

Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

JAPAN EQUITY FUND INC  
Form N-30D  
June 27, 2001

THE JAPAN EQUITY FUND, INC.

-----  
GENERAL INFORMATION  
-----

THE FUND

The Japan Equity Fund, Inc. (the "Fund") is a diversified, closed-end management investment company. Prior to May 1, 2000, the Fund invested substantially all of its assets in equity securities of non-financial Japanese companies whose securities are traded on the First Section of the Tokyo Stock Exchange ("TSE"). Upon the shareholders' approval at the 2000 Annual Meeting of Stockholders, effective April 28, 2000, the Fund's investment objective has been changed.

The investment objective of the Fund is to outperform over the long term, on a total return basis (including appreciation and dividends), the Tokyo Stock Price Index (TOPIX), a composite market-capitalization weighted index of all common stocks listed on the First Section of the TSE. The Fund seeks to achieve its investment objective by investing substantially all of its assets in equity securities of companies listed on the First or Second Section of the TSE or listed on the over-the-counter market in Japan or listed on other stock exchanges in Japan. Daiwa SB Investments (U.S.A.) Ltd. is the Fund's Investment Manager. Daiwa SB Investments Ltd. is the Fund's Investment Adviser. Effective January 1, 2000, the Fund implemented an "active" portfolio management policy, which is an approach that involves quantitative valuation of securities to identify an appropriate universe of securities from which to select investments, with judgmental analysis then applied to this universe to determine the actual investments to be made by the Fund.

SHAREHOLDER INFORMATION

The Fund's shares are listed on the New York Stock Exchange ("NYSE"). The Fund understands that its shares may trade periodically on certain exchanges other than the NYSE, but the Fund has not listed its shares on those other exchanges and does not encourage trading on those exchanges.

The Fund's NYSE trading symbol is "JEQ". Weekly comparative net asset value (NAV) and market price information about the Fund is published each Monday in THE WALL STREET JOURNAL, each Sunday in THE NEW YORK TIMES, and each Saturday in BARRON'S, and also appears in many other newspapers. The Fund's weekly NAV is also available by visiting [www.daiwast.com](http://www.daiwast.com) or calling (800) 933-3440 or (201) 915-3020. Also, the Fund's website includes a monthly market review and a list of the Fund's top ten industries and holdings.

INQUIRIES

Inquiries concerning your share account should be directed to PFPC Inc. (the "Plan Agent") at the number noted below. All written inquiries should be directed to the Fund, c/o Daiwa Securities Trust Company, One Evertrust Plaza, 9th Floor, Jersey City, New Jersey 07302.

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

A Dividend Reinvestment and Cash Purchase Plan (the "Plan") is available to provide Shareholders with automatic reinvestment of dividends and capital gain distributions in additional Fund shares. The Plan also allows you to make

## Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

optional annual cash investments in Fund shares through the Plan Agent. A brochure fully describing the Plan's terms and conditions is available from the Plan Agent by calling (800) 331-1710 or by writing The Japan Equity Fund, Inc., c/o PFPC Inc. P.O. Box 8030, Boston, MA 02266-8030.

THE JAPAN EQUITY FUND, INC.  
-----

June 6, 2001

DEAR SHAREHOLDERS:

It is our pleasure on behalf of the Board of Directors to present the Semi-Annual Report for The Japan Equity Fund, Inc. (the "Fund") for the six months ended April 30, 2001.

### BACKGROUND

The objective of the Fund is to outperform over the long term, on a total return basis (including appreciation and dividends), the Tokyo Stock Price Index ("TOPIX"). Stock selection in Japan is facilitated by the use of a value screen applied to all stocks listed on the First and Second Sections of the Tokyo Stock Exchange ("TSE"), the over-the-counter market in Japan and listed on other stock exchanges in Japan. The way in which the Fund seeks to meet its objective is to identify under-valued stocks by examining certain fundamental characteristics of stocks which are listed on the exchanges listed above. These fundamental characteristics include, among others, the earnings-to-price ratio and the book-to-price ratio. This method of stock selection results in a master list of 300 stocks (from a universe of 3,300 stocks) from which stocks are selected for the Fund in accordance with predetermined sector and size parameters.

### PERFORMANCE OF THE JAPANESE STOCK MARKET

#### MARKET REVIEW -- NOVEMBER 2000 - APRIL 2001

#### SUMMARY

- During the period from November 1, 2000 to April 30, 2001, the TOPIX declined by 5.06% from 1379.96 to 1310.09 in Yen terms. The stock market bottomed out at 1161.97 on March 14th but it appears to have peaked at 1440.97 on May 7th for the time being.

#### NOVEMBER 2000

- Entering November, the external environment continued to hold many concerns: oil prices remained at their highest level since the Gulf War and stock prices in New York displayed volatility as the outcome of the U.S. presidential election remained in doubt. In Japan, the political scene was thrown into disarray when Koichi Kato, former chief secretary of the Liberal Democratic Party ("LDP"), signalled his intention to back a no-confidence motion against the Mori cabinet.

