, the main point is that the self-reinforcing trends in stock prices are becoming more entrenched. It is for this reason that we must (and do) take account of market positioning realities as well as fundamental factors.

April/May company visits

As to fundamentals, we visited 31 companies, mostly in Germany, Denmark, France and the UK in April/May. The companies included some the Fund already has investments in, potential new candidates, and competitors etc of existing/possible investments. The general message was that that economic conditions were not worsening, but nor were they improving – people seemed to have adjusted to a dull level of activity. Managements were generally concerned about the slide of the US\$ against the euro, and concerns were raised, as usual, that labour market reforms in Germany were progressing too slowly.

One of the most interesting companies we visited was a German business called Medion. As we mentioned in a previous quarterly, we have been trying to find a way to play the so called "Aldi phenomenon" – ie. the strategy, on a large scale, of taking some of the very huge profits made in the production and distribution of food and household goods. For perspective, who would have imagined 50 years ago, amidst shortages and rationing in Western Europe, that in the coming half century undreamt of fortunes would be made in distributing consumer staples? Despite incredible developments in technology etc, a review of the list of global billionaires reveals that in practically all western countries, some of the very largest fortunes have been made in supermarket retailing – the Walton (WalMart) family in the US, the Sainsburys in the UK, the Auchan and Carrefour owners in France, the Albrechts (Aldi) in Germany, etc. This super-profitable industry must of course attract competition – and it has and will continue to come from many angles. Aldi itself is a private company, and while we consider the high-quality discount format portion of French retailer Casino to be very interesting, it is still only a small part of that company. Suppliers to Aldi (and its imitators) tend to be the multinational food companies (making a pragmatic decision that it's better to do a private brand for a big buyer than to miss out on supplying it at all), so again the phenomenon is diluted in Nestle, Danone, etc.

However one other strategy that Aldi uses (especially to bring new customers in to the outlets) is to hold promotions of non-supermarket items – eg. a laptop PC. So for example, they might advertise that in each of the hundreds of Aldi stores in southern Germany, on the 20th July, 200 laptops with specific features

will be available for say £1,199. The product will be state-of-the-art in configuration, and will be at a price well below that of a comparable mainstream laptop computer brand in an electronics shop. Because of this, these promotions themselves have become something of an event – usually there are queues outside the shop from say 6am for the 8.30am opening, and the products will be all gone by 9am. By which time, of course, 200 customers, who may not otherwise have entered the Aldi store, have come through and seen the price that tomato sauce can sell for if you try a bit harder!

But Aldi does not make cutting edge configuration (or any other!) laptops, and nor would Dell, Toshiba, etc be too keen to supply them at such a price, nor on a promotional basis when they are sitting in every electronics shop, department store, and computer specialist shop in town. More to the point, Aldi does not want to have to deal with inquiries about how to set up the computer etc. Medion is the very unusual company that provides, on a project basis, specific products that companies such as Aldi would not usually stock. Medion is not a manufacturer, but it designs the products in the sense of determining the configuration of the PC, and its real skill is in bringing together all the different component suppliers, and then overseeing assembly on schedule. They have no branding expense, nor do they carry any stock, yet the defined project nature of their orders makes them a desirable customer to all the electronics component suppliers. Medion has telephone operators who handle all after-sale problems, inquiries etc (and the issues arising from this customer contact are fed directly back into the design/configuration decisions for the next project). The company has sales of £3bn, profits after tax of over £100mn, trades at 16 times this year's expected earnings, and is growing quickly at the moment.

Is Medion too Aldi-dependent? That is certainly the key customer, but there are many others, and in the "mature" Medion market Germany, the products are now available in the mainstream electronics chains (effectively on an in-stock basis – ie. all the time – but from Medion's perspective still on a project, ie. no inventory-risk, basis). That the maverick, unbranded product now sits beside the global brands suggests that Medion is no longer a marginal player. The company is growing quickly in Europe, and has been doing test projects for Best Buy and Cost Co, etc – big retailers in the US for the last couple of years. The investment is interesting without assuming success in the US, and the low-risk, slow, careful approach they are taking in that giant consumption

market means the US is a very interesting potential aspect for the company.

Market concerns about consumption in Germany, and the general slump in stock markets a few months ago gave us an entry opportunity (30% below the current price) so that the Fund now has a 3% position in Medion.

In Denmark we spent several hours with the board member responsible for production at Novozymes. The stock has been the largest holding in the Fund for most of the last year, and the company's production competence is one of the core aspects of the story. Enzymes are almost always more effective at carrying out a given process, but usually the chemical alternative is cheaper. Thus the requirement is not only to come up with an enzyme based biological catalysis process (eg. for making laundry powder effective on stains), but to be able to produce it efficiently enough that it is cheaper than the traditional chemical process it aims to supplant.

We were taken through the fermentation and purification plants – a huge site one hour's drive west of Copenhagen – and concluded that potential new entrants to the industry faced ghastly hurdles (unsurprisingly, there have been no new entrants for years). More important is the point that despite the continual growth in enzyme output from the production site, no new fermentation capacity has been installed in the last 15 years. Instead, the yield achieved from the fermentation process has increased, perhaps *ten-fold*. This increase represents the core biological and manufacturing know-how of this company, and it is the implicit cost reduction that allows more enzymes to be competitive with chemicals, while simultaneously allowing Novozymes to increase its research & development expenditure and increase the earnings of the company.

Reform in Germany starts to look promising, but early days

The need for labour market reform is one of the broken records of any economic discussion about Germany. Hourly labour costs in manufacturing are around £27 (US\$31 or A\$46) – double that of Spain and 20% or more above the EU (excluding Germany) average. The "successful" six year union campaign in the 1980s which resulted in a 35 hour work week in Germany exacerbates the problem, as do the large number of vacation days meaning that German workers put in 16-18% fewer hours per year than their Japanese and US counterparts.

High manufacturing costs have traditionally been acceptable in Germany as corporate strategy usually revolves around world-leading products which support premium prices (to the Asian or American alternatives). However as manufacturing shifted from engineering predominance to electronics predominance, Germany's competitive advantages have been less able to compensate for wage differentials. This coming winter, it is forecast, unemployment in Germany will exceed five million. Hence the need for labour market reform – which really means easing hiring and firing rules, allowing more flexible enterprise based bargaining, etc.

