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JAPAN OTC EQUITY FUND INC
Form N-30D
October 15, 2001

JAPAN OTC EQUITY FUND, INC.

September 28, 2001

To Our Shareholders:

We present the Semi-Annual Report of the Japan OTC Equity Fund, Inc. (the "Fund") for the six months ended August 31, 2001. The Net Asset Value per Share ("NAV") of the Fund decreased by 9.9% during the six months, reflecting the overall decline in the Japanese OTC market. The closing market price of the Fund on August 31, 2001, on the New York Stock Exchange was \$6.14 representing a discount of 10.2% to the NAV of \$6.84. The net assets of the Fund amounted to \$108,411,395 on August 31, 2001.

The TOPIX, consisting of all companies listed on the Tokyo Stock Exchange (the "TSE"), decreased by 12.2% and the Nikkei Average Index (a price-weighted index of 225 leading stocks on the TSE) declined by 17.8%, in U.S. dollar terms, during the six months ended August 31, 2001. The Nikkei OTC Average Index (the "OTC Index"), a price-weighted index of the quotations of the OTC registered stocks, and the Index of the Japan Securities Dealers Association Quotation System (the "JASDAQ Index"), a capitalization-weighted index of all OTC stocks, decreased by 15.9% and 22.5%, respectively, in U.S. dollar terms, during the same period. The Japanese yen (the "Yen") depreciated by 1.2% against the U.S. dollar during the six months.

The Fund outperformed the OTC Index and the JASDAQ Index by 6.0 percentage points and 12.6 percentage points, respectively, during the six months ended August 31, 2001.

regained upward momentum in the latter half of March, after the Bank of Japan ("BOJ") effectively returned to a zero interest rate policy with a form of quantitative easing with an implicit inflation target that will remain in place at least until the Consumer Price Index ("CPI") has stabilized.

For the quarter ended August 31, 2001, the NAV of the Fund decreased by 15.9%. During the same period, the TOPIX, the Nikkei Average Index, the OTC Index and the JASDAQ Index declined by 15.7%, 19.1%, 16.5% and 19.3% respectively, in U.S. dollar terms. Yen appreciated by 0.1 % during the same period. The Fund outperformed the OTC Index and the JASDAQ Index by 0.6 percentage points and 3.4 percentage points respectively.

The Portfolio

The Fund's equity exposure increased from 98.5% at February 28, 2001 to 99.4% on August 31, 2001. The Fund was diversified into 98 issues, of which 73 issues were OTC stocks, comprising 71.8% of the total portfolio on August 31, 2001.

Japanese Economy and Stock Market Outlook

The OTC Index declined by 14.8%, in local currency terms, during the six months ended August 31, 2001, amid disappointing corporate news from both the U.S. and Japan and the poor domestic economic trends in Japan.

In addition to signs of economic retrenchment, growing disillusionment with the policy inertia from the ruling Liberal Democratic Party ("LDP") compounded the depressed market sentiment until mid-March. However, the Japanese OTC stock market

to weigh heavily on the market throughout August. Although both the BOJ and the Federal Reserve Bank took further action to ease monetary policy, these policy measures appeared to have little impact on either the U.S. or the Japanese equity markets. The OTC Index declined below the 1,200 level in late August, for the first time since January.

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In late April and early May, the Japanese OTC stock market extended its recovery in anticipation of structural reforms based on the policies outlined by new Prime Minister Junichiro Koizumi and his cabinet. However, cautious sentiment returned due to the delay in clarifying the new government's intended policy measures. In mid-June, the cabinet released a draft policy document that included measures to expedite the disposal of banks' non-performing loans, the promotion of deregulation by stimulating competitiveness in the private sector, and measures to alleviate the impact of the structural reform program while stimulating economic activity. Nevertheless, the Japanese equity market seemed to be waiting to assess the full substance of the proposed reforms, given the likelihood that they would have a negative near-term impact on the Japanese economy.

In July, the BOJ's Tankan survey and the June Industrial Production figures highlighted the continuing deterioration in domestic fundamentals. In addition, a continuous stream of corporate profit warnings and the absence of further clarification of Japan's structural reform plans at the G8 Summit, also dampened sentiment in the market. Meanwhile, the LDP-led governing coalition party won Japan's Upper House election by a clear margin on July 29, 2001, but the result had relatively little impact on the market.

A constant stream of corporate profit warnings from technology companies and depressing domestic economic data continued

a bid to maintain the administration's credibility. However, this raises the possibility that bond issuance may exceed the pledged limit. The stock market's sensitivity to a new program of fiscal expansion has intensified the upward risk to long-term interest rates toward the year-end.

Under these conditions, the Yen to one U.S. dollar exchange rate is expected to remain in a narrow range close to the 120 Yen level for some time due to opposite and competing influences. The weak state of the Japanese economy and base money growth will tend to weigh upon the Yen, while mounting pressure by the Bush Administration to retreat from a strong dollar policy will put upward pressure on the Yen.

Given the deteriorating domestic economy

During the quarter ended June 30, 2001, Japan's real Gross Domestic Product ("GDP") decreased by 3.2% (annualized) from the previous quarter. Although private consumption increased slightly, housing investment, capital spending and exports declined sharply. Public works spending also declined as the effect of last autumn's economic stimulus package dissipated. Also, it is widely expected that Japan will register negative growth in the quarter ended September 30, 2001. Massive cutbacks in industrial production continue as the inventory adjustment intensifies, especially in the area of producer goods impacted by declining exports.

