PLATINUM JAPAN FUND

Jim Simpson Portfolio Manager

PERFORMANCE

Global equity markets struggled to make headway this quarter curbed by the headwinds of slower economic growth and higher oil prices. The Japanese market was more adversely impacted by these forces given its position as a major net importer of energy and the MSCI Japan index fell by 11% in A$. The majority of this however was due to an exceptionally strong A$ which rose along with surging commodity prices. The Platinum Japan Fund kept its losses to only 4.1% due to its holdings of cash, a strong performance from our Korean stocks and our low weighting in stocks related to the Japanese reflation trade. The latter trade suffered from a global shift away from the view that inflation was an immediate prospect and was reflected in large declines in the financial and real estate sectors as well as small stock indices such as the Mother's index which fell by 38% over the quarter. The one year performance of the Fund remained robust at 15.3% compared with a rise of 3.8% in the MSCI.

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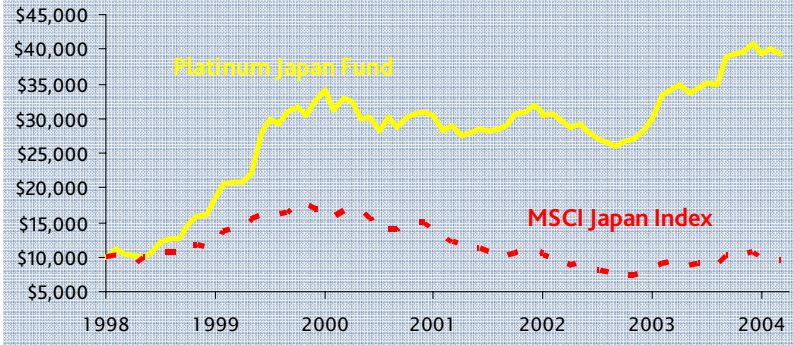
DISPOSITION OF ASSETS

REGION	SEP 2004	JUN 2004
JAPAN	69%	58%
KOREA	13%	10%
CASH	18%	32%
SHORT DERIVATIVES	0%	-5%
LONG DERIVATIVES	0%	5%
NET DERIVATIVES	0%	0%
NET INVESTED	82%	68%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION 1 JULY 1998 - 30 SEPTEMBER 2004



Source: Platinum and Factset. Refer to Note 2, page 6.

CHANGES TO THE PORTFOLIO

We took advantage of the decline in the Japanese market to add selectively to the Fund. A new purchase during the quarter was Mitsubishi Chemical which had been poorly treated by the market due to earnings disappointments in its pharmaceutical division. However the market is failing to appreciate the dramatic changes internally with regard to research and development processes that could deliver surprising results. Other names where we increased our position during the quarter included Sumitomo Corp, Aiful, Mitsui Sumitomo Insurance and Ushio. We removed our position in NEC as our investigations revealed little additional appetite for structural adjustment post the recent debt crisis. We also removed our positions in Suzuki Motor, Olympus and Nikko Cordial.

COMMENTARY

Fundamental Strength

To the casual observer it would be apparent that the success of Japanese industry in the past 50 years has been in manufacturing high quality, low priced consumer durables such as TVs and automobiles - think brand names such as Sony or Toyota. But what are the foundations of that success?

1) A long term view of investing in the three P's - process, product and people. This stands in sharp contrast to much of western industry that has drifted toward the short term in line with the financial incentives provided to senior management.

2) An "engineers" obsession with product quality control. Most companies still exhibit great pride in their history and product. They believe that without a great product the company will cease to exist.

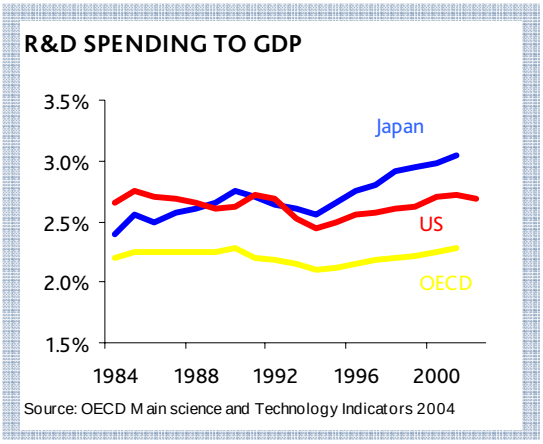
3) Innovation as the key to longevity. Japanese industry has intensely competitive foundations as it was borne out of the post-war industrial reorganisation as a sort of social plan. For instance Sony has the likes of Panasonic, Sanyo, Sharp et al barking at its heels.

