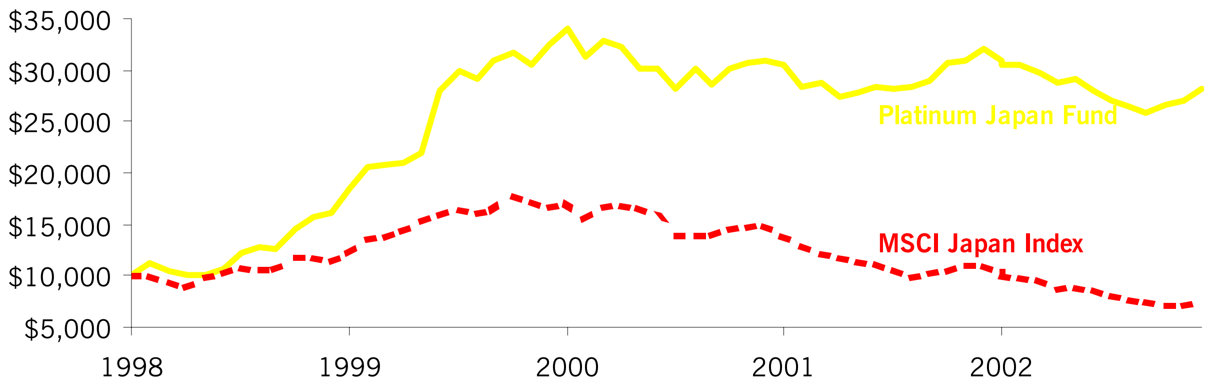
Platinum Japan Fund

Performance

REDEMPTION PRICE: CUM $1.6017 EX $1.4559

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 JULY 1998 – 30 JUNE 2003)



Source: Platinum and MSCI Refer to Note 2

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.

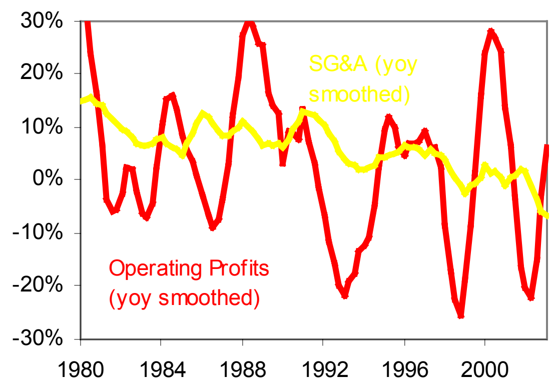
Currency

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

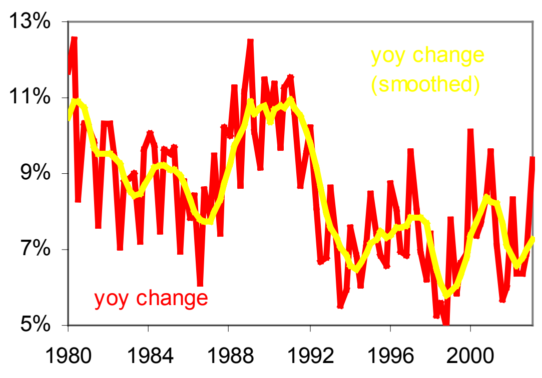
We have been pleased to see a very good recovery in corporate profitability in Japan in the past year despite a weak domestic economy. Indeed, as at March, operating profits for Japanese companies grew 12% yoy despite a fall in sales of 1.4% yoy, which is a truly remarkable performance. As you can see 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.

GROWTH IN CORPORATE PROFITS AND SG&A



Source: MOF Corporate Survey

OPERATING PROFITS AS A % OF NOMINAL GDP



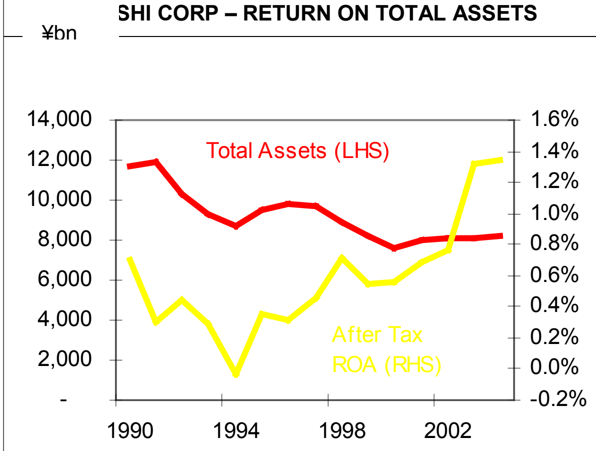
Source: MOF Corporate Survey

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 Liquified 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.

SHI CORP – RETURN ON TOTAL ASSETS



Source: Mitsubishi Corporation

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

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.