However, some economic indicators, such as the U. S. Index of Leading Economic Indicators, the coincident-to-lagging indicator ratio in Japan and the attainable ratio for machinery order forecasts, suggest that the Japanese economy may hit the bottom during the October-December period in terms of year-on-year ("y-o-y") changes in the Industrial Production index. However, because of the short-term deflationary pressure that may intensify as a result of Prime Minister Koizumi's structural reforms, any recovery after the economy bottoms out is likely to be very gradual.

It is imperative that the government counter the deflationary pressure while carrying out its pledge to limit the new government bond issuance to 30 trillion Yen. Therefore, the Koizumi government is expected to formulate some fiscal measures in

Although underlying business momentum in the electronics industry has been weaker than expected, it seems that much of the negative news is being gradually discounted in this sector. There are even signs that some technology stocks, especially among the electronic component makers, have started to bottom out, although the pace of recovery will depend on the strength of demand for final products, such as personal computers ("PCs") and cell phones. One indication of this trend is that some stocks now look relatively attractive considering that their current price to book ratios are decreasing to historically low levels, but offer growth potential over the medium term.

Although defensive stocks are likely to continue their out-performance for now, we believe the cycle has progressed to around

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and declining exports, Japan's macro-economic fundamentals will offer little support to the OTC stock market for the time being. However, the stock market's downside will be limited as inexpensive valuations and the BOJ's quantitative easing policy lend support.

The Japanese OTC stock market valuations are now at approximately 17 times forecasted earnings, which is close to the historical low recorded in 1998. There is still scope for a downward revision to corporate earnings for this fiscal year given the depressed economic conditions. However, the Japanese OTC stock market does offer attractive value over the longer term even after discounting expected earnings downgrades.

Until the electronics industry and the broader economy demonstrate signs of recovery, we expect defensive stocks, with inexpensive valuations and stable earnings, to outpace the market for now as they attract liquidity from leading companies with poor earnings momentum.

In closing, we share the concerns of our shareholders with the terrorist actions on September 11, 2001 and we extend our sympathy to the families of all of the victims. We will continue to monitor world development and to exercise caution in our management of the Fund.

80% of its peak, based on views that the worst point for the Japanese economy may over soon. Therefore, we will not significantly raise our exposure to this segment from current levels. Rather, we will cautiously seek opportunities to increase exposure to technology stocks and cyclical issues.

We appreciate your continuing support of your Fund.

Sincerely,

Kazuhiko Hama
President

SHAREHOLDERS ACCOUNT INFORMATION

Shareholders whose accounts are held in their own name may contact the Fund's transfer agent, State Street Bank and Trust Company at (800) 426-5523 for information concerning their accounts.

The Board of Directors and officers of the Japan OTC Equity Fund, Inc. take this opportunity to express their appreciation to Mr. Nobuo Katayama, who resigned his positions as Director, President and Portfolio Manager of the Fund effective June 15, 2001, in connection with his reassignment from President of Nomura Asset Management U.S.A. Inc., the Fund's manager ("Manager"), to new duties at Nomura Asset Management Co. Ltd. ("NAM "), the Fund's investment advisor and the parent company of the Manager. Mr. Katayama had served as President of the Manager and as Director, President and Portfolio Manager of the Fund since 1999.

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The Board of Directors has elected Mr. Kazuhiko Hama to serve as the President of the Fund and a member of its Board of Directors. Mr. Hama, who succeeded Mr. Katayama as President of the Manager, also became the Portfolio Manager of the Fund effective June 15, 2001. Mr. Hama was a director of NAM (formerly The Nomura Securities Investment Trust Management Co., Ltd.) from 1996 to 1998, Senior Officer of NAM from 1999 to 2000 and Management Executive of NAM from 2000 to the present.

NAM provides investment recommendations to the Manager regarding the Fund's portfolio. As Portfolio Manager for the Fund and President of the Manager, Mr. Hama is primarily responsible for the day-to-day portfolio management of the Fund.

JAPAN OTC EQUITY FUND, INC. FUND HIGHLIGHTS-AUGUST 31, 2001

(Unaudited)

KEY STATISTICS

| | |
|---|---------------|
| Net Assets..... | \$108,411,395 |
| Net Asset Value per Share..... | \$6.84 |
| Closing NYSE Market Price..... | \$6.14 |
| Percentage Change in Net Asset Value per Share*+..... | (9.9%) |
| Percentage Change in NYSE Market Price*+..... | (10.9%) |

MARKET INDICES

Percentage change in market indices:

| | Yen |
|-------------------------|---------|
| | ----- |
| TOPIX..... | (11.1%) |
| Nikkei Average..... | (16.8%) |
| JASDAQ..... | (21.5%) |
| Nikkei OTC Average..... | (14.8%) |

*From March 1, 2001 through August 31, 2001.

+Reflects the percentage change in share price.