The political stalemate existing in the German parliaments, and the power of the large unions has meant that progress has been slow on reform and that when (“socialist”) Chancellor Schroeder proposes change the unions underpinning his party complain bitterly. Thus the events in Eastern Germany in recent weeks should be seen as interesting developments. The great “gift” Helmut

Kohl bestowed upon east German workers after reunification was wage equalisation with the west over the 1990s. In fact this consigned the east German labour force to the unemployment lists because their low productivity/training/skills were unsaleable at west German labour prices. Thus in many ways June's strike action by IG Metall (among the world's strongest industrial trade unions) to reduce East Germany to a 35 hour week as well, was strategically foolish. After a few weeks bringing auto factories etc to a standstill, the employees went back to work and told IG Metall they would not support it. This has been seen as an unprecedented setback for the union, and a public statement by real people about what they want; both sides of politics see this as a chance to get the reform agenda on track. We see this development as promising while being in its very early days; however the reliable thing about Germany is that once a decision to take a certain direction is made, the progress is relentless.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Jun 2003	Mar 2003
Pharmaceutical/Biotechnology	Novozymes, Novartis, Serono	16%	17%
Miscellaneous Services	Hagemeyer, SGS Surveillance	14%	14%
Capital Goods	Océ, Schindler, Siemens	12%	11%
Tech/Media	Ericsson, Infineon Tech	10%	6%
Consumer	Adidas, Henkel, Michelin	9%	11%
Retail	Hornbach, Douglas	7%	13%
Chemicals/Materials	Linde, Merck KGaA	7%	10%
Financials	Alleanza, Allianz, Assicurazioni Generali	5%	4%

Source: Platinum

Outlook

Some investors expressed surprise at the Fund's nearly 40% position in German stocks in the dark days of March. But the position made sense to us given the companies available at very modest (in many cases fire sale) prices. While the position was subsequently vindicated by the strong rebound in German share prices, the main point is that if the Fund did not have its largest position when the consensus was becoming hysterical about Germany generally, then we would be surprised.

Equally, notwithstanding the indications of change mentioned above, the German economy is quite clearly struggling, so as hope, and even some enthusiasm, was priced into stocks in June, we steadily scaled back the exposure (around 34% in early July).

We are reluctantly proceeding (given the apparent appeal of today's modestly priced cyclicals/exporters) on the assumption that the US\$, after this brief rally, will continue to slide against the euro, and this

assumption makes us wary of becoming too enthusiastic about European companies with big Asian or US competitors. The Platinum European Fund is currently 83% long, 17% cash, and 3% short

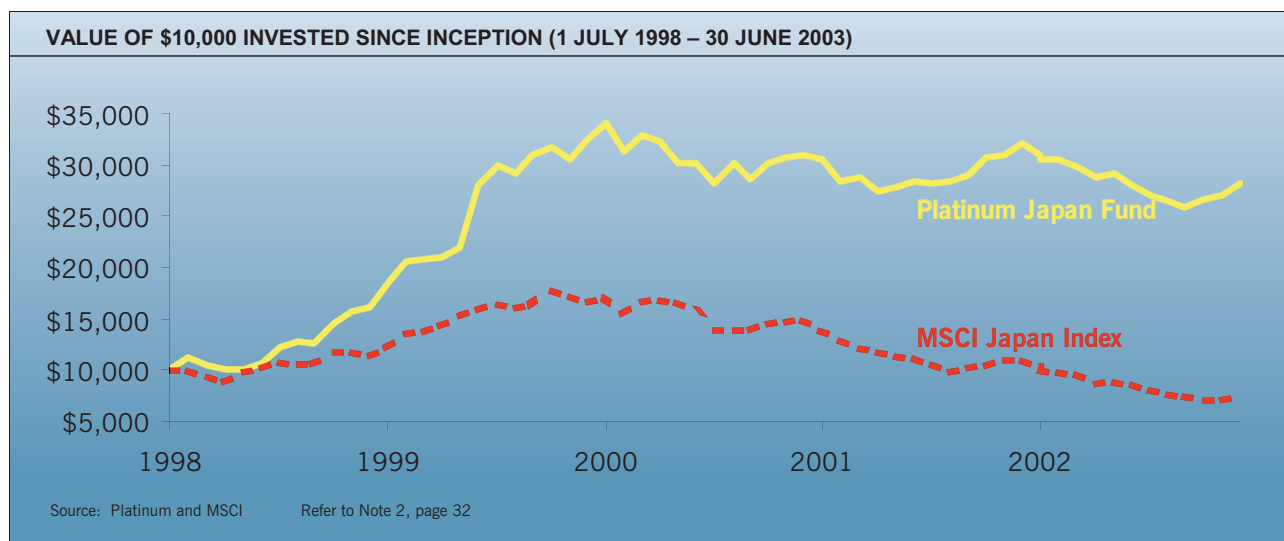
for a net exposure of 80% in European equities. 54% of the Fund is hedged into A\$, the remainder exposed to euro and other European currencies.

Toby Harrop
Portfolio Manager

Platinum Japan Fund

Performance

REDEMPTION PRICE: CUM \$1.6017 EX \$1.4559



The Fund performed well this quarter rising by 9% in A\$ terms against the benchmark MSCI Japan index that rose by just 0.7%. Returns were heavily suppressed by the strength of the A\$ which rose by 10% against the US\$ and 12% against the yen. The Fund was partially protected from this by its forward hedging of about 56% into the A\$. A generally better environment for global equities was the theme this quarter led by the US on expectations for faster economic growth. The Japanese market generally lagged the global trend although late in April the surge began, driven by large foreign buying. All sectors of the Japanese stock market rose with the strongest advances in the highly leveraged industrial

and financial sectors. Within our portfolio there was a very broad advance with the notable laggards being Credit Saison due to earnings downgrades and defensive drug stocks such as Takeda.

For the year to 30 June 2003 the Fund fell by 9% but substantially outperformed the MSCI Japan index which declined by 29%. Whilst it may be of little consolation to investors who have lost money over the past year, over the five years since inception the Fund has returned 23% compound pa, well ahead of the index of -6% compound pa. Moreover, the Fund has outperformed the index in every year and this has included significant up and down years for the Japanese stock market.

Changes to the Portfolio

DISPOSITION OF ASSETS		
Region	Jun 2003	Mar 2003
Japan	65%	72%
Korea	13%	11%
Cash	22%	17%
Short Equity Derivatives	0%	-6%
Long Equity Derivatives	7%	7%
Net Equity Derivatives	7%	1%
Net Invested	85%	84%
Short JGB Derivatives	-23%	0%

We increased our invested position early in the quarter by closing out our remaining Kospi index short position. We now have no short equity positions in the Fund. We also used cash selectively to buy cyclical names such as Dentsu, Sumitomo Metal Mining and Toshiba. We partly financed this by exiting positions in Komatsu, Tokyo Broadcasting and Shimano. In Korea we added a new position in Tongyang Confectionary (which was our best performer for the quarter) and re-entered Kangwon Land as the new casino opened with results above our expectations.

We introduced a 23% short position against Japanese government bonds (JGB) into the portfolio near the end of the quarter. The JGB market is perhaps the most expensive asset market we can find anywhere in the world with ten year paper commanding just 0.79% pa in yield! The grinding deflation that Japan has experienced over the past 13 years has drawn money into the “safety” of government paper. But as we showed in the last quarterly report there is little chance of the government being able to pay this debt back and at some point there must either be inflation or they will renege on their obligations, neither of

which would be good for bonds. The trigger point for this event seems a lot closer as the savings of the household sector, which the government has been tapping to fund its spending, effectively runs out by the end of 2004 and increasingly the Bank of Japan (BOJ) must fill the gap. However BOJ buying is pure monetisation of the currency and we think at some point this will lead to an expectation of rising prices with damaging implications for bonds. Meanwhile the annual cost to the portfolio of holding the position is just 0.55%! which makes timing less of an issue.