#### DECEMBER 2000

- The prices of Nippon Steel (5401), MHI (7011), Teijin (3401) and other domestic demand--oriented mid-cap stocks steadied in December, but information technology ("IT") and semiconductor stocks deteriorated through the end of the month. Business sentiment was battered when two ethnic South Korean credit cooperatives, Kansai Kogin (Japan's largest, with deposits of approximately Y1trn) and Tokyo Shogin (Japan's seventh largest), technically became insolvent on December 16th. The Nikkei Index fell below Y14,000 for the first time since January 1999 and TOPIX below Y1,300, its lowest level since March 1999. The announcement in early

## Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

December of Gross Domestic Product ("GDP") growth of 0.2% in the July--September quarter, the third consecutive quarter of positive growth, failed to lift spirits in the investment and corporate communities.

### JANUARY 2001

- In early January the Tokyo stock market fell to the lowest level in almost 20 months. Thereafter, the key indices were pushed upwards by the following factors: (1) talks of official support for the stock market (2) stable movements in the U.S. stock markets, especially the NASDAQ and (3) a number of corporate

2

### THE JAPAN EQUITY FUND, INC.

---

plans to buy back their own shares. However the degree of rebound was limited while the selling pressure from bank and corporate unwinding their cross-share holdings put a cap on the market. On January 18, the LDP's panel, chaired by Hideyuki Aizawa, the former chairman of the Financial Reconstruction Commission, started to discuss how to halt the slide in the stock market. They have considered several measures, including one giving companies more freedom to buy back and hold their own shares. This supported the stock market from the middle of the month on.

### FEBRUARY 2001

- At the beginning of the month, deterioration in business sentiment became clear in both Japan and the U.S., and the Tokyo markets declined in line with drops in the U.S. Stock Markets. On February 8th, the July -- September GDP was revised down substantially, from 1.0% growth to a 2.4% decline, for the first negative growth in three quarters. On the following day, February 9, the Bank of Japan ("BoJ") lowered the discount rate by 0.15 percentage points, to 0.35%, but this did not stop the markets from falling further. In the middle of the month, NTT DoCoMo carried out a capital increase of close to Y1trn through a public offering, which had an adverse effect on the demand/supply picture for stocks.

### MARCH 2001

- On March 2, the Nikkei Index, which peaked on December 29, 1989 at Y38,915.87 hit a new post-bubble low of Y12,879.97, breaking through the previous low set on October 9, 1998. Thereafter, however, the decline in stock prices came to a halt thanks to the BoJ's monetary easing and expectations of concrete economic stimulus and direct stock-boosting measures. On March 19, the BoJ decided to add quantitative easing to its array of measures, thus re-applying real zero interest rates. This, coupled with reports of agreement on the need to encourage the disposal of bad debt at the Japan-U.S. summit on March 20th, was welcomed by the markets and led to a strong Nikkei rebound of Y913 on March 21, the seventh highest on record.

### APRIL 2001

- In late April, the Tokyo stock market surged amid increasing investor expectations for changes, including pro-market structural reform, pledged by new Prime Minister Junichiro Koizumi. The U.S. stock markets' strong movement on the back of the U.S. Federal Reserve Bank's interest rate cut and foreign investors' return to the market also supported this rally,

## Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

which occurred after the market seesawed until the middle of the month as investor expectations for the government's economic package fluctuated and concerns over the domestic economy increased.

### OUTLOOK AND STRATEGY

We remain very positive on the long-term developments in Japan. Prime Minister Koizumi remains faithful to his reformist goals so far and he is clearly different from his predecessors in the LDP over the last 40 years. New ideas such as the reduction of the number of local authorities and privatization of Narita Airport have never been discussed before in Japan but are now suddenly thrown into mainstream discussions by inclusion on policy agendas. Koizumi's exciting speaking style, unassuming life style, and political leadership skills should continue to appeal to voters. We think it is highly possible that he will take advantage of his popularity to brush aside the opposition leaders and vested interests within LDP and carry out structural reform. The future could be very bright.

On the other hand, with negative GDP growth for the first quarter of 2001, concerns over the course of the macro economy for the rest of the year are gradually increasing. The deteriorating business climate should increase the likelihood of a decline in corporate profits, and foreign investor buying to adjust their extreme underweight position appears to have peaked for the time being.

3

### THE JAPAN EQUITY FUND, INC.

-----

Given the mixture of the long-term positives and short-term negatives, the market is likely to be stuck in a trading range during the traditionally quiet summer months. However, the downside risks should be limited given that interest rate-related valuations are at a historically low level.

In our view, the catalysts for the resumption of upward movement in the market will include concrete policy proposals for a final resolution to the non-performing loan problem and an acceleration of corporate restructuring, which we expect to be realized sometime in the second half of this year.

We continue to maintain a balanced portfolio strategy without favoring particular areas. The portfolio consists of (1) internationally competitive stocks (Fuji Film, Sony, and Honda), (2) cyclical value stocks (Oji Paper, Kuraray and Kubota), and (3) defensive stocks (Nippon Meat Packers, JT, and Kansai Electric Power).