ASSET ALLOCATION

| | |
|---|--|
| Japanese Equities | |
| OTC Stocks..... | |
| TSE First and Second Section Stocks..... | |
| Cash and Cash Equivalents..... | |
| | |
| Total Investments..... | |
| Liabilities in Excess of Other Assets, Net..... | |
| | |
| Net Assets..... | |

INDUSTRY DIVERSIFICATION

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| | % of Net Assets ----- | |
|------------------------------------|-----------------------------|------------------------------------|
| Retail..... | 17.4 | Electric..... |
| Chemicals and Pharmaceuticals..... | 10.2 | Machinery and Machine Tools..... |
| Information and Software..... | 10.0 | Textiles and Apparel..... |
| Services..... | 9.7 | Restaurants..... |
| Food Manufacturing..... | 8.8 | Automotive Equipment and Parts.... |
| Electronics..... | 8.7 | Real Estate and Warehouse..... |
| Miscellaneous Manufacturing..... | 8.1 | Telecommunications..... |
| Wholesale..... | 4.7 | Transportation..... |
| Banks and Finance..... | 4.3 | |

TEN LARGEST EQUITY HOLDINGS BY MARKET VALUE

| Security ----- | Market Value ----- |
|---|--------------------------|
| Sanyo Electric Credit Co., Ltd..... | \$3,091,590 |
| Cawachi Limited..... | 2,883,918 |
| Plenus Co., Ltd..... | 2,711,922 |
| Otsuka Kagu Co., Ltd..... | 2,645,892 |
| T & K Toka Co., Ltd..... | 2,514,339 |
| Nippon Foundry Inc..... | 2,511,054 |
| Yaizu Suisankagaku Industry Co., Ltd..... | 2,158,423 |
| USS Co., Ltd..... | 2,122,373 |
| Konami Computer Entertainment Tokyo. Inc..... | 2,038,893 |
| Uoriki Co., Ltd..... | 2,036,468 |

See notes to financial statements

JAPAN OTC EQUITY FUND, INC.
SCHEDULE OF INVESTMENTS
AUGUST 31, 2001

(Unaudited)

| Shares ----- | Cost ----- |
|-----------------|---------------|
|-----------------|---------------|

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EQUITY SECURITIES

| | | |
|--|---------|--------------|
| Automotive Equipment and Parts | | |
| Exedy Corp..... | 132,400 | \$ 1,495,677 |
| Automobile clutches | | |
| Nippon Cable Systems Inc..... | 115,000 | 1,054,173 |
| Control cables | | |
| SPK Corporation..... | 45,600 | 590,497 |
| Replacement parts | | ----- |
| Total Automotive Equipment and Parts..... | | 3,140,347 |
| | | ----- |
| Banks and Finance | | |
| Aiual Corporation..... | 17,050 | 1,440,881 |
| Consumer loans | | |
| Sanyo Electric Credit Co., Ltd..... | 106,400 | 3,582,788 |
| Finance | | ----- |
| Total Banks and Finance..... | | 5,023,669 |
| | | ----- |
| Chemicals and Pharmaceuticals | | |
| Arisawa Manufacturing Co., Ltd..... | 24,100 | 453,599 |
| Glassfibers and insulating resins | | |
| C. Uyemura & Co., Ltd..... | 99,000 | 2,078,276 |
| Chemicals | | |
| FP Corporation..... | 18,900 | 863,218 |
| Polystyrene and other synthetic resin foodware | | |
| Konishi Co., Ltd..... | 124,800 | 1,401,381 |
| Adhesives and construction sealants | | |
| Mandom Corporation..... | 101,000 | 1,417,366 |
| Cosmetic products | | |
| Matsumoto Yushi-Seiyaku Co., Ltd..... | 97,000 | 1,815,924 |
| Analgesic anti-inflammatory agents | | |
| Milton Co., Ltd..... | 46,700 | 1,082,866 |
| Hair-care products for beauty salons | | |
| T & K Toka Co., Ltd..... | 126,500 | 3,521,332 |
| Ink for printing | | |
| Ube-Nitto Kasei Co., Ltd..... | 65,000 | 189,586 |
| Resins | | ----- |
| Total Chemicals and Pharmaceuticals..... | | 12,823,548 |
| | | ----- |

See notes to financial statements

| | Shares | Cost |
|---|---------|-------------|
| | ----- | ---- |
| Electric | | |
| Citizen Electronics Co., Ltd..... | 32,200 | 1,468,819 |
| Electric parts | | |
| Eneserve Corporation..... | 37,000 | 1,396,458 |
| Electric generation system for supermarkets | | |
| Mirai Industry Co., Ltd..... | 116,000 | \$1,777,000 |
| Plastic molded electric materials | | ----- |
| Total Electric..... | | 4,642,277 |
| | | ----- |
| Electronics | | |
| Chiyoda Integre Co., Ltd..... | 126,600 | 1,836,629 |
| Electronic components | | |
| Cosel Co., Ltd..... | 59,000 | 1,698,071 |
| Electric machinery | | |