Currency

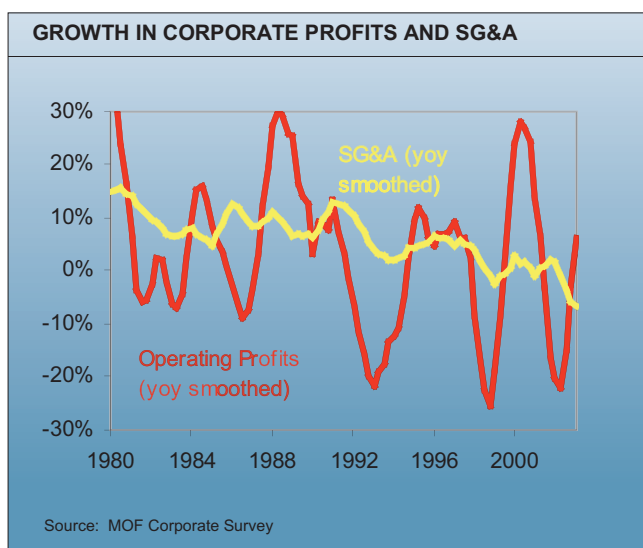
Our currency position was largely unchanged although toward the end of the quarter we took a little more yen into the portfolio as we felt that both the euro and the A\$ had moved a long way and should experience a consolidation. However the A\$ in particular seems resilient and may trade towards

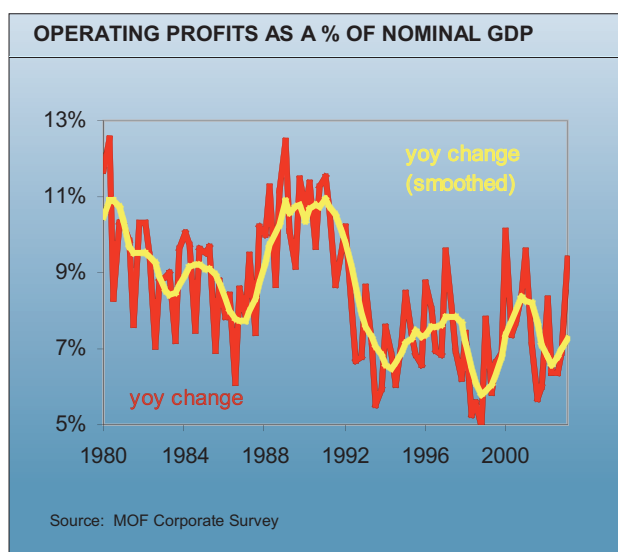
its long term average of around US70 cents before settling. Interestingly, the yen was the weakest of the major currencies last quarter despite all of the talk about a weak US\$. This was in response to intervention by the Japanese authorities who sold approximately US\$20 billion of yen for dollars.

Commentary

We have been pleased to see a very good recovery in corporate profitability in Japan in the past year despite a weak domestic economy. Indeed, as at March, operating profits for Japanese companies grew 12% yoy despite a fall in sales of 1.4% yoy, which is a truly remarkable performance. As you can see in the first chart, this profit growth has been bought about by sharp falls in SG&A expenses, primarily labour costs. Whilst this has not been achieved by wholesale job cuts it does reflect a reduction in salaries and bonuses across the board. NTT is perhaps the best example of this where 45% of the workforce (93,000 employees) were internally transferred with a consequent reduction in annual remuneration of 25%! This equates to a cost saving of about US\$19,000 per employee per annum. In addition, many companies are moving toward changing pension plans from defined benefit to 401k style plans which shifts the burden of future returns from the company to the employee. Whilst on balance these changes fall short of western style management targets, it does indicate that the “lifetime” employment contract of Japan is being fundamentally reappraised. One can also point to the government approval for the life companies to reduce guaranteed payouts to plan holders as further evidence of change in official circles. We believe that this is highly positive for secular growth in corporate

profits and the potential bull market that may follow. The risk to this rosy scenario remains the global economy. It is an undeniable fact that part of the recovery in Japanese profits has been driven by robust export profitability assisted by 15-20% yoy gains in world trade. If this were to ease off and Japanese companies were to slacken in their restructuring then the recovery would be delayed again.



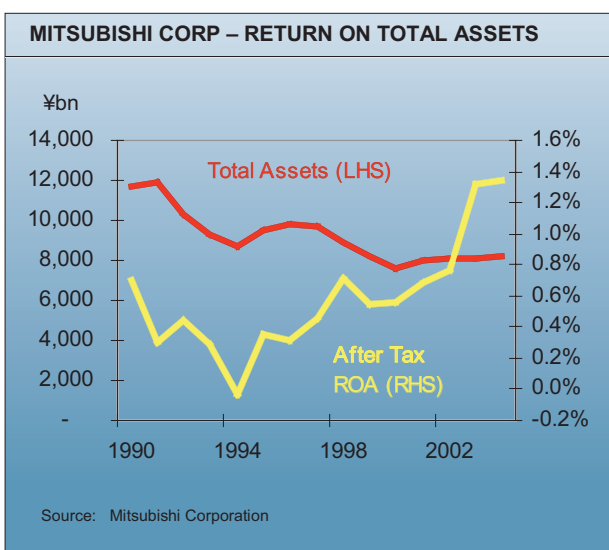


Japanese Trading Companies

Recently we reviewed Mitsubishi Corporation, the gigantic Japanese trading house with almost US\$70 billion of assets and US\$110 billion of annual sales! The traditional role of Mitsubishi is that of a middleman or trader involving import/export of a vast range of resource and manufactured goods usually in some risk-taking capacity with the provision of finance or minority equity participation. Trading companies exist elsewhere but are pervasive in the Japanese economic scene because of the centrally directed origins of the economy and the relatively short time that Japan has been open to global trade. This has meant that they have acted more like gatekeepers than middlemen with commensurate greater market power. Lately this traditional role has become outdated as importers start to deal directly with customers and corporate relationships have loosened. The middleman is being squeezed out and in his place we observe a gradually more focused entity with a stronger emphasis on its core competencies and deeper commitment to fewer projects. With cheap capital and an abundance of lucrative natural resource projects needing finance, we can envisage a structural shift in profitability. Indeed the accompanying chart shows that Mitsubishi has already started down this path with rising returns on assets on a falling asset base.