If Prime Minister Koizumi is able to implement policies for structural reform, we believe that the market will begin to distinguish winners and losers more clearly across sectors. We believe the stocks held in the portfolio that are associated with quality should benefit from the expected market conditions in the second half of the year.

### FUND PERFORMANCE

As of April 30, 2001, the Fund's net assets were approximately \$76.7 million, which represents a net asset value of \$7.09 per share. The return on the Fund's net assets was -15.09% since the Fund's fiscal year-end on October 31, 2000. Over the same period, the Benchmark (TOPIX) return was -12.50%, as measured in U.S. Dollars.

The change in net asset value in U.S. Dollars depends on several factors such as: (1) the percentage change in the Benchmark during the period; (2) the

## Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

over- or under- performance of the Fund's portfolio, after expenses, relative to the Benchmark; and (3) the change in the Japanese Yen/U.S. Dollar exchange rate.

Our investment strategy is to invest in undervalued securities based on intensive bottom-up analysis supported by quantitative screening. In our research efforts, we placed a priority on evaluation of the top management, and its commitment to enhance shareholders' value through clear-cut strategies, including restructuring, that will be eventually reflected in share prices. We add value primarily through a bottom-up stock selection approach for the fundamental Japan equity product.

It is important to emphasize again that it has not been an objective of the Fund to predict changes in its Benchmark. Rather, its goal is to outperform the Benchmark, while staying fairly fully invested. Specifically, the goal is to hold no more than 5% in cash. On April 30, 2001, the proportion of the Fund's net assets invested in Japanese equities listed on the First Section of the TSE was 98.48%, while short-term investments and other net assets represented 1.52%.

The invested position of the Fund's assets consisted of common stocks of companies operating in 26 different industries. The Fund had relatively large weightings in Electric Appliances (17.35% of net assets), Communication (7.59%), Banks (7.49%), Transportation Equipment (6.93%), Chemicals (6.37%), and Services (5.90%).

During the six months ended April 30, 2001, the Fund's market price on the New York Stock Exchange ("NYSE") ranged from a low of \$5.51 per share on March 14, 2001 to a high of \$7.375 on November 7, 2000. The Fund's NYSE market price closed at \$6.72 per share on April 30, 2001.

The NYSE trading price in relation to the Fund's net asset value per share, as measured by the weekly closing prices during the six months ended April 30, 2001 ranged from a discount of 29.59% on December 21, 2000 to a discount of 4.82% on April 19, 2001, and ended the period at a discount of 5.22%.

4

THE JAPAN EQUITY FUND, INC.  
-----

The Fund has not invested, and presently does not intend to invest, in derivative securities. Although foreign currency hedging is permitted by the Fund's prospectus, the Fund has not engaged in any foreign currency hedging.

### PORTFOLIO MANAGEMENT

Mr. Koichi Ogawa, CFA, is the Executive Director and Chief Portfolio Manager of Daiwa SB Investments Ltd. for all North American clients. A senior member of the Investment Policy Committee (IPC), Mr. Ogawa possesses 27 years of investment experience and has been responsible for Japan stock selection since 1984. He spent nine years with Daiwa Securities as an institutional research analyst and three years in New York analyzing U.S. securities. He graduated from Tohoku University with a B.A. in Law in 1972.

Mr. Kazuhiko Hosaka, CMA, is a Senior Portfolio Manager, with a total of 13 years of experience in the Japanese equity market. He joined Daiwa in 1990 as a portfolio manager after spending two years as a securities analyst at Barclays Securities Group. He has been directly responsible for managing Japanese equity portfolios for several North American and European pension clients. He graduated from Aoyama Gakuin University with a B.A. in Law in 1988.

### SUBSEQUENT EVENT

## Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

Harry M. Markowitz retired as a Director of the Fund effective as of June 6, 2001.

We thank you for your support of The Japan Equity Fund, Inc. and your continued interest in the Japanese economy and marketplace.

Sincerely,

/s/ Hideaki Matsuura  
HIDEAKI MATSUURA  
CHAIRMAN OF THE BOARD

/s/ Shunsuke Ichijo  
SHUNSUKE ICHIJO  
PRESIDENT

5

THE JAPAN EQUITY FUND, INC.

-----  
PORTFOLIO OF INVESTMENTS  
APRIL 30, 2001 (UNAUDITED)  
-----

-----  
JAPANESE COMMON STOCKS--98.48%  
-----

SHARES	VALUE
BANKS--7.49%	
192 Mitsubishi Tokyo Financial Group Inc.....	\$ 1,958,074
300 Mizuho Holdings, Inc.....	1,847,835
285,000 The Sumitomo Trust & Banking Co., Ltd.....	1,935,370
	5,741,279
CHEMICALS--6.37%	
175,000 Asahi Kasei Corp.....	900,850
20,000 Denki Kagaku Kogyo Kabushiki Kaisha.....	73,978
32,000 Fuji Photo Film Co., Ltd.....	1,289,842
54,000 Kao Corp.....	1,372,400
31,000 Shin-Etsu Chemical Co., Ltd.....	1,244,516
	4,881,586
COMMUNICATION--7.59%	
398 NTT Corp.....	2,528,774
160 NTT DoCoMo, Inc.....	3,289,357
	5,818,131
CONSTRUCTION--0.97%	
86,000 Sekisui House, Ltd.....	739,927
ELECTRIC APPLIANCES--17.35%	
24,000 Canon Inc.....	942,129
12,200 Fanuc Ltd.....	682,331

Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

59,000	Fujitsu Ltd.....	811,817
120,000	Hitachi Ltd.....	1,163,577
4,500	Kyocera Corp.....	430,150
88,000	Matsushita Electric Industrial Co., Ltd.....	1,467,260
15,000	Minebea Co., Ltd.....	117,766
16,000	Murata Manufacturing Co., Ltd.....	1,345,528
55,000	NEC Corp.....	1,003,845
SHARES		VALUE
-----		-----
9,200	Rohm Co., Ltd.....	\$ 1,623,310
29,400	Sony Corp.....	2,198,754
230,000	Toshiba Corp.....	1,509,753
		-----
		13,296,220
		-----
ELECTRIC POWER & GAS--3.45%		
100,000	Kansai Electric Power Co., Inc.....	1,577,499
44,800	Tokyo Electric Power Co., Inc.....	1,069,688
		-----
		2,647,187
		-----
FISHERY, AGRICULTURE & FORESTRY--0.38%		
150,000	Nippon Suisan Kaisha, Ltd.....	292,594
		-----
FOODS--3.47%		
11,000	Coca-Cola West Japan Co., Ltd.....	237,272
70,000	House Foods Corp.....	805,099
150	Japan Tobacco Inc.....	1,001,619
55,000	Nippon Meat Packers, Inc.....	616,107
		-----
		2,660,097
		-----
GLASS & CERAMIC PRODUCTS--1.34%		
120,000	Asahi Glass Co., Ltd.....	1,029,543
		-----
INSURANCE--2.29%		
74,000	Tokyo Marine & Fire Insurance Co., Ltd.....	778,632
160,000	Yasuda Fire & Marine Insurance Co., Ltd.....	979,037
		-----
		1,757,669
		-----
LAND TRANSPORTATION--2.60%		
119	East Japan Railway Co.....	662,663
60,000	Nippon Express Co., Ltd.....	301,093

6

THE JAPAN EQUITY FUND, INC.

-----  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 APRIL 30, 2001 (UNAUDITED)  
 -----

## Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

### JAPANESE COMMON STOCKS (CONTINUED)

SHARES	VALUE
LAND TRANSPORTATION (CONCLUDED)	
48,000 Yamato Transport Co., Ltd.....	\$ 1,025,658
	1,989,414
MACHINERY--4.30%	
60,000 Amano Corp.....	485,148
130,000 Komatsu Ltd.....	736,544
212,000 Kubota Corp.....	772,157
11,000 SMC Corp.....	1,304,330
	3,298,179
MARINE TRANSPORTATION--0.84%	
238,000 Mitsui O.S.K. Lines, Ltd.....	643,399
METAL PRODUCTS--0.52%	
25,000 Tostem Corp.....	396,398
NON-FERROUS METALS--2.60%	
150,000 Mitsui Mining & Smelting Co., Ltd.....	880,210
90,000 Sumitomo Electric Industries, Ltd.....	1,113,072
	1,993,282
OTHER FINANCING BUSINESS--1.77%	
21,000 Hitachi Capital Corp.....	482,720
10,000 Orix Corp.....	873,331
	1,356,051
OTHER PRODUCTS--3.31%	
118,000 Dai Nippon Printing Co., Ltd.....	1,603,577
5,800 Nintendo Co., Ltd.....	934,197
	2,537,774
PHARMACEUTICAL--3.75%	
30,000 Chugai Pharmaceutical Co., Ltd.....	445,569
SHARES	VALUE
10,000 Taisho Pharmaceutical Co. Ltd.....	\$ 196,681



Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

32,000	Takeda Chemical Industries, Ltd.....	1,543,667
25,000	Yamanouchi Pharmaceutical Co., Ltd.....	692,028
		-----
		2,877,945
		-----
PULP & PAPER--1.72%		
270,000	Oji Paper Co., Ltd.....	1,322,137
		-----
REAL ESTATE--1.05%		
81,000	Mitsui Fudosan Co., Ltd.....	803,116
		-----
RETAIL TRADE--4.97%		
26,000	Ito-Yokado Co., Ltd.....	1,449,939
30,000	Marui Co., Ltd.....	405,261
8,800	Paris Miki Inc.....	284,905
3,200	Saizeriya Co., Ltd.....	139,603
23,000	Seven-Eleven Japan Co., Ltd.....	1,118,818
5,000	Yamada Denki Co., Ltd.....	410,360
		-----
		3,808,886
		-----
SECURITIES--4.64%		
170,000	Nikko Securities Co., Ltd.....	1,444,759
100,000	Nomura Securities Co., Ltd.....	2,112,505
		-----
		3,557,264
		-----
SERVICES--5.90%		
4,560	Nippon Television Network Corp.....	1,468,944
19,000	Secom Co., Ltd.....	1,153,379
39,000	TIS Inc.....	1,385,755
23,000	Tokyo Broadcasting System, Inc.....	515,662
		-----
		4,523,740
		-----

7

THE JAPAN EQUITY FUND, INC.