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| | | |
|--|--------|------------|
| Digital Electronics Corp..... | 39,400 | 1,019,149 |
| Electronic components | | |
| Fuji Electric Industry Co., Ltd..... | 93,000 | 993,449 |
| Electronic parts | | |
| Fukuda Denshi Co..... | 39,000 | 961,762 |
| Medical electronic equipment | | |
| Japan CBM Corp..... | 98,100 | 2,408,169 |
| Electronic calculators and watches | | |
| Kuroda Electric Co., Ltd..... | 94,400 | 2,124,568 |
| Trader | | |
| Miyota Co., Ltd..... | 63,000 | 995,776 |
| Watches, quartz oscillators and electronic image equipment | | |
| Nagano Keiki Co., Ltd..... | 49,900 | 1,006,321 |
| Measuring instruments | | |
| Nissho Electronics Corp..... | 43,000 | 1,430,395 |
| Electronics parts distributor | | |
| Roland Corporation..... | 46,000 | 910,132 |
| Electronic keyboard for musical instruments | | |
| Tamagawa Electronics Co., Ltd..... | 88,000 | 2,299,845 |
| Devices for wireless telecommunications | | |
| Total Electronics..... | | 17,684,266 |

See notes to financial statements

| | Shares | Cost |
|--|---------|------------|
| | ----- | ----- |
| Food Manufacturing | | |
| Ariake Japan Co., Ltd..... | 19,900 | 542,575 |
| Natural seasonings | | |
| Iwatsuka Confectionery Co., Ltd..... | 92,000 | 876,013 |
| Rice Crackers | | |
| Kakiyasu Honten Co., Ltd..... | 44,000 | 468,144 |
| Processed meat products, fresh meats, and side dishes | | |
| Origin Toshu Co., Ltd..... | 30,500 | 588,393 |
| Delicatessen items and lunch boxes | | |
| Ozeki Co., Ltd..... | 12,000 | 1,132,929 |
| Supermarket chains | | |
| Plenus Co., Ltd..... | 64,400 | 2,806,886 |
| Japanese lunch-boxes | | |
| Raise Co., Ltd..... | 114,000 | 1,606,660 |
| Supermarket chain | | |
| Yaizu Suisankagaku Industry Co., Ltd..... | 154,200 | 2,448,395 |
| Natural seasonings and dehydrated processed food materials | | |
| Total Food Manufacturing..... | | 10,469,995 |
| Information and Software | | |
| Argo Graphics Inc..... | 46,000 | 1,133,741 |
| Computer aided design software | | |
| CAC Corp..... | 51,500 | 2,250,195 |
| Information technology services | | |
| Fuji Soft ABC Inc..... | 18,800 | 928,703 |
| Computer systems development | | |
| Fujitsu Broad Solution & Consulting Inc..... | 44,500 | 1,794,921 |
| Business application Software. | | |
| Konami Computer Entertainment Tokyo, Inc..... | 144,100 | 1,891,244 |
| Video games software | | |
| Nippon Foundry Inc..... | 445 | 4,627,565 |

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| | | |
|-------------------------------------|--------|------------|
| Semiconductor memory chips | | |
| Trend Micro Inc..... | 27,000 | 2,058,341 |
| Computer software anti-virus server | | |
| Yahoo Japan Corp.+..... | 63 | 11,237,066 |
| Internet services | | ----- |
| Total Information and Software..... | | 25,921,776 |
| | | ----- |

See notes to financial statements

| | Shares | Cost |
|---|---------|------------|
| | ----- | ---- |
| Machinery and Machine Tools | | |
| Disco Corp..... | 15,500 | 1,151,460 |
| Dicing saws for semiconductors | | |
| Seikoh Giken Co., Ltd..... | 12,400 | 4,688,050 |
| Optical connectors and polishing machines | | |
| Suruga Seiki Co., Ltd..... | 20,000 | 540,974 |
| Industrial mechanical equipment | | |
| THK Co., Ltd..... | 78,700 | 3,419,652 |
| Linear motion systems for industrial machines | | |
| Yushin Precision Equipment Co., Ltd..... | 41,600 | 2,017,235 |
| Injection molding related machinery | | ----- |
| Total Machinery and Machine Tools..... | | 11,817,371 |
| | | ----- |
| Miscellaneous Manufacturing | | |
| Central Glass Co., Ltd..... | 336,000 | 1,759,202 |
| Glass products | | |
| Eidai Kako Co., Ltd..... | 144,000 | 1,085,863 |
| Synthetic resin processed products | | |
| Fuji Seal, Inc..... | 27,200 | 933,475 |
| Packing materials | | |
| Fujimi Inc..... | 51,900 | 1,761,108 |
| Polishing materials for silicone wafers | | |
| Hoden Seimitsu Kato Kenkyusho Co., Ltd..... | 62,000 | 1,015,687 |
| Aluminium extruding molds | | |
| Nichiha Corporation..... | 139,400 | 1,253,191 |
| Ceramic exterior walls and fiberboards | | |
| Nippon Kodoshi Corp..... | 167,000 | 2,688,750 |
| Paper and electric insulation | | |
| Tomy Co., Ltd..... | 83,100 | 2,721,673 |
| Toys | | ----- |
| Total Miscellaneous Manufacturing..... | | 13,218,949 |
| | | ----- |
| Real Estate and Warehouse | | |
| Nippon Kanzai Co., Ltd..... | 87,800 | 1,303,227 |
| Comprehensive building maintenance | | ----- |

See notes to financial statements

| | Shares | Cost |
|-----------------------------------|--------|-----------|
| | ----- | ---- |
| Restaurants | | |
| Saint Marc Co., Ltd..... | 54,800 | 1,558,380 |
| Restaurants and baker shop chains | | |