Perhaps the most interesting business for Mitsubishi is Liquefied Natural Gas (LNG). The long-term case for rising LNG output is well known (abundant gas supplies in less economically developed countries ready to meet insatiable demand in rich countries for energy with “green credentials”, etc). Indeed LNG

output is forecast to rise from about 110mt in 2003 to 180mt in 2007. What is less well known is that Mitsubishi has a long term involvement in LNG projects which dates back to its participation in the Brunei, Malaysian and North West Shelf (Australia) projects. Going forward the company plans to redirect significant cash flows (about \$US3-4 billion) toward LNG across the whole spectrum of investment from upstream production, onshore liquefaction, shipping, to discharge and regasification. Perhaps the most high profile of its investments will be 20% of the Sakahilin 2 gas field off the Russian island just north of Japan and 100% of a LNG receiving terminal on the US West Coast. At present Mitsubishi makes very good returns out of its existing LNG investments but we see a period of rising investment for the next few years when profits start to flow from 2006 onwards. At that point Mitsubishi could have 5% of its assets invested in LNG related projects and with a US\$20 oil price could be earning after tax returns on assets of around 10%. We project this alone could add 22% to net profits over this period of time.



However the Mitsubishi story is not just one of LNG. The company has a number of other positive attributes that make it interesting. The Mitsubishi group of companies is perhaps the most successful in Japan and consistently the company rates very highly amongst new graduates as “the place to work”. The company attracts the best and brightest to this day which is a little at odds with the negative perception of the company in investment markets. They have also shown a good eye for acquisitions, perhaps the most notable being the purchase of 50% of BHP’s Australian coal interests in 2000/01 for a very cheap

price (we calculate 5x forward PE). In addition they would seem to be a winner from the forthcoming rationalisation of industrial Japan as they have the cash to purchase attractive businesses which would complement their growing industrial base in Japan.

The main criticism of the stock is that the assets are employed too widely and in a non-commercial fashion but despite this, ROE has averaged 8.4% over many years. We think this could be comfortably exceeded in the future.

Outlook

We are increasingly positive on Japan at the corporate level. We see profit growth being driven both by restructuring of employee relationships and competitiveness in globally traded goods. Japanese companies have learnt to cope well with poor pricing environments with the key element being their unwavering commitment to product innovation.

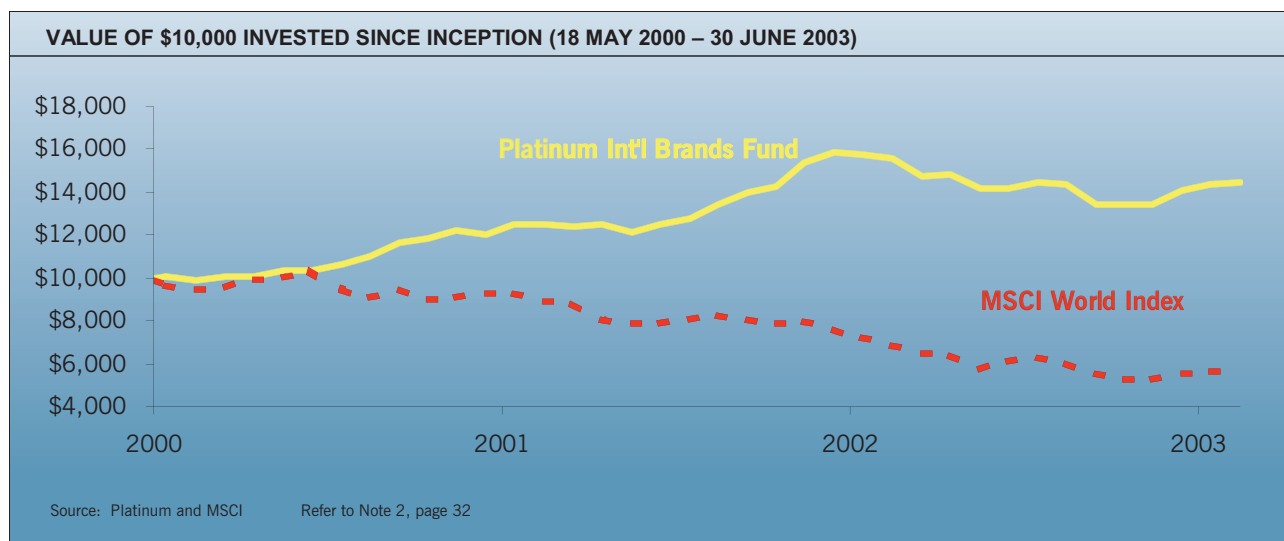
Valuations remain modest and the market looks to have a good base with low domestic institutional weightings in equities on account of their preference for bonds. Tempering our enthusiasm is Japan's need for a resumption of world growth. Historically, strong international trade has been amplified within the Japanese share market.

Jim Simpson
Portfolio Manager

Platinum International Brands Fund

Performance

REDEMPTION PRICE: CUM \$1.3166 EX \$1.2442



During the quarter, the Platinum International Brands Fund rose 7.5%. The performance of the Fund being ahead of our proprietary index of branded goods which fell 1.1% in the quarter and the MSCI World Index which rose 5.5%. The 1.1% fall in our proprietary index belies the significant range of movement of individual stocks with rises or declines of over 20% in a number of stocks and up to 50% in some cases.

Leading the performance were the retailers as the market repositioned away from the defensive hiding places towards those stocks that would perhaps benefit more dramatically from any improvement in the economy. Of the top ten performers in our index, seven are retailers all with gains of over 30% - for example, Metro AG (German retailer), a Fund holding, increased 35% on the quarter. We should also caution that despite this strong quarterly performance all of these companies declined over a year.

For the 12 month period the International Brands Fund fell by 7.6%. Our proprietary index of branded goods and services companies fell by 23.6%, whilst the MSCI World Index fell 18.3%. Only four companies out of the nearly hundred that we track showed positive performance, whereas more than half the stocks in our index declined by more than 20%. Of the four positive performers, two were US retailers (The Gap Inc. and Best Buy Co.) and the other two, Wella AG, which rose on the takeover by Procter & Gamble and Avon Products which is in the throes of a significant modernisation program.

Our proprietary index, consistent with the Fund, is calculated in A\$. The fall of the US\$ against the A\$ has had a significant impact. As an example, over the 12 months Avon Products increased in value by 19% when measured in US\$ and a mere 0.5% when measured in A\$. The Fund has had a negligible level of investment in the US over the past 12 months, albeit this is beginning to change.

Changes to the Portfolio

We have significantly reduced the level of short interest from 15% of the Fund at the end of the last quarter to less than 5% now. At the end of the quarter we hold short positions in just two companies, Kellogg and Gillette.

We took advantage of the market's keen interest in the retailers and sold our positions in Kingfisher (UK home improvement retailer) and Metro (German retailer), more on this later. In Japan we sold our Shimano position while in Korea we switched out of

LG Household into a new investment, Tong Yang Confectionery Corp. Apart from confectionery, Tong Yang also operates a family restaurant chain and owns several cable broadcasting channels.

