Chairman's Statement

The Japanese OTC market failed in 2000 to build on the spectacular gains it had posted in 1999. Although it rose for the first three months of the year, by the end of December the Nikkei OTC Average Index was down more than 45%. Having outperformed the benchmark index convincingly in 1999, the NAV of the Company fell 72.9% in 2000. However, the performance of the Company's NAV still remains well ahead of the benchmark index over two and three year time periods.

Several factors conspired to make 2000 a difficult year for OTC companies in Japan. In a trend similar to that in the US, disappointments in earnings at some technology services and internet companies led investors to question the high ratings placed on these stocks. Additionally, in the belief that the Japanese economy was recovering at a basic level, investors opted to sell some of 1999's best performing OTC growth stocks in order to buy equities in basic industries such as textiles, and iron and steel. These factors help to explain why the OTC market was Japan's worst performing market last year.

By year-end, however, many OTC issues had fallen to levels where they offered extremely good value. Compared with the US and other developed economies, diffusion rates in Japan are still low for certain industries such as satellite television, independent power provision and semiconductor foundry business. Some of the investments in the portfolio, such as Sky Perfect Communications, Eneserve and Nippon Foundry capitalise on what we think are the excellent medium and long-term growth prospects in such areas. In contrast, in industries such as internet service provision (Inter Q) and the supply of content for mobile telephones (MTI), weightings have been reduced to zero. The holding in Yahoo Japan has also been eliminated completely since the end of the year. It is our view that increased competition will cause growth rates to slow at these companies, and that current share prices do not adequately reflect this when looked at on a price-to-growth basis.

It is difficult to predict what the catalyst will be which jolts investors out of their preoccupation with NASDAQ and brings them back to focussing on earnings trends and valuations for individual OTC companies in Japan. This is one of the reasons why, for much of the second half of last year and at the current time, cash levels have been at a higher level than was the case historically. Recently however, we have started to find more companies where savage share price declines appear to suggest that investors have simply assumed that there will be no future growth. This was the catalyst behind recent purchases such as Goodwill (personnel supply) and TOW (advertising campaigns). Both trade on share price to earnings growth multiples well below one and, along with many other of the Company's holdings, are examples of stocks where the future earnings potential appear not to be discounted in current share prices.

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Chairman
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