

JAPAN EQUITY FUND INC  
Form N-CSRS  
June 16, 2008  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-CSR S

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

INVESTMENT COMPANY ACT FILE NUMBER 811-06142

**THE JAPAN EQUITY FUND, INC.**

(Exact name of registrant as specified in charter)

c/o Daiwa Securities Trust Company

One Evertrust Plaza, 9th Floor

Jersey City, New Jersey 07302-3051

(Address of principal executive offices) (Zip code)

c/o Daiwa Securities Trust Company

One Evertrust Plaza, 9th Floor

Jersey City, New Jersey 07302-3051

(Name and address of agent for service)

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (201) 915-3054

DATE OF FISCAL YEAR END: October 31

DATE OF REPORTING PERIOD: April 30, 2008

Item 1. Reports to Stockholders.

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*The Japan Equity Fund, Inc.*

## General Information (unaudited)

### The Fund

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 Tokyo Stock Exchange ( TSE ). The Fund seeks to achieve its investment objective by investing substantially all of its assets in equity securities of companies listed on 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. The Fund implements 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 daily 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, a list of the Fund's top ten industries and holdings, its proxy voting policies and procedures, its code of ethics and its audit committee charter.

### Inquiries

Inquiries concerning your registered share account should be directed to the American Stock Transfer & Trust Company (the Plan Agent ) at the number noted below. All written inquiries should be directed to The Japan Equity Fund, Inc., c/o Daiwa Securities Trust Company, One Evertrust Plaza, 9<sup>th</sup> Floor, Jersey City, NJ 07302-3051.

### Proxy Voting Policies and Procedures

A description of the policies and procedures that are used by the Fund's Manager determine how to vote proxies relating to the Fund's portfolio securities is available (1) without charge, upon request, by calling collect (201) 915-3054; (2) by visiting [www.daiwast.com](http://www.daiwast.com); and (3) as an exhibit to the Fund's annual report on Form N-CSR which is available on the website of the Securities and Exchange Commission (the Commission ) at [www.sec.gov](http://www.sec.gov). Information regarding how the Manager votes these proxies is now available by calling the same number and is available on the Commission's website. The Fund has filed its report on Form N-PX covering the Fund's proxy voting record for the 12-month period ended June 30, 2007.

### Quarterly Portfolio of Investments

A Portfolio of Investments is filed as of the end of the first and third quarters of each fiscal year on Form N-Q and is available on the Commission's website at [www.sec.gov](http://www.sec.gov) and the Fund's website at [www.daiwast.com](http://www.daiwast.com). Additionally, the Portfolio of Investments may be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The quarterly Portfolio of Investments will be made available without charge, upon request, by calling (201) 915-3054.



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## **Certifications**

The Fund's chief executive officer has certified to the NYSE that, as of June 2, 2008, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund also has included the certifications of the Fund's chief executive officer and chief financial officer required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 in the Fund's Form N-CSR filed with the Commission for the period of this report.

## **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 optional annual cash investments in Fund shares through the Plan Agent. A brochure fully describing the Plan's terms and conditions is available on the Fund's website at [www.daiwast.com](http://www.daiwast.com) and from the Plan Agent by calling (866) 669-9904 or by writing The Japan Equity Fund, Inc., c/o the American Stock Transfer & Trust Company, 59 Maiden Lane, New York, NY 10038.

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*The Japan Equity Fund, Inc.***Shareholder Letter (unaudited)**

May 15, 2008

**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, 2008.

**Performance Review**

Table 1. Net Asset Value ( NAV ) performance in comparison to the benchmark (TOPIX), U.S. Dollar ( USD ) base

|                   | <b>Latest Six Months (Nov<br/>07 - April 08) %</b> |
|-------------------|--|
| JEQ (NAV)         | 7.95   |
| Benchmark (TOPIX) | 7.57   |
| Underperformance  | 0.38   |