In the quarter, we also invested in Estée Lauder (US cosmetics). Estée Lauder was founded in 1946 and is now one of the major cosmetics companies of the world with leading brands such as Estée Lauder, Clinique and Prescriptives. Other brands, perhaps less well known include M.A.C, *jane*, Origins and Bobbi Brown amongst others. Estée Lauder, to June 2002, recorded its 51st year of uninterrupted sales growth and looks to be on track to continue that

trend in the current year. Estée Lauder has developed (or acquired) a collection of brands that are managed through a diverse range of distribution channels; department stores, perfumeries, pharmacies, duty free shops and the internet, 13,500 points of sale in 130 countries. Certainly, they are not immune from the downturn in tourism or consumer spending. The range of brands and the careful management of each brand through different distribution opportunities, provides us with confidence that the company has some capacity to influence its own destiny and are not entirely at the mercy of ever dominant retailers.

DISPOSITION OF ASSETS

Region	Jun 2003	Mar 2003
Europe	43%	47%
Japan	17%	23%
Other Asia (incl. Korea)	8%	9%
US	3%	0%
Cash and Other	29%	22%
Shorts	5%	15%
Net Invested	66%	63%

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Commentary

During the year we added to our position in Metro AG, Germany's largest retailer. Whilst German retailers have suffered through years of economic malaise, combined with tough competition as discounters like Aldi expanded, we believed investors had overlooked the strength of Metro's two largest businesses; the wholesale cash and carry business (in which Metro is by far the dominant company in Europe), and its discount electronics retail business, which is growing very quickly both in Germany and Europe. Metro's shares have subsequently rebounded strongly, as investors responded to favourable results and even began to anticipate improvement in the difficult German businesses. We now believe investors are becoming confident that *all* Metro's businesses will enjoy better times, underpinned by an improving German economy, a prospect which we believe is by no means assured, so we recently sold our holding in this stock.

A significant development in the UK retail market over the past six months has been an increase in

takeover activity. For example, January saw Safeway plc, one of the five major UK supermarket chains, receive takeover offers from its rivals Morrison, Asda (owned by Wal-Mart), Tesco and Sainsbury. A significant motivating factor would appear to be the desire to gain access to the sites of Safeway, rather than to continue running the stores under the Safeway banner, indicating perhaps the difficulty in finding suitable new store locations in that country. The takeover is currently being investigated by the UK Competition Commission, which must decide whether it can proceed. This ongoing consolidation of major retailers can only add to the pressure on the branded goods companies that supply them.

Other takeover activity appears to be largely opportunistic bids for several smaller retail companies, responding to depressed valuations such as the bid for Selfridges, the up-market London department store and Hamleys, the famous Regent St. toy store. This triggered further investor interest in retailers with depressed valuations. Our holding in

WH Smith, one of the largest UK book retailers/newsagents with attractive high street store locations, was bid up accordingly.

The United States saw a continuation of retail trends that we discussed in previous reports. Discount operators like WalMart continue to take share from department stores like Sears, albeit even WalMart shows a slowing trend in sales growth in its stores. Management recently commented that high levels of consumer debt are constraining consumer spending. We would add that with US unemployment at 6.4%, a nine year high and even worse in some regions, the consumer will continue to need a lot of convincing to increase their spending. Low interest rates and ready availability of credit continues to support housing sales, while sales of cars also remain surprisingly resilient.

Discounting by car makers and the availability of very cheap loans continues, (General Motors for example now offers cash discounts of 5 year interest free loans on all models, or up to \$4,000 cash back on most models, an unprecedented level of subsidy to hold up their sales volume). When we look across the range of branded consumer goods, from basics such as razors and batteries through to luxury items and cars, we see increasing levels of “promotional spend”, which invariably means increased discounts. The consumer, apart from being constrained economically, is also beginning to adapt to a discount environment where it pays to look for or even wait for the “special”.

We have previously commented that many of the large branded consumer companies are reducing their ranges, closing factories and selling businesses outside of their core product ranges as they adjust to a much harsher and more competitive environment.

Gone are the days where companies could launch a multitude of new variants and have the consumer try them just for something new. Latest data from IRI (a provider of industry data) is that of the 970 new *brands* launched in the US over the period October 2000 to October 2002, only ten achieved sales of more than \$100 million.

Companies are also proudly showing investors examples of the great gains they can make by running their businesses more efficiently. For example, in just one factory L’Oreal was able to reduce the number of raw material suppliers from 150 to 92 and Unilever by reviewing their specifications for fabric washing powders were able to reduce the number of “main components” from 118 to 26. There are many more examples that are enthusiastically put forward by the companies. US companies with significant operations in Europe are also benefiting from the fall in the value of the US dollar. However the increasing cost of competing raises concerns that as shareholders we will see little of the benefits flowing through to the profit line.

Unilever commented that there is increasing differentiation amongst the retailers. The retailers are in effect building their brand positioning, they are becoming brands in their own right. Aldi, currently opening stores in this country, very clearly stands for a limited range at exceptional prices, likewise WalMart, Tesco and Carrefour all offer different experiences from the perspective of the consumers. As these retailers continue to expand internationally the major branded goods companies are forced to align themselves to succeed with (and no longer despite) the retailers, resulting we suspect, in continued margin pressures.

Outlook

We are still wary of the current valuations and the near term prospects for many of the major branded goods companies. As the markets continue to show volatility and a propensity to chase performance, it will likely be the hiding place “defensives”, that suffer in performance. We continue to have concerns that the consumer, especially the US consumer, is faced with high debt levels, relatively high unemployment and is being tempted to spend

only when given significant incentives. The cost of competing continues to rise. Tourism and travel is still subdued affecting many of the branded companies as is the significant shift in the value of the US\$.

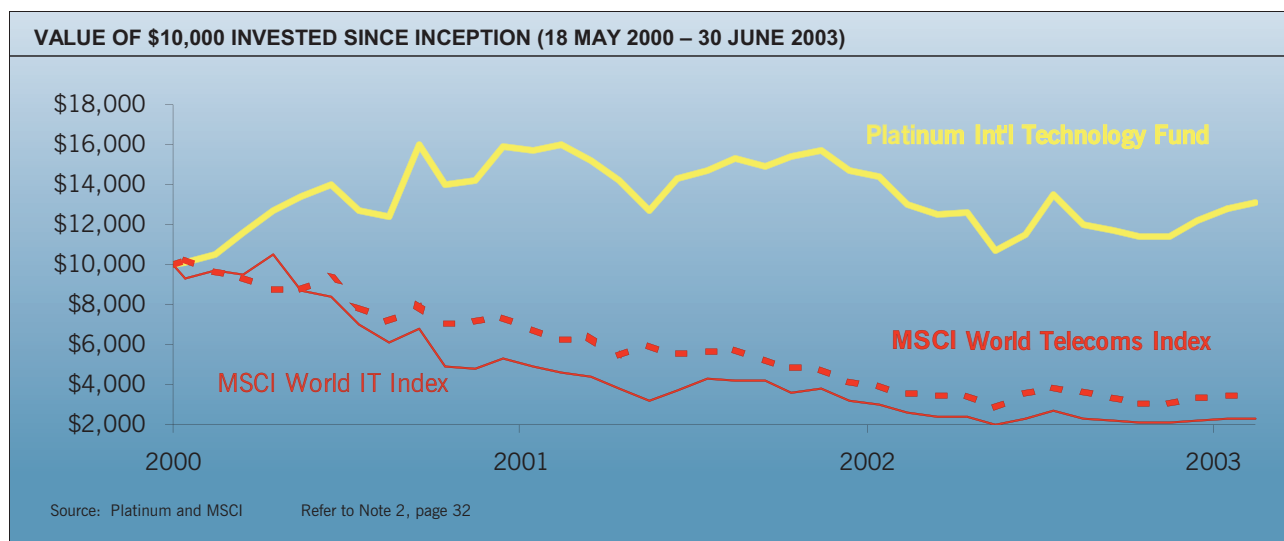
Whilst we find valuations more attractive in Japan and Europe than the United States, we will continue to challenge our thinking and take the opportunities, such as Estée Lauder, as they appear.