4) The consensus style culture of the Japanese probably lends itself better to process driven industries such as manufacturing. The key seems to be the harmonisation of the corporate culture so that all are moving together as a unit.

This last point needs some refinement as it sounds a bit like a cliché. There have been many books written about Toyota and its famed Toyota Production System or TPS. But despite this, its lead over its Western competitors is as wide as ever. Why? Because observing and writing about a culture without imbibing the culture will always give you a different take. So whilst it may be obvious from these books that Toyota takes a world beating 20 man hours to produce a vehicle because it has fewer platforms or because its plants are organised into cells, that hardly tells you anything about the subtleties of the system. It might be just as important to point out that the culture is one where management start on the factory floor, where production workflow is standardised with feedback loops so that problems are immediately identified and where workers are given responsibility for designing improvements to their own workflow.

Some may be tempted to dismiss this analysis as cultural drivel and not particularly insightful because western manufacturing has been falling behind for some time. However, the truth is that increasingly the west will have to pay for the reimport of these goods. Furthermore, we get a very strong sense that the Japanese are about to take their "model" to another level. As the chart over demonstrates, the Japanese have been

outspending other major economies in research & development since the early 1990s and the gap is continuing to widen! We would expect to see the Japanese advantage start to extend deeper into its existing areas and also to widen into new areas primarily through the introduction of new technologies. The alternative energy solutions outlined below could be just one area. Is it possible that the Japanese recession of the nineties is the pause that merely sharpens the focus of their attack?



Alternative Energy

A common theme running through our company visits in Japan during September was the development of new technologies in the area of alternative energy. It should be no surprise that the Japanese are extremely active in this area on account of their dependence on imported energy (21% of their imports) and the "green" aspirations of the community - note the hosting of the Kyoto Protocol on global climate change. What is clear to us is that with increasing urgency and on many levels, the Japanese are applying their core manufacturing and science skills to the development of fuel replacement technologies. With oil prices likely to remain structurally high due to depleting supplies, these developments are likely to be very valuable. The two examples we highlight below are illustrative of the pipeline of new technologies.

Supercapacitors

One of the biggest barriers to the adoption of alternative energy technologies is the efficient storage of electrical energy. Existing rechargeable batteries are inadequate because the charging process is slow and inefficient and they degrade each time they are charged and discharged, requiring frequent replacement. However the development by Japanese researchers of supercapacitors, which represent a quantum leap over existing capacitor technologies, hold out the hope of a stunning revolution in energy storage.

The principle behind capacitors has been known for more than 100 years and today they are used in virtually all electrical devices as electrical filters. However, even the highest density capacitors (5Wh/kg) have never approached the 20Wh/kg of basic lead acid batteries … until now. The Japanese have improved on existing technologies in two ways. Firstly, they have developed advanced electronic circuitry that raises the efficiency of storage and discharge. Secondly, they have developed new nanoscale carbon materials for the electrodes which dramatically increase the effective charge that can be held by the capacitor. The result is a capacitor that despite being first generation is able to produce 75Wh/kg which is competitive with nickel metal hydride (60Wh/kg) and lithium ion (100Wh/kg) batteries. But the real beauty is that now that the capacity is competitive the other benefits of capacitors can show through. Because capacitors store the actual charge, as opposed to indirectly through a chemical reaction, they can be charged in seconds, used 100,000 times without any change in capacity (batteries are limited to about 500 cycles), and are also much safer than batteries.

The advent of the supercapacitor is likely to open up a swathe of possibilities in replacing as well as extending battery technology:

- When coupled with electric motors, supercapacitors will mean more braking energy can be recouped, making them even more fuel

efficient and virtually maintenance free. This could be applied in any moving machinery such as Hybrid cars, trains and elevators. It is possible that we could eventually move to full electrification of transportation vehicles.

- Portable devices such as mobile phones, digital cameras and laptop PCs could be fully recharged in less than a minute and because of the ability for capacitors to be trickle-charged, small solar cells could be used to charge them when the devices aren't being used.

