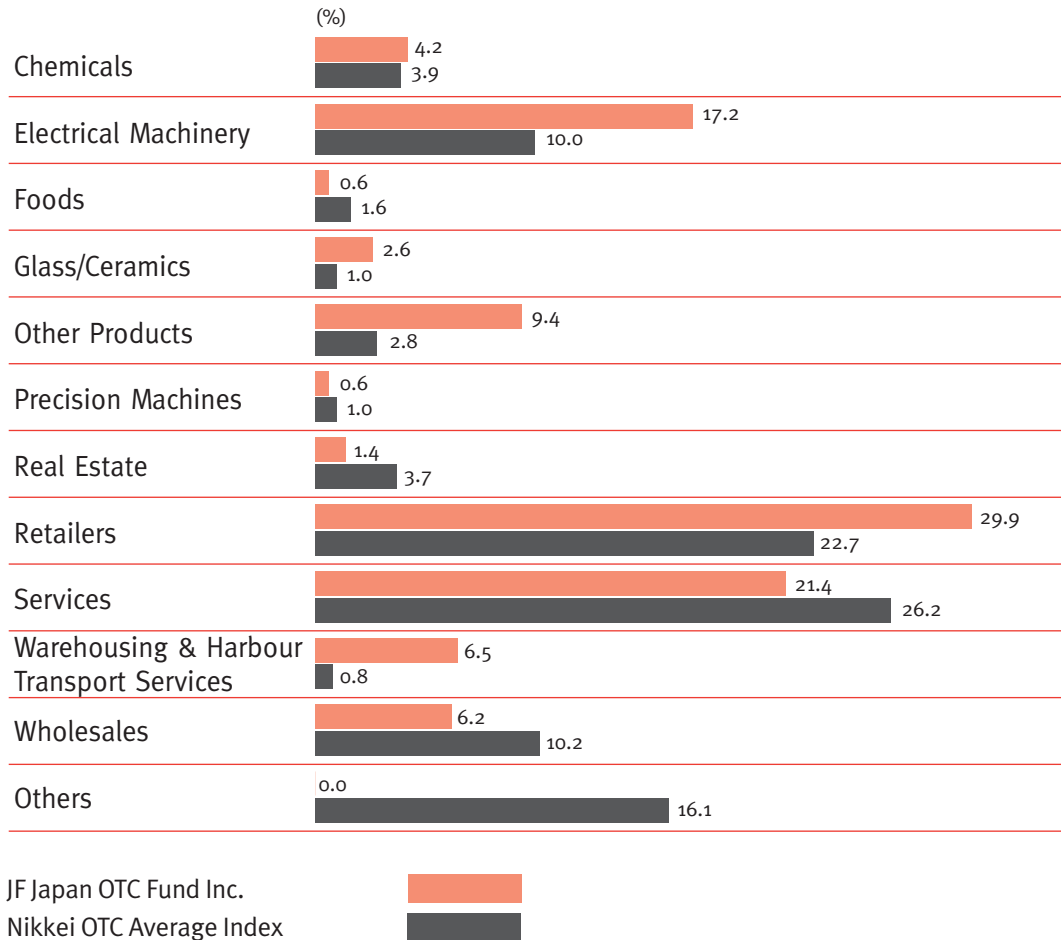




JF JAPAN OTC
FUND INC.

Portfolio Analysis

Weighting by Industry Sector: JF Japan OTC Fund Inc. vs Nikkei OTC Average Index as at 31 December 2001



- Notes: (i) The percentages shown above for the Company's exposure relate to the portfolio of investments which amount to 85.2% of the Company's net assets.
(ii) Since investment are made based on fundamental research, sector weightings vary from the Nikkei OTC Average Index.



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Portfolio Analysis

Otsuka Kagu (Stock Code 8186) (7.2%)

Otsuka Kagu is Japan's largest furniture retailer. With enormous showrooms Otsuka is rapidly taking market share from smaller rivals by offering consumers a wide array of furniture at reasonable prices. Although the extended recession in Japan is putting a pinch on furniture sales, Otsuka is well positioned to survive these difficult times and to sweep up the market share left behind by an increasing number of bankrupt competitors.

Plenus Co Ltd (Stock Code 9945) (6.8%)

Plenus is Japan's largest boxed-lunch restaurant. Leveraging their considerable buying power and logistical expertise, Plenus has managed to keep sales and margins on a growth track despite McDonald's deflationary onslaught. Flexibility in product offerings has allowed them to take advantage of the mad-cow disease scare by promoting other food items. The mundane nature of their business is most likely the rationale behind the market pricing this attractive growth company at such compelling valuations.

Citizen Electronics Co Ltd (Stock Code 6892) (6.6%)

Citizen Electronics is a very well managed company which stands out among technology components makers, having kept sales and profits stable during the recent technology downturn. The company supplies electronic components to its parent Citizen Watch but only relies on group affiliates for 30% of sales. The company's leadership in LCD screen backlight technology for next-generation mobile phones explains the buoyant product demand over the past difficult year.

