

Report of the Directors

The Directors have pleasure in submitting the annual report and the audited financial statements for the year ended 31 December 2000.

Principal Activity

The principal activity of the Company is investing in those companies whose shares are traded on the Japan OTC market, extended to investing in those companies which are traded on the Mothers Market and the NASDAQ Japan market, as determined at the discretion of the Investment Adviser.

Results and Appropriations

The results of the Company for the year ended 31 December 2000 are set out in the Statement of Operations on page 17 of the annual report. The Board of Directors does not recommend the payment of a dividend for the year ended 31 December 2000 (1999: Nil).

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Company for the last five financial years is shown on page 29.

Reserves

Movements in the reserves of the Company during the year are shown in the Statement of Movements in Net Assets on page 19.

Share Capital

Details of the movements in share capital of the Company are shown in the Statement of Movements in Net Assets on page 19 and Note 9 to the financial statements on page 25.

Management Agreement

Following its incorporation in 1989, the Company entered into a management agreement with JF Japan OTC Management Limited (the "Manager") under which the Manager is to provide such services as detailed in the management agreement dated 11 January 1990 as amended and restated as of 11 March 1998.

For its services for 1998, the Manager was entitled to receive a fee of 1.3% per annum of the Company's total assets less current liabilities (being amounts due to creditors and short-term borrowings with an initial maturity of less than one year) ("TA-CL") up to JPY12 billion and 1% per annum of any excess of "TA-CL" over JPY12 billion. The management fee was calculated weekly and payable monthly in arrears.

As approved at the Board meeting on 17 March 1999, the management agreement was further amended with effect from 1 January 1999. The new fee structure is 1.3% per annum of "TA-CL" on the last business day of the relevant month, but if "TA-CL" exceeds 125% of the Net Asset Value, the rate applicable to such excess would be 1.3% per annum for invested assets eg. shares, warrants, and 0.25% per annum for uninvested assets eg. cash at banks, short-term deposits.

Report of the Directors *(continued)*

Directors

The Directors during the year or up to the date of this report were:

N T Sibley*
B C Grigsby II*
C C Grubb*
P A Litherland
S de L Walters

* *Independent Non-Executive Director and member of Audit Committee*

In accordance with Article 87(B) of the Articles of Association of the Company, all present Directors, including independent non-executive Directors, shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' Interests

As at 31 December 2000, the following interest of a current Director in the share capital of the Company and its associated corporations was disclosed in accordance with the Hong Kong Securities (Disclosure of Interests) Ordinance:

	<u>No. of shares of the Company</u>
N T Sibley	40,000

Save as disclosed in respect of the shares held by the above Director, none of the other Directors or their respective associated corporations had any interests in the equity or debt securities of the Company. None of the Directors, their spouses or children under the age of 18 had any rights to subscribe for equity or debt securities of the Company or had exercised any such rights.

At no time during the year was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Mr P A Litherland is a director of JF Asset Management Limited ("JFAML"). Mr S de L Walters was a director of JF Japan OTC Management Limited. These companies receive remuneration in respect of services provided to the Company.

No Director of the Company is a director or employee of a substantial shareholder which has an interest in 10% or more of the issued share capital of the Company.

Directors' Interests in Contracts

Except for those disclosed above, there were no contracts of significance of the Company subsisting during or at the end of the year in which a Director is, or was, materially interested, either directly or indirectly.

Directors' Service Contracts

No Director has a service contract with the Company. Directors are appointed annually in accordance with the Company's Articles of Association by the Company. The appointment of the Directors may be terminated by the Company without payment of compensation.

Directors' Responsibilities

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period and are in accordance with applicable laws. In preparing those financial statements the Directors are required to:

Report of the Directors *(continued)*

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state the reasons for any significant departure from applicable accounting standards; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business in the foreseeable future.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company, to enable them to ensure that the financial statements have been properly prepared in accordance with International Accounting Standards and comply with the disclosure requirements of the Hong Kong Companies Ordinance. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Remuneration

An Ordinary Resolution will be proposed at the forthcoming Annual General Meeting which, if passed, will authorise the payment of an annual director fee in 2001 to the Directors for their services to the Company. The amount will be determined by the Board but will not exceed US\$18,000 for each of the Directors and US\$23,000 for the Chairman. There is no change in the proposed Director's/Chairman's fees for 2001 to that of 2000. Please refer to Resolution No. 4 set out in the Notice of the forthcoming Annual General Meeting on pages 32 to 34.

In addition, attendance by members at each of the Audit Committee Meetings will entitle them to a US\$500 attendance fee. Please refer to Resolution No.5 set out in the Notice of the forthcoming Annual General Meeting on pages 32 to 34.