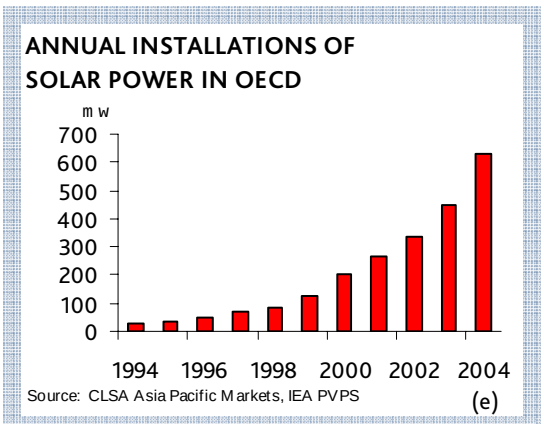
- Alternative generation technologies such as solar energy could benefit immensely due to the life cycle benefits of capacitors.

Solar Energy

Solar has been hyped as an alternative energy for many years but has failed to deliver because its cost remains more than double the household electricity tariff in most countries. Despite this, worldwide solar installations are growing rapidly as subsidy programs in many countries bring down the effective cost of installation. Germany is the most aggressive with solar-generating households paid 57euro/kWh for the power they generate which compares with 15euro/kWh in household electricity tariffs! Subsidies aside, dwindling oil supplies and a recognition that the real cost of energy (including environmental costs) will remain high into the future seem likely to drive further interest in solar despite the high upfront cost of installation.

What is not well appreciated by many is that the Japanese are at the forefront of solar power development through companies such as Sharp and Kyocera. This shouldn't be surprising because the current technology for solar power generation is based upon silicon, the same material from which most computer chips are made. Indeed Sharp is both a leading LCD producer as well as being the world leading solar power module producer. The Japanese are about to embark on a very aggressive expansion in the area of solar to compensate for the relative maturity of the markets for higher value added uses of silicon. This will have significant implications for the cost of solar energy. Indeed on our recent visit to Japan we were told of new techniques for making the solar silicon that will lower costs by 30%. In addition Sharp was talking about new generations of solar panels that will deliver between 28-38% light efficiency as opposed to the current standard of around 15%. Furthermore costs throughout the entire chain of production which have traditionally been high due to low volumes and non-standardisation will start to come under serious assault but much of this will be cured by rising volumes.

Where the solar story potentially gets much more interesting than a mere focus on production costs is in the diversification of the materials used and applications. Traditionally we think of roof-top installations but Sharp is working on flexible technologies that will allow solar panels to be placed anywhere including mobile phones, backpacks and car roofs etc. The supercapacitors we talked about above could be bundled with solar panels to allow for storage of electricity and help with peak loads. New materials such as nano plastics could displace silicon and result in much cheaper material costs while new production processes based on traditional printing press technology could materially reduce manufacturing costs.



Forecasts for solar energy demand display a wide variance depending on assumptions about subsidies, costs and prices of fossil fuels. However if we were to assume that 1% of global electricity supply were to be met from solar energy in the year 2020, then this would require 245gW of installed solar capacity. This translates to average installations of about 15gW per annum over that period, about 24x last year's annual supply of 0.6gW. As a rule of thumb used in the industry, a doubling of cumulative output translates into a 20% reduction in cost. On that basis by the year 2020 the cost of solar will be competitive with existing grid prices!

OUTLOOK

The constraints to global economic growth are now being felt and reflected in soaring commodity prices. This is only likely to worsen as China seems to have eased back on its pre-emptive tightening policies. In this environment the risks to Japan have risen given their dependency on manufactured exports, resource imports and with little sign of domestic growth gathering pace. Despite this the portfolio remains well balanced in strong, technically oriented growth companies and resource plays.

Jim Simpson
Portfolio Manager

NOTES

1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (*excluding the buy-sell spread and any investment performance fee paya*ble), are pre-tax and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

2. The investment returns depicted in the graphs are cumulative on A$10,000 invested in the relevant Fund since inception relative to their Index (in A$) as per below:

   Platinum International Fund:
   Inception 1 May 1995, MSCI All Country World Net Index

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

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

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

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

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

   Platinum International Technology Fund:
   Inception 18 May 2000, MSCI All Country World Information Technology Index
   (nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

   The investment returns are calculated using the Fund's unit price. They are net of fees and costs (*excluding the buy-sell spread and any investment performance fee payable*), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

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The Platinum Trust Product Disclosure Statement No. 5 (***PDS***), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's web site, www.platinum.com.au, or by contacting Investor Services on 1300 726 700 (*Australian investors only*), 02 9255 7500 or 0800 700 726 (*New Zealand investors only*) or via invest@platinum.com.au.

Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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