Simon Trevett
Portfolio Manager

Platinum International Technology Fund

Performance

REDEMPTION PRICE: CUM \$0.8553 EX \$0.7702



The Fund performance during the quarter was a positive 14.9%, as technology stocks were strong across all segments. The MSCI World Technology Index (A\$) was up 7.9% during the same period. In the US, the technology index Nasdaq was up 21%, the best quarterly performance since the fourth quarter of 2001 when the index climbed 30.1%. The Fund also benefited from our 61% exposure to the A\$, which appreciated by 10% versus the US\$ during the period.

The most exuberant stocks generally were in the small to medium capitalisation groups. Investors were aggressive buyers of internet stocks like Yahoo (+38%), Amazon (+38%) or USA Interactive (+40%) with even more enthusiasm for exotic names like Chinadotcom (+158%) or Sina.com (+153%). In most cases we think this is reminiscent of the same valuation excesses experienced before the Internet

bubble burst. Strong performances were also recorded by electronic manufacturing services companies like Celestica (+33%) and Sanmina (+42%) in anticipation that clients (IBM, Sun, Hewlett Packard, etc) would soon increase their orders.

In terms of stocks in the Fund, strong performers were Adva Optical in Germany (+130%, on expansive expectations for metropolitan area networks in Europe), Nvidia (+78%, strong sales from new graphic cards for PCs), VSNL in India (+66%, local investors recognising the undervaluation of the stock) and Agere Systems in the USA (+53%, market share gains in communication semi-conductors).

On the negative side, our short positions on selected stocks and the Nasdaq Index detracted from our performance.

Changes to the Portfolio

We have taken the view that valuations of some US technology stocks are approaching unsustainable levels and we have therefore looked for investment opportunities in markets we consider more attractive.

We reduced our exposure to some US holdings which had reached valuation targets and increased our positions in Europe and Asia.

We finished the quarter with a net 49% invested position and we reduced the cash position to 28%. The Fund now has a short position of 12%, concentrated in US stocks and Nasdaq Index, and cash of 23%.

Purchases included a new position in Agilent Technologies (US), the dominant test and measurement equipment supplier in the world, with

particular strengths in the communication and semi-conductor industries. Business conditions have stabilised following two years of decline, and test and measurement equipment remains an attractive business in the long term with high barriers to entry. We bought Marconi Corporation (UK), a reincarnation of the once troubled Marconi Telecommunication (a strong position with major clients like British Telecom, Telecom Italia and Telstra, together with strong R&D capabilities and a debt-free balance sheet that will help them re-establish solid profitability).

We introduced new positions in Bharat Electronics (India), a major supplier of electronics to the defence and telecommunication industries, and we bought Telkom Indonesia, the integrated provider of fixed-line and mobile services in that country.

Taking the opportunity of a temporary weakness in the stock price following a convertible bonds issue, we increased our position in Infineon Tech.

We sold or reduced some of our positions in semi-conductors stocks Nvidia, National Semi-conductor and Agere after their strong performance.

DISPOSITION OF ASSETS		
Region	Jun 2003	Mar 2003
Europe	24%	9%
US	21%	32%
Other Asia (incl. Korea)	17%	11%
Japan	10%	10%
Cash and Other	28%	38%
Shorts	23%	17%
Net Invested	49%	45%
Source: Platinum		

BREAKDOWN BY INDUSTRY		
Region	Jun 2003	Mar 2003
Telecom Equipment and Suppliers	29%	19%
Semiconductor	18%	20%
Software	11%	11%
Electronic Components	6%	7%
Other	8%	5%
Source: Platinum		

Commentary

In the US, we have now been waiting a number of years for signs of consolidation in tech, but a number of factors have been working against a quick rationalisation of many of the substantially oversupplied segments of the economy.

The ability of companies to “survive” out of Chapter 11 bankruptcy is slowing down the process. Believe it or not, Worldcom is back in business with a lot of the capacity it had before its collapse and Global Crossing is up for grabs with all its 160,000 kilometres of optical fibres intact and ready to be lit-up, etc. Moreover, the increased appetite for “yield” from bond investors around the world is facilitating additional capital raising (mostly convertible bonds) even for the most distressed corporate borrowers. Over the last three months: Alcatel raised E1 billion in convertible bonds, Juniper issued US\$350 million zero coupon convertible and Lucent US\$1.3 billion convertible.

In most cases this money is used to re-finance existing credit lines or to replace more expensive bonds dangerously close to their due date - a direct effect of the easy monetary policy instigated by the US Federal Reserve Bank. Unfortunately while these companies are fixing their balance sheets, total installed capacity is not being reduced as per the theory of the creation/destruction forces of free markets.

A turning point this quarter was Oracle (the second largest US software company) launching a hostile US\$6.2 billion take-over bid for Peoplesoft (an Enterprise Applications Software vendor). The bid launched by flamboyant Mr Ellison followed Peoplesoft's decision to merge with smaller rival JD Edwards in a friendly deal for US\$1.75 billion in cash and stocks.

Mr Ellison also suggested that after an initial integration period, Peoplesoft products would be abandoned and clients “freely migrated” to Oracle’s new applications (still under development!). This idea has not been welcomed by most of Peoplesoft customers with large systems installed, who now face an uncertain transition. The winner could ultimately be a third player like SAP which has historically dominated the Enterprise Application segment.

So why did a much larger company like Oracle (\$67 billion market cap) decide to take-over a much smaller company (Peoplesoft \$5.6 billion market cap) which was involved in a friendly merger with an even smaller player (JD Edwards \$1.7 billion market cap) in such a disruptive way?

