



JF JAPAN OTC  
FUND INC.

## Notes to Financial Statements

### 1 Principal Accounting Policies

There has been no change in the principal accounting policies adopted in the preparation of the financial statements except for the following:

(a) Basis of preparation of financial statements

The financial statements have been prepared in accordance with and comply with International Accounting Standard ("IAS") No. 34 - Interim Financial Reporting. The financial statements are prepared under the historical cost convention as modified by the fair valuation of available-for-sales securities, financial assets and financial liabilities held for trading and all derivative contracts. In view of the geographical location of the Company's investments, the amounts shown in these financial statements are presented in Japanese Yen.

(b) Available-for-sale securities

At 1 January 2001 the Company adopted IAS 39 and classified its listed investments and investments with prices quoted in over the counter markets or by market makers as available-for-sale securities. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

All investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale assets are subsequently re-measured at fair value based on last traded price which the Board believes is more reflective of their fair values. When trading in the securities of an investee company is thin or suspended, the investment is valued at the Board's estimate of its net realisable value. Purchases and sales of available-for-sale securities are accounted for on the trade date basis. Realised and unrealised gains and losses on available-for-sale securities are initially recognised in the Statement of Operations and thereafter transferred to the Capital Reserve. In accordance with the Company's Placing Memorandum dated 11 January 1990, such gains are not distributable.

There were no material effect on the financial statements from the adoption of IAS 39.

Interest earned whilst holding investment securities is reported as interest income. Dividends are recognised when the Company's right to receive payment is established. Dividends received are included separately in dividend income.



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All purchases and sales of investments that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognised at trade date, which is the date on which the Company commits to purchase or sell the asset. In cases which are not within the time frame established by regulation or market convention, such transactions are recognised on settlement date. Any change in fair value of the asset to be received is recognised between the trade date and settlement date.

(c) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate swaps and other derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices. All derivatives are carried in assets when amounts are receivable by the Company and in liabilities when amounts are payable by the Company.

Changes in fair values of derivatives are included in the Statement of Operations.

(d) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(e) Translation of foreign currencies

Monetary assets and liabilities expressed in foreign currencies at the period end are translated into Japanese Yen at the following rates of exchange ruling at the balance sheet date:

HK\$1 = JPY15.9899  
US\$1 = JPY124.7200

Transactions in foreign currencies during the period are translated into Japanese Yen at the rate of exchange ruling at the transaction dates. Realised and unrealised gains and losses on translation of transactions and balances denominated in foreign currencies are initially recognised in the Statement of Operations and thereafter transferred to the Capital Reserve.



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## Notes to Financial Statements (continued)

(f) Related party

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. Parties related to the JPMorgan Chase group, of which the Company's Manager, Investment Manager and Investment Adviser are a member of, are considered to be related to the Company.

### 2 Taxation

No provision for Hong Kong profits tax has been made as the Company has no assessable income for the period (30 June 2000: Nil). The Company is not subject to taxation in the Cayman Islands.

Overseas withholding tax was charged on certain dividend income received during the period.

### 3 Management Fee

JF Japan OTC Management Limited, the Company's Manager, is entitled to receive a fee calculated at the rate 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") 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 e.g. shares, warrants, and 0.25% per annum for uninvested assets e.g. cash at banks and short-term deposits.

### 4 Directors' Fees

The aggregate amounts of fees payable to the Directors and the Chairman of the Company are as follows:

	30 June 2001 JPY	30 June 2000 JPY
As Directors and Chairman	5,508,074	3,748,656
As Audit Committee Members	173,939	102,703
	<b>5,682,013</b>	<b>3,851,359</b>

Directors' fees included JPY 3,672,185 (30 June 2000: JPY 2,413,518) payable to Independent Non-Executive Directors.

No Director waived emoluments in respect of the periods ended 30 June 2001 and 30 June 2000.



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The number of Directors whose emoluments fell within the following bands are as follows:

Directors' fees	No. of Directors	
	30 June 2001	30 June 2000
HK\$nil - HK\$1,000,000 (equivalent to JPY15,989,900)	5	5
Over HK\$1,000,000 (equivalent to JPY15,989,900)	—	—
	<b>5</b>	<b>5</b>

Pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the above disclosure of payment includes payment to the five highest paid individuals in the Company during the period.