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| | | |
|-------------------------------------|---------|------------|
| Watami Food Service Co., Ltd..... | 33,900 | 1,007,695 |
| Restaurant chain | | ----- |
| Total Restaurants..... | | 2,566,075 |
| | | ----- |
| Retail | | |
| C&S Co., Ltd..... | 35,316 | 957,100 |
| Convenience store chain | | |
| Cawachi Limited..... | 54,700 | 3,052,774 |
| Drug store chain | | |
| Chiyoda Co., Ltd..... | 87,300 | 576,585 |
| Specialty store chains | | |
| Doutor Coffee Co..... | 8,600 | 689,051 |
| Coffee | | |
| Himaraya Co., Ltd..... | 200 | 2,504 |
| Sporting goods | | |
| Japan Care Service Corporation..... | 105,000 | 1,656,870 |
| Medical equipment and supplies | | |
| Kyoto Kimono Yuzen Co., Ltd..... | 348 | 1,894,264 |
| Japanese traditional kimonos | | |
| Otsuka Kagu, Ltd..... | 40,800 | 2,967,196 |
| Furniture | | |
| Ryohin Keikaku Co., Ltd..... | 21,400 | 1,337,957 |
| Clothes, sundry goods, and foods | | |
| Saizeriya Co., Ltd..... | 30,420 | 1,263,601 |
| Italian restaurant chain | | |
| Toys R Us-Japan, Ltd..... | 17,000 | 2,277,450 |
| Toy chain store | | |
| Uoriki Co., Ltd..... | 156,000 | 3,346,730 |
| Fresh fish and sushi stores | | |
| USS Co., Ltd..... | 60,000 | 1,428,556 |
| Automobile auction | | |
| Yamada Denki Co., Ltd..... | 25,000 | 2,083,372 |
| Consumer electronics | | ----- |
| Total Retail..... | | 25,534,010 |
| | | ----- |

See notes to financial statements

| | Shares | Cost |
|--|---------|-----------|
| | ----- | ----- |
| Services | | |
| Arrk Corporation..... | 20,000 | 484,072 |
| Product testing | | |
| Bellsystem 24, Inc..... | 3,100 | 1,015,540 |
| Telemarketing | | |
| Central Sports Co., Ltd..... | 66,100 | 768,084 |
| Health and fitness clubs | | |
| Future System Consulting Corporation..... | 138 | 1,541,190 |
| Information system and consulting services | | |
| Medical Support Co., Ltd..... | 157,000 | 3,331,323 |
| Nursing home caterer | | |
| N.I.C. Corporation..... | 67,000 | 1,182,474 |
| Human resources | | |
| Net One Systems Co., Ltd..... | 129 | 2,040,124 |
| Computer network systems for LAN, ATM | | |
| Okinawa Cellular Telephone Co..... | 175 | 447,015 |
| Cellular telephone service | | |
| Toei Animation Co., Ltd..... | 12,000 | 634,388 |

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| | | |
|---------------------------------------|---------|------------|
| Animated cartoon movies production | | |
| Tow Co., Ltd..... | 147,000 | 1,436,793 |
| Entertainment | | |
| Universal Homes Inc..... | 42 | 723,090 |
| Plan, design, market and build houses | | |
| Weathernews Inc..... | 83,000 | 1,120,731 |
| Custom weather forecasting services | | ----- |
| Total Services..... | | 14,724,824 |
| | | ----- |
| Telecommunications | | |
| Nippon Antenna Co., Ltd..... | 57,000 | 945,374 |
| Communication related equipment | | |
| Yozan Inc.+..... | 31 | 1,265,035 |
| Mobile telecommunication equipment | | ----- |
| Total Telecommunications..... | | 2,210,409 |
| | | ----- |

See notes to financial statements

| | Shares | Cost |
|---|---------------|-------------|
| | ----- | ----- |
| Textiles and Apparel | | |
| United Arrows Limited..... | 68,400 | 1,375,756 |
| Casual clothes | | |
| World Co., Ltd..... | 42,700 | 1,313,507 |
| Fashion apparel | | ----- |
| Total Textiles and Apparel..... | | 2,689,263 |
| | | ----- |
| Transportation | | |
| Yusen Air & Sea Service Co., Ltd..... | 36,800 | 684,213 |
| International air cargo transporter | | ----- |
| Wholesale | | |
| ArcLand Sakamoto Co., Ltd..... | 110,600 | 1,363,176 |
| Home appliances | | |
| C-Two-Network Co., Ltd..... | 14,700 | 846,079 |
| Processed foods | | |
| Hakuto Co., Ltd..... | 50,000 | 1,187,077 |
| Electric parts | | |
| Inaba Denkisangyo Co..... | 68,900 | 852,310 |
| Electrical equipment | | |
| Shinwa Co., Ltd..... | 73,810 | 769,423 |
| Industrial machinery | | |
| Topa, Inc..... | 67,000 | 1,015,391 |
| Trading company for control systems | | ----- |
| Total Wholesale..... | | 6,033,456 |
| | | ----- |
| TOTAL INVESTMENTS IN EQUITY SECURITIES..... | | 158,487,675 |
| | | ----- |
| INVESTMENTS IN FOREIGN CURRENCY | | |
| State Street Bank and Trust Company, 0.25% interest | | |
| bearing call account..... | JPY 7,815,195 | 65,470 |
| TOTAL INVESTMENTS IN FOREIGN CURRENCY..... | | 65,470 |