The reality is that probably Oracle is trying to protect itself from potential attack by big players like Microsoft and IBM. Oracle’s core strength is in relational databases, an area attracting strong interest from companies able to leverage their offers on broader product platforms (IBM with hardware and Microsoft with Windows). On the other side of the Atlantic, SAP remains the dominant global vendor of Enterprise Applications Software (54% market share) well ahead of Oracle and Peoplesoft. Oracle’s move increasingly looks like a disruptive/defensive move, to pre-empt rivals gaining market share and to attack the weakest players during a period of deteriorating market conditions.

Moreover, it’s interesting to note that these deals are happening at a time when business software licences are still declining quickly (Peoplesoft -40%, Siebel -55% and SAP -12% yoy).

More than 75% of US listed technology companies now have a market capitalisation of less than \$250 million. If the large players feel the need to combine through mergers and acquisitions, this could signal the start of a broader consolidation process.

Communication equipment stocks were up 15% driven by a perception that capital expenditure in the telecom industry is approaching its trough.

A review of major European telecom operators in the first quarter 2003 shows that the aggregate industry capex-to-sales ratio was just 7.9%. Even considering the seasonality of the statistic (the bulk of capex is generally booked in December quarter), we have to go back to 1995 to find similarly depressed figures. To understand the gravity of the decline, consider that this same ratio was at 25% of peak in 2000.

Looking forward, the major telecom operators capex budgets for 2003 indicate a ratio of 12% and this would suggest an improving outlook.

Similar trends are emerging from the US telecom industry, where the capex-to-sales ratio was still a depressed 9-11% for major operators in the same period (lower densities over larger geographic areas is the reason for these ratios being higher in the US compared to Europe). In the US however, the Federal Government is trying to lend a helping hand by implementing a number of IT projects in relation to the “Homeland Security Act”; mostly upgrading the nationwide telecom/data networks. Our understanding is that major national suppliers are likely to be the key beneficiaries of this capex.

Another area of rare optimism is in DSL (Digital Subscriber Line) installations. All major European fixed-line telecom operators are keen to spend on high-speed internet equipment as a way to increase revenue per subscriber. In the US, incumbent phone companies are accelerating their DSL roll-outs, under pressure from cable companies offering competitive high speed data services through cable modems.

The two largest global mobile-phone manufacturers, Nokia and Motorola, warned in June that SARS-influenced sales troubles in China hurt second-quarter revenue growth. Both companies lowered sales estimates for the quarter, and Motorola lowered its profit outlook for the quarter and the year. The recent favourable developments in terms of SARS containment, and the gradual return of Chinese shoppers in the streets, suggest that demand is slowly recovering.

Perhaps the most interesting news we came across in this segment was the revelation that leading Chinese mobile phone manufacturer Bird has witnessed a surge in demand in recent months, with strong momentum in May. Bird is soon going to take the number one spot in China ... and they did not have to blame SARS! This confirms our view that Asia-based mobile phone manufacturers will be formidable competitors to more established European and American players.

In IT hardware, several key end markets like PCs have experienced recovery in demand, driven by new applications such as wi-fi (wireless fidelity or wireless internet through notebook computers) and upgrades of an ageing installed base.

While the two largest US IT distributors, Ingram Micro and TecData, issued cautious comments on the weak IT demand in the US, their sales in Europe and Asia are recovering. Estimated growth for worldwide PCs in 2003 is expected to be +4-6% and the lion’s share is likely to come from Asia (due to under-penetration). Moreover, the global installed base of

120 million portable computers will go through an upgrade cycle fuelled by the introduction of the new Centrino mobile chip from Intel (enabling your notebook to wirelessly connect to the internet and also enjoy longer battery life).

A review of monthly national statistics for computers and electronics in the US (see accompanying chart), suggests that IT capex may have reached the trough. New orders are slowly growing from their low of \$22 billion in September 2001 to a current \$27.4 billion. Similarly inventories are currently at \$39.7 billion, a level not seen since the early nineties and book-to-bill has stabilised above 1:1 after nearly two years of depressed levels.

The weakness of the US dollar is also helping hardware companies with a large presence in Europe and Asia (ie. IBM and Sun Microsystems have more than 30% of their sales in Europe).

Another potentially powerful key driver for PC demand is the greater adoption of Microsoft Windows XP in the commercial desktop market. Current Windows 98 or NT workstation users will gradually shift to XP as application development for Windows 98/NT declines. It is a common perception

that the advanced features of XP are better suited to more powerful and faster machines with large memory. Interestingly Microsoft has decided to gradually terminate support (telephone, bug fixes and patches, etc) for their older Windows and NT versions ... advantages of being in a dominant position!

In semi-conductors and semi-conductor equipment there are signs of stabilisation.

Demand for Wireless semi-conductors suffered from the above mentioned sluggish demand in Asia due to SARS, while demand for new applications like wi-fi and digital TV is growing strongly, although from a low base.

DRAM prices continued to remain under pressure, where average prices declined from \$4.50 to \$3.75 per 256Mb DRAM chip over the quarter. The DRAM market was reflective of the subdued environment in the traditionally weakest quarter of the year. However, since June DRAM makers negotiated price increases of as much as 5-10%. We can infer that the end market (PC) is no longer deteriorating, so much so that the PC and the DRAM makers stand to benefit from the "normal" seasonal demand.