-----

PORTFOLIO OF INVESTMENTS (CONCLUDED)

APRIL 30, 2001 (UNAUDITED)

-----

JAPANESE COMMON STOCKS (CONCLUDED)

-----

TEXTILE & APPAREL--1.54%

SHARES		VALUE
-----		-----
163,000	Kuraray Co., Ltd.....	\$ 1,176,819
		-----
TRANSPORTATION EQUIPMENT--6.93%		
30,000	Denso Corp.....	588,830
43,000	Honda Motor Co., Ltd.....	1,729,745

Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

90,000 Toyota Motor Corp.....	2,993,930
	-----
	5,312,505
	-----
WHOLESALE TRADE--1.34%	
180,000 Mitsui & Co., Ltd.....	1,028,571
	-----
Total Common Stocks	
(Cost--\$82,053,262).....	75,489,713
	-----
-----	
SHORT-TERM INVESTMENTS--0.23%	
-----	
PRINCIPAL	
AMOUNT	
(000)	VALUE
-----	-----
U.S. DOLLAR TIME DEPOSIT--0.23%	
\$177 Bank of New York Time Deposit,	
2.10%, due 5/1/01	
(Cost--\$176,765).....	\$ 176,765
	-----
Total Investments--98.71%	
(Cost--\$82,230,027).....	75,666,478
Other assets less liabilities--1.29%.....	992,042
	-----
NET ASSETS (Applicable to 10,815,688 shares of	
capital stock outstanding; equivalent to	
\$7.09 per share)--100.00%.....	\$ 76,658,520
	=====

See accompanying notes to financial statements.

8

THE JAPAN EQUITY FUND, INC.

-----

TEN LARGEST COMMON STOCK  
CLASSIFICATIONS HELD  
APRIL 30, 2001 (UNAUDITED)

-----

INDUSTRY	PERCENT OF NET ASSETS
-----	-----
Electric Appliances.....	17.35%
Communication.....	7.59
Banks.....	7.49
Transportation Equipment.....	6.93
Chemicals.....	6.37
Services.....	5.90
Retail Trade.....	4.97

Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

Securities.....	4.64
Machinery.....	4.30
Pharmaceutical.....	3.75

TEN LARGEST COMMON STOCK  
POSITIONS HELD  
APRIL 30, 2001 (UNAUDITED)

ISSUE	PERCENT OF NET ASSETS
NTT DoCoMo, Inc.....	4.29%
Toyota Motor Corp.....	3.91
NTT Corp.....	3.30
Sony Corp.....	2.87
Nomura Securities Co., Ltd.....	2.76
Mitsubishi Tokyo Financial Group Inc.....	2.55
The Sumitomo Trust & Banking Co., Ltd.....	2.52
Mizuho Holdings, Inc.....	2.41
Honda Motor Co., Ltd.....	2.26
Rohm Co., Ltd.....	2.12

9

THE JAPAN EQUITY FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES  
APRIL 30, 2001 (UNAUDITED)

ASSETS

Investment in securities, at value (cost--\$82,230,027).....	\$ 75,666,478
Cash denominated in foreign currency (cost--\$2,139,022).....	2,114,953
Receivable for securities sold.....	4,251,011
Interest and dividends receivable.....	237,243
Prepaid expenses.....	25,958
Total assets.....	82,295,643

LIABILITIES

Payable for securities purchased.....	5,490,837
Accrued expenses and other liabilities.....	146,286
Total liabilities.....	5,637,123

NET ASSETS

Capital stock, \$0.01 par value per share; total 30,000,000 shares authorized; 10,815,688 shares issued and outstanding.....	108,157
---	---------

Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

Paid-in capital in excess of par value.....	108,486,746
Accumulated net investment loss.....	(154,963)
Accumulated net realized loss on investments.....	(25,201,807)
Net unrealized depreciation on investments and other assets and liabilities denominated in foreign currency.....	(6,579,613)
	-----
Net assets applicable to shares outstanding.....	\$ 76,658,520
	=====
NET ASSET VALUE PER SHARE.....	\$ 7.09
	=====

See accompanying notes to financial statements.

10

THE JAPAN EQUITY FUND, INC.

STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED APRIL 30, 2001 (UNAUDITED)

INVESTMENT INCOME:

Dividends (net of withholding taxes of \$45,145).....	\$ 255,822
Interest.....	3,259
	-----
Total investment income.....	259,081
	-----

EXPENSES:

Investment management fee.....	147,462
Administration fee.....	73,405
Custodian fees and expenses.....	38,452
Audit and tax services.....	30,992
Reports and notices to shareholders.....	29,753
Directors' fees and expenses.....	25,254
Legal fees and expenses.....	24,753
Insurance expense.....	8,577
Transfer agency fee and expenses.....	7,935
Other.....	27,461
	-----
Total expenses.....	414,044
	-----

NET INVESTMENT LOSS..... (154,963)

REALIZED AND UNREALIZED GAINS FROM INVESTMENT  
ACTIVITIES AND FOREIGN CURRENCY

TRANSACTIONS:

Net realized losses on investments.....	(1,721,586)
Net realized foreign currency transaction losses.....	(305,741)
Net change in unrealized appreciation (depreciation) on investments in equity securities.....	(11,457,544)
Net change in unrealized appreciation (depreciation) on and other assets and liabilities denominated in foreign	

Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

currency.....	12,038
	-----
Net realized and unrealized losses from investment activities and foreign currency transactions.....	(13,472,833)
	-----
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS.....	\$ (13,627,796)
	=====

See accompanying notes to financial statements.