### 5 Net Income/(Loss) Per Share

The calculation of net income per share is based on the net income for the period of JPY467,423,759 (30 June 2000: net loss of JPY12,175,509,808) and the weighted average of 21,441,011 shares in issue during the period (30 June 2000: 22,340,396).

### 6 Available-For-Sale Securities

	30 June 2001 JPY	31 December 2000 JPY
Listed/Quoted Available-For-Sale Securities, at market value	<b>7,581,611,860</b>	6,099,215,290
Cost of Available-For-Sale Securities	<b>8,029,380,508</b>	7,944,578,953

### 7 Long-Term Bank Loan

The Company entered into a long-term loan agreement in 1996. The balance loan of JPY1,000,000,000 was matured and fully repaid on 12 June 2001.

The interest rate swap agreement which was entered into on the same day in order to hedge the interest rate risks on the above long-term loan was terminated on 14 June 2001.



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## Notes to Financial Statements (continued)

### 8 Share Capital

	30 June 2001 US\$	31 December 2000 US\$
Authorised:		
48,000,000 shares of US\$0.25 each	12,000,000	12,000,000
	30 June 2001 JPY	31 December 2000 JPY
Issued and fully paid:		
21,411,400/21,470,200 shares of US\$0.25 each	662,067,680	663,885,851

During the period, the Company repurchased, for cancellation, 58,800 shares of nominal value US\$0.25 each (year ended 31 December 2000: 252,000 shares of nominal value US\$1.00 each and 293,800 shares of nominal value US\$0.25 each) which represented 0.27% of the issued share capital, through the market makers, at a total consideration of US\$135,069.60 (equivalent to JPY17,067,881) (year ended 31 December 2000: US\$7,030,996 and equivalent to JPY754,318,829).

Effective from 16 May 2000, there was a share subdivision of every share of US\$1.00 into four subdivided shares of US\$0.25 each. 5,441,000 shares of US\$1.00 each were divided into 21,764,000 shares of US\$0.25 each.

### 9 Share Premium \*

	2001 JPY	2000 JPY
Balance at 1 January	4,592,593,264	5,306,658,783
Repurchase of shares	(15,249,710)	(714,065,519)
Balance at 30 June/31 December	4,577,343,554	4,592,593,264

\* Distributable reserve under the Companies Law chapter 22 of the Cayman Islands, provided that the company is able to pay its debts as they fall due in the ordinary course of business.



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## Notes to Financial Statements (continued)

### 10 Net Asset Value per Share

The calculation of net asset value per share is based on the net assets of JPY7,382,740,195 (31 December 2000: JPY6,932,384,317) and the number of shares in issue being 21,411,400 at 30 June 2001 (31 December 2000: 21,470,200).

### 11 Related Party Transactions

In addition to the transactions disclosed in Note 3, the Company had entered into the following transactions with related parties. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

- (a) Brokerage commissions in relation to transactions dealt through related party were as follows:

	Brokerage commission paid JPY	% of the Company's total Commission paid in the period	Outstanding balance at period end JPY
<b>Period ended 30 June 2001</b>			
<b>Jardine Fleming Securities Limited</b>	<b>535,589</b>	<b>5.37</b>	<b>58,442</b>
<b>Period ended 30 June 2000</b>			
Jardine Fleming Securities Limited	1,764,528	7.72	-

- (b) The Company previously has stock lending arrangements with Jardine Fleming Securities Limited ("JFSL") and Robert Fleming & Co. Limited ("RF"), both are related parties to the Manager. Due to the cessation of the stock lending business of JFSL and RF, the stock lending agreements with JFSL and RF were terminated in August 2000 and December 2000, respectively.
- (c) The Company utilises the brokerage, agency and banking services of fellow subsidiaries in the JPMorgan Chase group. No interest income and expenses were incurred during the period (2000: JPY126,556 interest income received from JFSL; JPY4,977,400 and JPY596,857 interest expenses paid to JFSL and RF, respectively and no outstanding balance at period end (2000: deposit of JPY543,021,076 placed with JFSL).