Arrk Corp (Stock Code 7873) (5.9%)

Arrk is the largest prototype modeler in the world, growing rapidly with M&A activities throughout Europe, North America and Asia. Leveraging on its global network, Arrk has become the only prototype maker that can provide rapid turnaround in any market for top global players in various industries from automobiles to mobile phones.

Photonics Corp (Stock Code 7708) (5.6%)

Photonics is one of Japan's only true "nano" stocks. Photonics uses light wave technology to measure distances at the nano-level. As design rules for semiconductors become ever more precise, Photonics measurement devices are increasingly employed to achieve ultra-precise positioning for semiconductor production equipment. Other applications in bio-engineering and nano-manufacturing are being rapidly developed.

HIS Co Ltd (Stock Code 9603) (5.6%)

HIS was added to the portfolio on weakness after travel-related stocks declined in wake of the tragic attacks in the US. Performance has since shown steady improvement in the sector, especially with HIS since its business targets younger and less risk-averse travelers with discount tours. With growth returning to normal, valuations look very attractive on this contrarian play.



JF JAPAN OTC
FUND INC.

Portfolio Analysis (continued)

Eneserve Corp (Stock Code 6519) (4.6%)

Eneserve is Japan's largest seller of localized electricity generation equipment. The company is growing rapidly with sales to shopping malls, supermarkets and medium-sized factories who look to decrease power costs by avoiding peak usage rates from power company monopolies. Profit margins are expected to improve rapidly over the next several years as equipment life and rental contracts with end-users outlive leases sold to finance capital purchase.

TOW Co Ltd (Stock Code 4767) (4.4%)

TOW Co. is Japan's largest event planner. TOW plans and executes events and promotions for corporate customers such as the sponsors of World Cup in Japan. As the largest player in a very fragmented industry, the company has grown rapidly in recent years because all major advertising agencies have increased contracts to implement simultaneous, nationwide launches for products ranging from beer to mobile phones. Sales and profits are set to grow steadily as scale efficiencies drive smaller players out of the business.

Goodwill Group Inc (Stock Code 4723) (4.2%)

The Goodwill Group runs both Japan largest blue-collar temporary worker business as well as the nation's largest home-nursing service. Steady profits and sales growth in the temporary labour business had been subsidizing the relatively new home nursing care division until this business turned the corner on profitability in November last year. Service requests from Japan's aging population are growing rapidly. With high operational gearing, profit growth is accelerating.

Reins International Inc (Stock Code 2688) (3.7%)

Reins International is a rapidly expanding nationwide restaurant chain. Reins operates different restaurant formats, ranging from noodles to barbequed beef. Each format relies on the efficiencies of centralized procurement and control systems to deliver value for money for customers through a franchise chain in Japan's fragmented restaurant sector. Although the recent mad-cow scare in Japan has hurt demand for beef, quick action by management to advertise their use of Australian and US beef has kept sales growth on track in their core barbequed beef restaurants. Investor-friendly management and a profit-conscious business plan are delivering one of the highest ROE measures in Japan at 37.8%.



JF JAPAN OTC
FUND INC.

Portfolio Analysis (continued)

Further Information on the Ten Largest Investments

Stock	Cost JPY	Market value JPY	Proportion of share capital owned by the Company %	Net dividend received during the year JPY	Earnings/ (Deficit) per share for the year* JPY	Dividend per share for the year* JPY	Dividend cover*	Company's share of investee company's NAV JPY* million
Otsuka Kagu	925,393,383	444,080,000	0.45	969,600	276.5	15	18.4X	131.4
Plenus	334,177,470	419,400,000	0.28	1,510,400	206.1	40	5.2X	95.3
Citizen Electronics	338,068,230	406,560,000	0.38	740,800	274.7	20	13.7X	100.0
Arkk	285,751,639	362,700,000	0.68	320,000	123.4	12.5	9.9X	92.4
Photonics	264,979,491	342,350,000	2.21	164,800	72,803	2,000	36.4X	37.0
H I S	365,699,315	342,065,000	0.68	1,699,200	91.8	15	6.1X	195.7
Eneserve	175,709,718	279,650,000	0.30	900,000	151.5	15	10.1X	41.0
TOW	197,157,916	267,501,000	2.68	962,000	59.4	13	4.6X	48.4
Goodwill Group	359,040,067	256,080,000	0.52	636,200	(42,580)	1,000	n/a	62.6
Reins International	213,183,132	224,640,000	0.88	334,000	120,088	5,000	24.0X	23.6
Total at 31 December 2001	3,459,160,361	3,345,026,000		8,237,000				

Note: The above information is required by the rules governing the listing of securities on the Stock Exchange of Hong Kong.

* Source: Japan Company Handbook