11

THE JAPAN EQUITY FUND, INC.

-----  
STATEMENT OF CHANGES IN NET ASSETS  
-----

	FOR THE SIX MONTHS ENDED APRIL 30, 2001 (UNAUDITED)	FOR THE YEAR ENDED OCTOBER 31, 2000
	-----	-----
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS:		
Net investment loss.....	\$ (154,963)	\$ (499,416)
Net realized gain (loss) on:		
Investments.....	(1,721,586)	5,683,608
Foreign currency transactions.....	(305,741)	(33,032)
Net change in unrealized appreciation (depreciation) on:		
Investments in equity securities.....	(11,457,544)	(16,403,238)
Translation of short-term investments and other assets and liabilities denominated in foreign currency.....	12,038	(30,733)
	-----	-----
Net decrease in net assets resulting from operations.....	(13,627,796)	(11,282,811)
	-----	-----
NET ASSETS:		
Beginning of period.....	90,286,316	101,569,127
	-----	-----
End of period.....	\$ 76,658,520	\$ 90,286,316
	=====	=====

See accompanying notes to financial statements.

12

THE JAPAN EQUITY FUND, INC.

-----  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
-----

## Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

### ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Japan Equity Fund, Inc. (the "Fund") was incorporated in Maryland on July 12, 1990 under its former name "The Japan Emerging Equity Fund, Inc." and commenced operations on July 24, 1992. It is registered with the Securities and Exchange Commission as a closed-end, diversified management investment company.

The following significant accounting policies are in conformity with generally accepted accounting principles for investment companies. Such policies are consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Actual reporting results could differ from those estimates.

VALUATION OF INVESTMENTS--Securities which are listed on the First or Second Section of the Tokyo Stock Exchange or listed on the over-the-counter market in Japan or listed on other exchanges in Japan and for which market quotations are readily available are valued at the last reported sales price available to the Fund at the close of business on the day the securities are being valued or, lacking any such sales, at the last available bid price. In instances where quotations are not readily available or where the price as determined by the above procedures is deemed not to represent fair market value, fair value will be determined in such manner as the Board of Directors (the "Board") may prescribe. Short-term investments having a maturity of 60 days or less are valued at amortized cost, except where the Board determines that such valuation does not represent the fair value of the investment. All other securities and assets are valued at fair value as determined in good faith by, or under the direction of, the Board.

FOREIGN CURRENCY TRANSLATION--The books and records of the Fund are maintained in U.S. dollars as follows: (1) the foreign currency market value of investment securities and other assets and liabilities stated in Japanese yen are translated at the exchange rates prevailing at the end of the period; and (2) purchases, sales, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. The resulting exchange gains and losses are included in the Statement of Operations. The Fund does not isolate the effect of fluctuations in foreign exchange rates from the effect of fluctuations in the market price of securities.

TAX STATUS--The Fund intends to continue to distribute substantially all of its taxable income and to comply with the minimum distribution and other requirements of the Internal Revenue Code applicable to regulated investment companies. Accordingly, no provision for federal income or excise taxes is required.

The Fund is not subject to any Japanese income, capital gains or other taxes except for withholding taxes on certain income, generally imposed at rates of 10% on interest and 15% on dividends, paid to the Fund by Japanese corporations.

INVESTMENT TRANSACTIONS AND INVESTMENT INCOME--Investment transactions are recorded on the trade date (the date upon which the order to buy or sell is executed). Realized and unrealized gains and losses from security and foreign currency transactions are calculated on the identified cost basis. Dividend income and corporate

## Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

-----  
actions are recorded generally on the ex-date, except for certain dividends and corporate actions from Japanese securities which may be recorded after the ex-date, as soon as the Fund acquires information regarding such dividends or corporate actions. Interest income is recorded on an accrual basis.

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS--The Fund records dividends and distributions payable to its shareholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These book basis/tax basis differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax basis treatment; temporary differences do not require reclassifications. Dividends and distributions which exceed net investment income and net realized capital gains for financial reporting purposes but not for tax purposes are reported as dividends in excess of net investment income or distributions in excess of net realized capital gains. To the extent they exceed net investment income and net realized capital gains for tax purposes, they are reported as distributions of paid-in-capital.