See notes to financial statements

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| | Shares ----- | Cost ----- |
|--|-----------------|---------------|
| INVESTMENTS IN SHORT-TERM SECURITIES | | |
| Euro-Dollar Time Deposit | | |
| State Street Bank and Trust Company, interest bearing call account 3.25% due 9/04/01..... | 741,446 | 741,446 |
| | | ----- |
| TOTAL INVESTMENTS IN SHORT-TERM SECURITIES..... | | 741,446 |
| | | ----- |
| TOTAL INVESTMENTS..... | | 159,294,591 |
| | | ----- |
| LIABILITIES IN EXCESS OF OTHER ASSETS, NET | | (101,502) |
| | | ----- |
| NET ASSETS..... | | \$159,193,089 |
| | | ===== |
| +Non-income producing security. | | |

Portfolio securities and foreign currency holdings were translated
at the following exchange rate as of August 31, 2001.

Japanese Yen JPY(Y) 118.735 = \$1.00

See notes to financial statements

JAPAN OTC EQUITY FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES
AUGUST 31, 2001

(Unaudited)

ASSETS:

| | |
|---|--|
| Investments in securities, at market value (cost-- \$158,487,675)..... | |
| Investments in short-term securities, at market value (cost-- \$741,446)..... | |
| Investments in foreign currency, at market value (cost-- \$65,470)..... | |
| Receivable for investments sold..... | |
| Receivable for dividends and interest, net of withholding taxes..... | |
| Prepaid expenses..... | |
| Total Assets..... | |

LIABILITIES:

| | |
|--|--|
| Payable for investments purchased..... | |
| Accrued management fee..... | |
| Other accrued expenses..... | |

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Total Liabilities.....

NET ASSETS:

| | |
|---|--|
| Capital stock (par value of 15,846,384 shares of capital stock outstanding, authorized 100,000,000, par value \$0.10 each..... | |
| Paid-in capital..... | |
| Accumulated net realized loss on investments and foreign currency transactions..... | |
| Unrealized net depreciation on investments and foreign exchange..... | |
| Accumulated net investment loss..... | |
| Net Assets..... | |
| Net asset value per share..... | |

See notes to financial statements

JAPAN OTC EQUITY FUND, INC.
STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED AUGUST 31, 2001

(Unaudited)

INCOME

| | | |
|--|----|---------|
| Dividend income (less \$88,336 withholding taxes)..... | \$ | 500,572 |
| Interest income..... | | 9,876 |
| | | ----- |
| Total Income..... | | |

EXPENSES:

| | | |
|--------------------------------------|--|---------|
| Management fee..... | | 611,254 |
| Custodian fee..... | | 112,424 |
| Legal fees..... | | 77,720 |
| Shareholder reports..... | | 32,632 |
| Registration fees..... | | 30,144 |
| Auditing and tax reporting fees..... | | 25,944 |
| Directors' fees and expenses..... | | 22,240 |
| Annual meeting expenses..... | | 14,592 |
| Transfer agency fees..... | | 10,120 |
| Miscellaneous..... | | 4,968 |
| Insurance..... | | 4,104 |
| | | ----- |
| Total Income..... | | |

INVESTMENT LOSS - NET.....

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:

Realized loss on investments and foreign currency transactions:

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Net realized loss On investments.....
 Net realized loss on foreign exchange.....
 Net realized loss on investments and foreign exchange.....
 Change in net unrealized appreciation on translation of foreign currency and other
 assets and liabilities denominated in foreign currency.....
 Change in net unrealized depreciation on investments.....
 Net realized and unrealized loss on investments and foreign exchange.....
 NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS.....

See notes to financial statements

JAPAN OTC EQUITY FUND, INC.

STATEMENT OF CHANGES IN NET ASSETS

| | For the Six Months Ended August 31, 2001 (Unaudited) |
|---|--|
| ----- | |
| FROM INVESTMENT ACTIVITIES: | |
| Net investment loss..... | \$ (435,694) |
| Net realized gain/(loss) on investments..... | (5,710,963) |
| Net realized gain/(loss) on foreign exchange..... | (3,831,017) |
| Change in net unrealized depreciation on investments and foreign exchange..... | (1,885,746) |
| | ----- |
| Decrease in net assets derived from investment activities..... | (11,863,420) |
| | ----- |
| FROM DISTRIBUTIONS TO SHAREHOLDERS: | |
| Long Term Capital Gains (\$0.82 per share)..... | 0 |
| Net Investment Income | 0 |
| | ----- |
| Decrease in net assets derived from distributions to shareholders. | 0 |
| Net decrease in net assets..... | (11,863,420) |
| | ----- |
| NET ASSETS: | |
| Beginning of period..... | 120,274,815 |
| | ----- |
| End of period (including accumulated net investment losses of \$498,600 and \$62,906, respectively)..... | \$ 108,411,395 |
| | ===== |

See notes to financial statements

JAPAN OTC EQUITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Significant Accounting Policies

Japan OTC Equity Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a non-diversified, closed-end management investment company. The Fund was incorporated in Maryland on January 25, 1990 and investment operations commenced on March 21, 1990. The Fund issued to its shareholders of record as of the close of business on October 25, 1999 non-transferable Rights to subscribe for up to an aggregate of 3,80,940 shares of Common Stock of the Fund at a rate of one share of Common Stock for three Rights held ("Primary Subscription"). The Fund had the ability to increase the number of shares subscribed for in this offering by up to 25% of the Primary Subscription, or an additional 951,235 shares, to honor record date shareholder requests to purchase more shares. During November 1999, the Fund issued a total of 4,458,565 shares of Common Stock on exercise of such Rights at the subscription price of \$11.99 per share, compared to a net asset value per share of \$16.20 and a market value per share of \$12.6875. Additionally, a sales load of 3.75% was charged to each share issued. Right offering costs of approximately \$546,000 and the sales load were charged directly against the proceeds of the Rights Offering. The following is a summary of significant accounting policies followed by the Fund.