Outlook

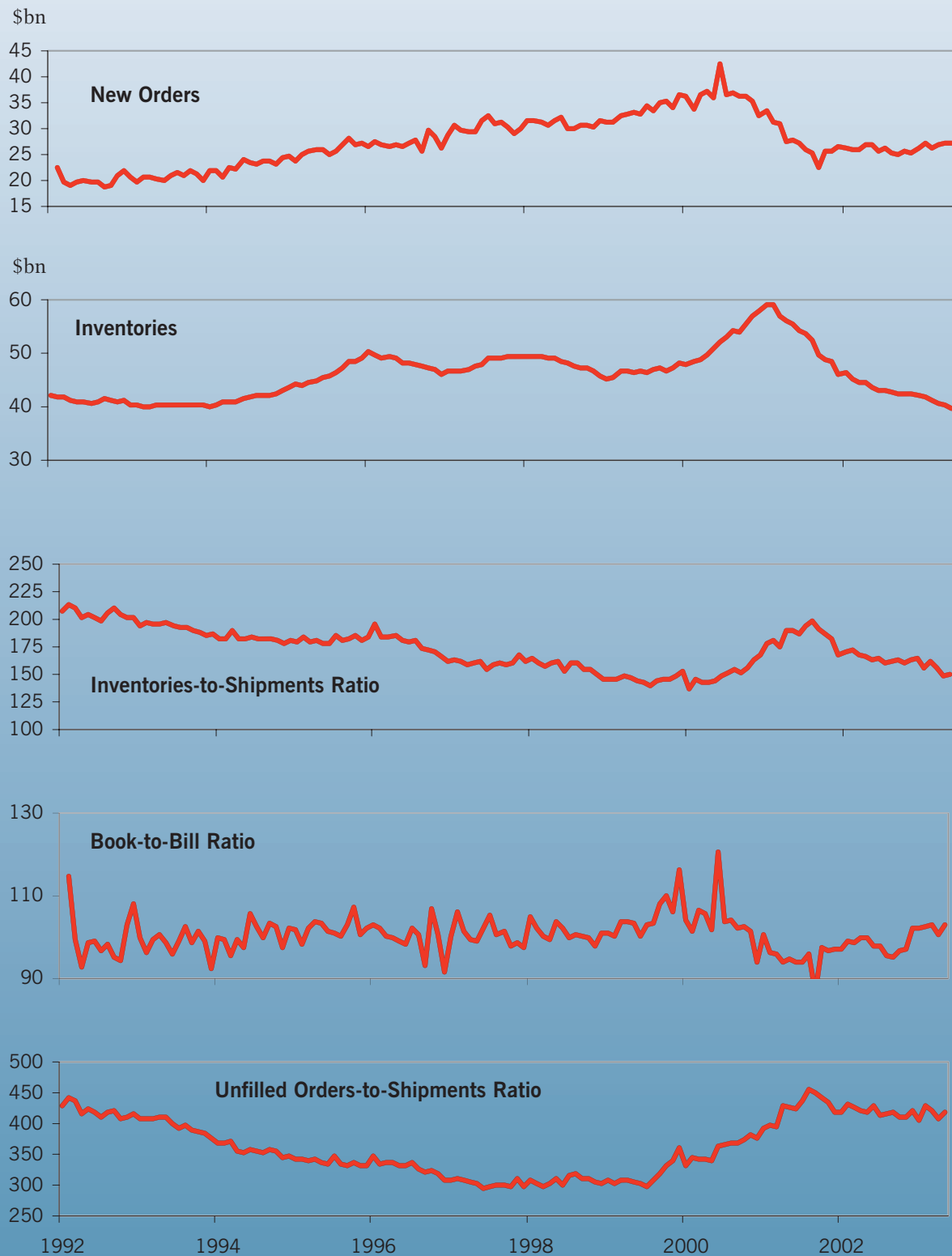
During the quarter the market has been strongly anticipating the recovery and has pushed stock prices upwards without much distinction or regard for valuation.

We see indications that some sectors of technology have reached a bottom in terms of the underlying

cycle and growth is slowly coming back. However, we believe that valuations in US stocks are relatively too high and have positioned the Fund more aggressively in Asia and in some selected European stocks, where we think there is more upside.

Alex Barbi
Portfolio Manager

COMPUTERS AND ELECTRONIC PRODUCTS STATISTICS



Source: Ned Davis Research

Notes

1. 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).
2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the Funds since inception and 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\$

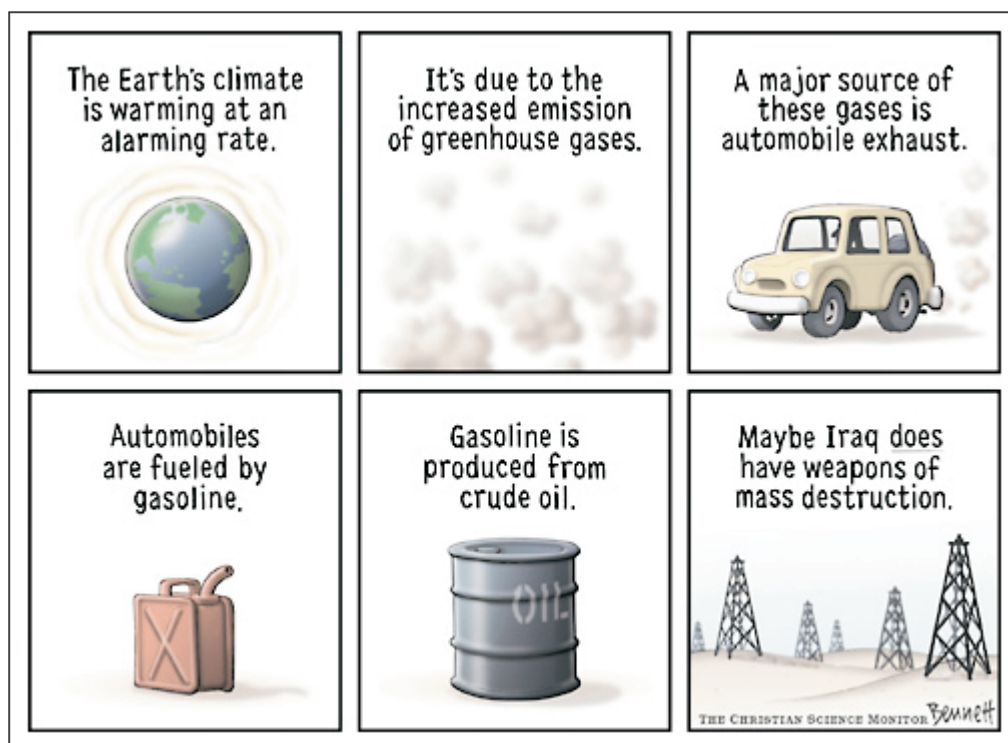
Platinum International Brands Fund:

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 return in the Funds 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 of the Index. The Index is provided as a reference only.



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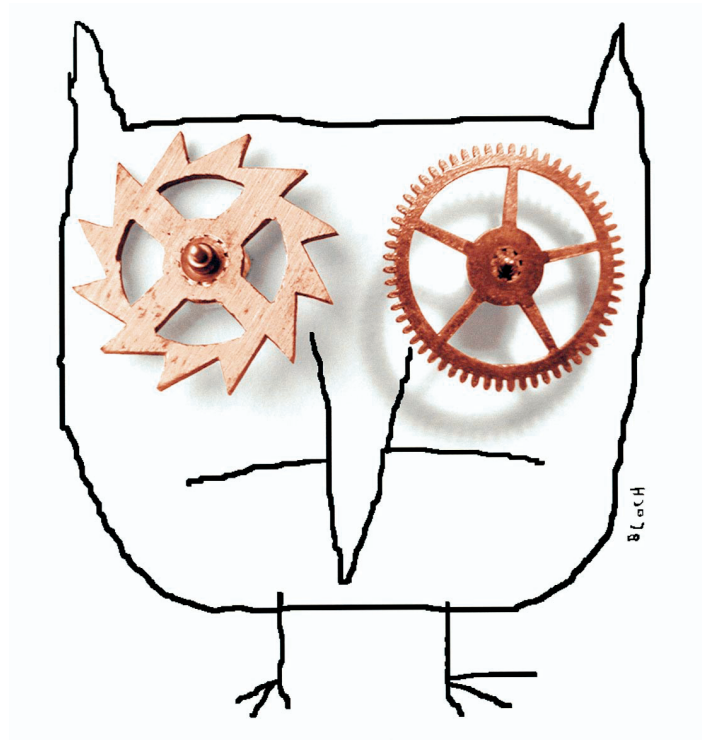
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