### INVESTMENT MANAGER AND INVESTMENT ADVISER

The Fund has an Investment Management Agreement with Daiwa SB Investments (U.S.A.) Ltd. (the "Manager"). Daiwa SB Investments Ltd. ("DSBI" or the "Adviser") also an affiliate of the Manager acts as the Fund's investment adviser pursuant to an Investment Advisory Agreement between the Manager and DSBI. For such investment services, the Fund is obligated to pay the Manager a monthly fee at an annual rate of 0.60% of the first \$20 million, 0.40% of the next \$30 million and 0.20% of the excess over \$50 million of the Fund's average weekly net assets, of which fee 60% is paid by the Manager to DSBI.

Brokerage commissions of approximately \$12,356 were paid by the Fund to Daiwa Securities America, Inc., an affiliate of both the Manager and DSBI, in connection with portfolio transactions during the six months ended April 30, 2001. In addition, the Fund has agreed to reimburse the Manager and the Adviser for all out-of-pocket expenses related to the Fund. However, for the six months ended April 30, 2001, there were no out-of-pocket expenses incurred by the Manager or the Adviser.

At April 30, 2001, the Fund owed \$23,889 to the Manager and the Manager informed the Fund that it owed the Adviser \$14,334.

### ADMINISTRATOR AND CUSTODIAN AND OTHER RELATED PARTIES

Daiwa Securities Trust Company ("DSTC") an affiliate of the Adviser, provides certain administrative services to the Fund, for which the Fund pays to DSTC a monthly fee at an annual rate of 0.20% of the first \$60 million of the Fund's average weekly net assets, 0.15% of the next \$40 million and 0.10% of the excess over \$100 million, with a minimum annual fee of \$120,000.

DSTC also acts as custodian for the Fund's assets and has appointed Sumitomo Mitsui Banking Corporation (the "Sub-Custodian"), an affiliate of the Manager, to act as the sub-custodian for all of the cash and securities of

THE JAPAN EQUITY FUND, INC.

-----  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)  
-----

## Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

the Fund held in Japan. As compensation for its services as custodian, DSTC receives a monthly fee and reimbursement of out-of-pocket expenses. Such expenses include fees and out-of-pocket expenses of the Sub-Custodian. During the six months ended April 30, 2001, DSTC and the Sub-Custodian earned \$20,596 and \$17,856, respectively, as compensation for custodial service to the Fund.

At April 30, 2001, the Fund owed \$11,753 and \$3,175 to DSTC for administration and custodian fees, respectively, excluding fees and expenses of \$4,711 payable to the Sub-Custodian.

During the six months ended April 30, 2001, the Fund paid or accrued \$24,753 for legal services in connection with the Fund's on-going operations to a law firm of which the Fund's Assistant Secretary is a partner.

### INVESTMENTS IN SECURITIES AND FEDERAL INCOME TAX MATTERS

For federal income tax purposes, the cost of securities owned at April 30, 2001 was \$82,312,521, excluding \$176,765 of short-term investments. At April 30, 2001, the net unrealized depreciation of investments for federal income tax purposes, excluding short-term securities, of \$6,822,808 was composed of gross appreciation of \$4,767,061 for those investments having an excess of value over cost, and gross depreciation of \$11,589,869 for those investments having an excess of cost over value. For the six months ended April 30, 2001, total aggregate purchases and sales of portfolio securities, excluding short-term securities, were \$26,351,763 and \$25,520,202, respectively.

At October 31, 2000, the Fund had a remaining capital loss carryover of \$23,174,480, of which \$6,264,639 expires in the year 2005 and \$16,909,841 expires in the year 2006.

### CAPITAL STOCK

There are 30,000,000 shares of \$.01 par value common stock authorized. Of the 10,815,688 shares of the Fund outstanding at April 30, 2001, Daiwa Securities America Inc. an affiliate of the Manager, Adviser and DSTC owned 14,532 shares.

15

THE JAPAN EQUITY FUND, INC.

### FINANCIAL HIGHLIGHTS

Selected data for a share of capital stock outstanding during each period is presented below:

	FOR THE SIX MONTHS ENDED APRIL 30, 2001 (UNAUDITED)	FOR THE YEARS ENDED OCTOBER 31,		
		2000	1999	1998
Net asset value, beginning of period.....	\$ 8.35	\$ 9.39	\$ 6.08	\$ 6.99
Net investment loss.....	(0.01)	(0.04)	(0.01)	(0.01)
Net realized and unrealized gains (losses) on investments and foreign currency transactions.....	(1.25)	(1.00)	3.32	(0.90)



Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

Net increase (decrease) in net asset value resulting from operations.....	(1.26)	(1.04)	3.31	(0.91)	(
Less: dividends and distributions to shareholders					
Net realized gains on investments and foreign currency transactions.....	--	--	--	--	(
Dilutive effect of rights offering.....	--	--	--	--	
Offering costs charged to paid-in capital in excess of par value.....	--	--	--	--	
Net asset value, end of period.....	\$ 7.09	\$ 8.35	\$ 9.39	\$ 6.08	\$
Per share market value, end of period.....	\$ 6.720	\$ 7.063	\$ 9.813	\$ 6.875	\$
Total investment return:					
Based on market price at beginning and end of period, assuming reinvestment of dividends.....	(4.86)%	(28.02)%	42.73 %	(6.78)%	(2
Based on net asset value at beginning and end of period, assuming reinvestment of dividends.....	(15.09)%	(11.08)%	54.44 %	(13.02)%	(2
Ratios and supplemental data:					
Net assets, end of period (in millions).....	\$ 76.7	\$ 90.3	\$101.6	\$ 65.8	\$
Ratios to average net assets of:					
Expenses.....	1.06 %*	0.96 %	1.08 %	1.19 %	
Net investment loss.....	(0.40)%*	(0.48)%	(0.11)%	(0.13)%	(
Portfolio turnover.....	33.15 %	61.91 %	58.70 %	52.07 %	6