(a) Valuation of Securities - Investments traded in the over-the-counter market are valued at the last reported sales price as of the close of business on the day the securities are being valued or, if none is

available, at the mean of the bid and offer price at the close of business on such day or, if none is available, the last reported sales price. Portfolio securities which are traded on stock exchanges are valued at the last sales price on the principal market on which securities are traded or lacking any sales, at the last available bid price. Short-term debt securities which mature in 60 days or less are valued at amortized cost if their original maturity at the date of purchase is 60 days or less, or by amortizing their value on the 61st day prior to maturity if their term to maturity at the date of purchase exceeded 60 days. Securities and other assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

(b) Foreign Currency Transactions - Transactions denominated in Japanese yen are recorded in the Fund's records at the current prevailing rate at the time of the transaction. Asset and liability accounts that are denominated in yen are adjusted to reflect the current exchange rate at the end of the period. Transaction gains or losses resulting from changes in the exchange rate during the reporting period or upon settlement of foreign currency transactions are included in operations for the current period.

The net assets of the Fund are presented at the exchange rate and market values at the end of the period. The Fund isolates that portion of the change in unrealized appreciation (depreciation) included in the statement of operations arising as a result

of changes in Japanese yen rates at August 31, 2001 on investments and other assets

liabilities. Net realized foreign exchange gains or losses includes gains or losses arising from sales of portfolio securities, sales and maturities of short-term securities, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid.

(c) Security Transactions, Investment Income and Distributions to Shareholders - Security transactions are accounted for on the trade date. Dividend income and distributions are recorded on the ex-dividend date and interest income is recorded on the accrual basis. Realized gains and losses on the sale of investments are calculated on the identified cost basis.

Distributions from net investment income and net realized gains are determined in accordance with Federal income tax regulations, which may differ from generally accepted accounting principles. To the extent these "book/tax" differences are permanent in nature (i.e., that they result from other than timing of recognition - "temporary"), such accounts are reclassified within the capital accounts based on their Federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net realized gains for financial reporting purposes, but not for tax purposes, are reported as distributions in excess of net realized gains.

(d) Income Taxes - A provision for United States income taxes has not been made since it is the intention of the Fund to qualify as a regulated investment company

Fund is invested. Further, the Fund may be exposed to currency devaluation and other exchange rate fluctuations.

2. Management Agreement and Transactions With Affiliated Persons

Nomura Asset Management U.S.A. Inc. acts as the Manager of the Fund pursuant to a

under the Internal Revenue Code and to distribute within the allowable time limit all taxable income to its shareholders.

Under Japanese tax laws, a withholding tax is imposed on dividends at a rate of 10% and on interest at a rate of 10% and such withholding taxes are reflected as a reduction of the related revenue. There is no withholding tax on realized gains.

(e) Capital Account Reclassification - For the year ended February 28, 2001, the Fund's accumulated net realized loss was decreased by \$144,577 and paid in capital was decreased by \$1,570,612, with an offsetting decrease in accumulated net investment loss of \$1,426,035. This adjustment was primarily the result of the reclassification of foreign currency gains and reclassification of the net operating loss.

(f) Use of Estimates in Financial Statement Preparation - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

(g) Concentration of Risk - A significant portion of the Fund's net assets consists of Japanese securities which involve certain considerations and risks not typically associated with investments in the United States. In addition to the smaller size, and greater volatility, there is often substantially less publicly available information about Japanese issuers than there is about U.S. issuers. Future economic and political developments in Japan could adversely affect the value of securities which the

accrued fees to the Manager of \$611,254 for the six months ended August 31, 2001. Under the Investment Advisory Agreement, the Manager informed the Fund that the Investment Adviser earned fees of \$275,832 for the six months ended August 31, 2001. At August 31, 2001, the fee payable to the Manager, by the Fund, was \$92,189.

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management agreement. Under the agreement, the Manager provides all office space, facilities and personnel necessary to perform its duties. Pursuant to such management agreement, the Manager has retained its parent company, Nomura Asset Management Co., Ltd. (the "Investment Adviser"), to act as investment adviser for the Fund.