Substantial Shareholders

As at 31 December 2000, the register of interests required to be kept by the Company pursuant to Section 16(1) of the Hong Kong Securities (Disclosure of Interests) Ordinance recorded the following interest in 10% or more of the issued share capital of the Company which had been disclosed to the Company under the Hong Kong Securities (Disclosure of Interests) Ordinance:

Registered shareholder	No. of shares	% of total issued shares
Soges-Fiducem S.A.	21,455,392	99.9%

On 12 March 2001, the Company received notification regarding an interest over 10% of the issued share capital of the Company under the Hong Kong Securities (Disclosure of Interests) Ordinance as at 6 March 2001. Accordingly, the register of interests required to be kept by the Company pursuant to Section 16(1) of the Hong Kong Securities (Disclosure of Interests) Ordinance also recorded the following interest:

Beneficial shareholder	No. of shares	% of total issued shares
Scottish Value Management Limited*	4,664,000	21.7%

* The beneficial interest of Scottish Value Management Limited for 4,664,000 shares in the Company were registered in the name of Soges-Fiducem S.A.

Share Subdivision

At the Annual General Meeting held on 15 May 2000, the shareholders approved the subdivision of every issued and unissued share of US\$1.00 into four shares of US\$0.25 each with effect from 16 May 2000.

Report of the Directors *(continued)*

Share Repurchases

During the year, the Company repurchased shares, for cancellation, through the market makers. Details are as follows:

A. Shares with a par value of US\$1.00 each

Month	No. of shares repurchased	Lowest price paid per share	Highest price paid per share	Total Consideration (including commission)	
		US\$	US\$	US\$	JPY equivalent
March	95,000	29.50	32.69	2,897,083	306,355,027
April	107,000	20.75	20.75	2,224,690	240,433,333
May	50,000	20.75	20.75	1,039,575	113,786,639
Total	252,000			6,161,348	660,574,999

B. Shares with a par value of US\$0.25 each

Month	No. of shares repurchased	Lowest price paid per share	Highest price paid per share	Total Consideration (including commission)	
		US\$	US\$	US\$	JPY equivalent
November	293,800	2.96	2.96	869,648	93,743,830

An Extraordinary General Meeting was held on 16 February 2000 and the shareholders approved, inter alia, the renewal of the share repurchase authority of 10% of the issued share capital as at that day (569,300 shares of US\$1.00 each).

At the 2000 Annual General Meeting held on 15 May 2000, the shareholders authorised the Directors to repurchase 10% of the issued share capital as at that day (2,176,400 shares of US\$0.25 each) until the next Annual General Meeting/Extraordinary General Meeting revoking or varying such authority.

The Directors continue to believe that it is in the interests of the Company and its shareholders if the Company is able to buy its own shares when the discount to net asset value at which the shares are being traded is substantially out of line with the general level of discounts applicable to shares in broadly comparable investment companies. The Directors have delegated the exercise of share repurchase authority to JFAML and thence to Merrill Lynch, the Corporate Broker of the Company.

An Ordinary Resolution will be proposed at the forthcoming Annual General Meeting to re-confirm this approval and is set out as Resolution No. 7 in the Notice of the forthcoming Annual General Meeting on pages 32 to 34. Shareholders should refer to the circular entitled 'Authority for the Company to repurchase its own Shares and issuance of Shares' as accompanied for details.

No pre-emptive rights exist under the Cayman Islands law in relation to issues of new shares by the Company.

Report of the Directors *(continued)*

Code of Best Practice

During the year ended 31 December 2000, the Company was in compliance with the 'Code of Best Practice' as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Messrs N T Sibley, B C Grigsby II and C C Grubb. Two meetings were held in 2000.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment. PricewaterhouseCoopers replaced Price Waterhouse, the former Auditors of the Company, on 7 December 1998, following their merger with Coopers & Lybrand. There was no other change in Auditors in the preceding three years.

Amendments to the Investment Objective and Investment Restrictions

At the Extraordinary General Meeting held on 16 February 2000, the Shareholders approved amendments to the investment objective and investment restrictions so that the Company could invest in the Mothers Market, the NASDAQ Japan market and any similar markets for smaller Japanese companies, as determined at the discretion of the Investment Adviser.

Japan OTC Companies' Warrants

As from 1 January 1996, companies quoted on Japan's OTC market are permitted to issue warrants. The Company will purchase such warrants as part of its diversified portfolio if, and when, it is appropriate.

On behalf of the Board

Nicholas Sibley

Chairman

23 March 2001