+ For the year ended October 31, 1996, the total investment return includes the benefit of shares resulting from the exercise of rights.  
\* Annualized.

16

THE JAPAN EQUITY FUND, INC.

RESULTS OF ANNUAL MEETING OF STOCKHOLDERS (UNAUDITED)

On June 6, 2001, the Annual Meeting of Stockholders of The Japan Equity Fund, Inc. (the "Fund") was held and the following matter was voted upon and passed.

Election of two Class II Directors to the Board of Directors of the Fund to serve for a term expiring on the date on which the Annual Meeting of Stockholders is held in the year 2004 and the election of one Class III Director to serve for a term expiring on the date on which the Annual Meeting of Stockholders is held in the year 2002.

NUMBER OF SHARES/VOTES VOTED FOR	PROXY AUTHORITY WITHHELD
-----	-----

CLASS II

Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

-----  
David G. Harmer..... 8,677,604 271,070  
Oren G. Shaffer..... 8,625,109 323,565

CLASS III

-----  
Alfred C. Morley..... 8,661,223 287,451

In addition to the three Directors re-elected at the Meeting, Austin C. Dowling, Martin J. Gruber, and Hideaki Matsuura were the other members of the Board who continued to serve as Directors of the Fund.

THE JAPAN EQUITY FUND, INC.

-----  
AN IMPORTANT NOTICE CONCERNING OUR PRIVACY POLICY  
-----

This Privacy Notice describes the types of non-public information we collect about you, the ways we safeguard the confidentiality of this information and when this information may be shared with others. In this Privacy Notice, the terms "we," "our" and "us" refer to the Fund. The term "you" in this Privacy Notice refers broadly to all of our individual stockholders (including prospective and former individual stockholders).

In order to provide you with services, we collect certain non-public information about you. We obtain this personal information from the following sources:

- Applications and other forms you submit to us.
- Dealings and transactions with us or others.

We do not disclose any non-public personal information about you to anyone, except as permitted by law. For instance, so that we may effect transactions that you request or authorize, we may disclose the information we collect to companies that perform services on our behalf, such as printers and mailers that assist us in the distribution of investor materials. These companies will use this information only for the services for which we hired them, and are not permitted to use or share this information for any other purpose.

We maintain physical, electronic and procedural security measures that comply with federal standards to safeguard your non-public personal information. Access to such information is restricted to those agents of the Fund who are trained in the proper handling of client information and who need to know that information in order to provide services to stockholders.

-----  
BOARD OF DIRECTORS  
Hideaki Matsuura, CHAIRMAN  
Austin C. Dowling  
Martin J. Gruber  
David G. Harmer  
Alfred C. Morley  
Oren G. Shaffer  
-----

OFFICERS

Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

Shunsuke Ichijo  
PRESIDENT

John J. O'Keefe  
VICE PRESIDENT AND TREASURER

Judy Runrun Tu  
SECRETARY

Laurence E. Cranch  
ASSISTANT SECRETARY

-----  
ADDRESS OF THE FUND

c/o Daiwa Securities Trust Company  
One Evertrust Plaza, 9th Floor  
Jersey City, New Jersey 07302

-----  
INVESTMENT MANAGER  
Daiwa SB Investments (U.S.A.) Ltd.

INVESTMENT ADVISER  
Daiwa SB Investments Ltd.

ADMINISTRATOR AND CUSTODIAN  
Daiwa Securities Trust Company

TRANSFER AGENT AND REGISTRAR  
PFPC Inc.

LEGAL COUNSEL  
Clifford Chance Rogers & Wells LLP

INDEPENDENT ACCOUNTANTS  
PricewaterhouseCoopers LLP

-----  
Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that from time to time the Fund may purchase shares of its common stock in the open market at prevailing market prices.

This report is sent to shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in the report.

The financial information included herein is taken from the records of the Fund without examination by independent accountants who do not express an opinion thereon.

SEMI-ANNUAL REPORT  
APRIL 30, 2001

-----  
[JAPAN EQUITY FUND LOGO]  
-----

THE JAPAN EQUITY  
FUND, INC.  
c/o Daiwa Securities Trust Company  
One Evertrust Plaza  
Jersey City, New Jersey 07302

Edgar Filing: JAPAN EQUITY FUND INC - Form N-30D

INVESTMENT MANAGER  
Daiwa SB Investments (U.S.A.) Ltd.

INVESTMENT ADVISER  
Daiwa SB Investments Ltd.