As compensation for its services to the Fund, the Manager receives a monthly fee at the annual rate of 1.10% of the value of the Fund's average weekly net assets not in excess of \$50 million, 1.00% of the Fund's average weekly net assets in excess of \$50 million but not exceeding \$100 million, .90% of the Fund's average weekly net assets in excess of \$100 million but not in excess of \$175 million and .80% of the Fund's average weekly net assets in excess of \$175 million. For services Performed under the Investment Advisory Agreement, the Investment Adviser receives a monthly fee from the Manager at the annual rate of .50% of the Fund's average weekly net assets not in excess of \$50 million, .45% of the Fund's average weekly net assets in excess of \$50 million but not in excess of \$100 million, .40% of the Fund's average weekly net assets in excess of \$100 million but not in excess of \$175 million and .35% of the Fund's average weekly net assets in excess of \$175 million. Under the Management Agreement, the Fund paid or

accordance with U.S. Treasury regulations, the Fund elected to defer \$62,906 of net realized foreign currency losses and \$2,114,726 of net realized capital losses arising after October 31, 2000. Such losses

Certain officers and/or directors of the Fund are officers and/or directors of the Manager. The Nomura Securities Co., Ltd. (the Manager's indirect parent) and affiliates earned \$5,658 in commissions on the execution of portfolio security transactions for the six months ended August 31, 2001. The Fund pays each Director not affiliated with the Manager an annual fee of \$5,000 plus \$500 per meeting attended, together with such Director's actual expenses related to attendance at meetings. Such fees and expenses for unaffiliated Directors aggregated \$22,240 for the six months ended August 31, 2001.

3. Purchases and Sales of Investments

Purchases and sales of investments, exclusive of investments in foreign currencies and short-term securities, for the six months ended August 31, 2001 were \$26,525,316 and \$25,618,193, respectively.

As of, August 31, 2001, net unrealized depreciation on investments exclusive of investments in foreign currency and short-term securities for Federal income tax purposes was \$50,784,949 of which \$5,560,000 related to appreciated securities and \$56,345,919 related to depreciated securities. The aggregate cost of investments, exclusive of investments in foreign currencies and short-term securities of \$806,916, at August 31, 2001 for Federal income tax purposes was \$158,487,675. In

are treated for tax purposes as arising on March 1, 2001. The Fund utilized approximately \$12,436,000 of capital loss carryover.

JAPAN OTC EQUITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS--Continued

FINANCIAL HIGHLIGHTS

Selected per share data and ratios for a share of common stock outstanding throughout the period.

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| | For the Six Months ended August 31, 2001 (Unaudited) | February 28, 2001 | For the Year Ended February 29, 2000 | 1999 |
|---|---|----------------------|--|---------|
| Net asset value, beginning of year..... | \$7.59 | \$16.39 | \$5.86 | \$4.8 |
| Rights Offering costs*..... | - | - | (0.16) | |
| Net investment loss..... | (0.03) | (0.09) | (0.11) | (0.04) |
| Net realized and unrealized gain (loss) on investments and foreign currency..... | (0.72) | (7.89) | 11.99 | 1.0 |
| Total from investment operations.... | (0.75) | (7.98) | 11.88 | 1.0 |
| Distributions to shareholders from: | | | | |
| Net realized capital gains..... | - | (0.82) | - | |
| Net investment income..... | - | - | - | (0.01) |
| Total distributions..... | 0.00 | (0.82) | 0.00 | (0.01) |
| Decrease in net asset value due to shares issued through Rights Offering*..... | - | - | (1.19) | |
| Net asset value, end of period..... | \$6.84 | \$7.59 | \$16.39 | \$5.8 |
| Market value, end of period..... | \$6.14 | \$6.89 | \$11.000 | \$6.25 |
| Total investment return+..... | (10.9%) | (1.31%) | 76.0% | 8.8 |
| Net asset value total return++..... | (9.9%) | (49.1%) | 179.7% | (20.9%) |
| Ratio to average net assets/supplemental data: | | | | |
| Net assets, end of period: (in 000). | \$108,411 | \$120,275 | \$259,766 | \$66,74 |
| Operating expenses..... | 1.60%+ | 1.33% | 1.33% | 1.80 |
| Net investment loss..... | (0.74%)+ | (0.76%) | (0.88%) | (0.82%) |
| Portfolio turnover..... | 22% | 78% | 50% | 35 |
| + Based on market value per share, adjusted for reinvestment of income dividends and long distributions, and capital share transactions. Total return does not reflect sales comm | | | | |
| ++ Based on net asset value per share, adjusted for reinvestment of income dividends and l distributions, and capital share transactions. Total return does not reflect sales comm | | | | |
| * Decrease is due to Rights Offering (see note 1). | | | | |
| + Annualized. | | | | |

BOARD OF DIRECTORS
William G. Barker, Jr.
Kazuhiko Hama
Chor Weng Tan
Arthur R. Taylor
John F. Wallace

OFFICERS

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Kazuhiko Hama, President
Heisuke Haruguchi, Vice President
Kenneth L. Munt, Vice President
David G. Stoeffel, Vice President
John J. Boretti, Secretary and Treasurer
Rita Chopra, Assistant Treasurer

MANAGER

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JAPAN
OTC Equity
Fund, Inc.

INVESTMENT ADVISOR

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REGISTRAR

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INDEPENDENT ACCOUNTANTS

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SEMI-ANNUAL REPORT

JAPAN OTC EQUITY FUND, INC.
180 MAIDEN LANE
NEW YORK, NEW YORK 10038-4936

AUGUST 31, 2001

This Report, including the Financial Statements, is transmitted to the Shareholders of Japan OTC Equity Fund, Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in the Report.

The accompanying Financial Statements, including the Schedule of Investments, have not been examined by the Fund's independent accountants, PricewaterhouseCoopers LLP, and accordingly, they express no opinion thereon.

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