Table 2. Equity Only performance in comparison to the benchmark (TOPIX), Japanese Yen ( JPY ) base

|                   | <b>Latest Six Months (Nov<br/>07 - April 08)<br/>%</b> |
|-------------------|--|
| JEQ (Equity Only) | 16.03  |
| Benchmark (TOPIX) | 15.26  |
| Underperformance  | 0.77   |

**Comment**

During the period from November 2007 to April 2008, the NAV of the Fund decreased by 7.95% in USD terms, while the benchmark (TOPIX) fell by 7.57% in USD terms over the same period. The Fund underperformed the benchmark by 0.38%. In JPY terms, the performance of the Fund (excluding expenses and not accounting for cash on-hand) was 16.03%, whereas the TOPIX declined by 15.26%.

Relative to the TOPIX, the sector selection effect was 1.59%, while the stock selection effect contributed +0.82% (see Table 3). As shown in Table 4, overweight positions in the machinery, nonferrous metals and transportation equipment sectors and an underweight position in the food sector were among the primary contributors to the negative sector selection effect. With increasing uncertainty in the global economy and financial markets, defensive sectors including foods performed relatively well, whereas cyclical names performed much poorer, as fears of a U.S. recession and turmoil in the financial markets spread.

Stock selection in the transportation equipment, retail trade and chemical sectors contributed positively, although they were partially offset by negative contributions from electrical appliances and real estate stocks. Major positive contributors during the period were Sumitomo Trust & Banking (banks) and Seven & I Holdings (retail trade), while Nomura Research Institute (information & communications), Makita (machinery) and Tokyo Tatemono (real estate) contributed negatively. Among benchmark stocks, the lack of any holdings of Sumitomo Mitsui FG (banks) had a negative impact. Sumitomo Trust

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rebounded sharply from mid-March, as fears of U.S. sub-prime related losses eased. Seven & I Holdings performed relatively well, as investors expected private brand developments and cost reductions to support a fiscal year 2008 earnings

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rebound from the depressed fiscal year 2007 levels. Nomura Research Institute declined after the IT service company announced lackluster results for fiscal year 2007 and a poor profit outlook for fiscal year 2008. Makita declined amid concerns of a slowing global economy as well as negative foreign exchange movements; however, demand for its electric power tools remained healthy, particularly in emerging countries. Tokyo Tatemono and other real estate companies were hit hard by concerns over declining condominium sales and reportedly tougher bank lending standards within the industry.

Table 3. Attribution Analysis Summary, JPY base

|                                 | Latest Six Months (Nov<br>07 - April 08) % |
|---------------------------------|--|
| Japan Equity Fund (Equity Only) | 16.03                                      |
| TOPIX                           | 15.26                                      |
| Underperformance                | 0.77                                       |
| <b>Breakdown</b>                |  |
| Sector Selection                | 1.59                                       |
| Stock Selection                 | 0.82                                       |
| Others                          | 0.00                                       |
| <b>Total</b>                    | <b>0.77</b>                                |

Table 4. Sector &amp; Stock Selection Effects, Sector by Sector

|                                 | Portfolio<br>Weight<br>% | Market<br>Weight<br>% | Portfolio<br>Return<br>% | Benchmark<br>Return<br>% | Sector<br>Allocation<br>Effect<br>% | Stock Selection<br>Effect<br>% |
|---------------------------------|--------------------------|-----------------------|--------------------------|--------------------------|-------------------------------------|--------------------------------|
| <b>TOPIX Industry</b>           |                          |                       |                          |                          |                                     |                                |
| Fishery, Agriculture & Forestry | 0.00                     | 0.08                  | 0.00                     | 4.99                     | 0.01                                | 0.00                           |
| Mining                          | 0.00                     | 0.41                  | 0.00                     | 8.10                     | 0.02                                | 0.00                           |
| Construction                    | 1.14                     | 1.73                  | 22.77                    | 23.17                    | 0.05                                | 0.00                           |
| Foods                           | 0.80                     | 3.05                  | 8.79                     | 6.87                     | 0.19                                | 0.11                           |
| Textiles & Apparel              | 0.82                     | 0.88                  | 26.11                    | 21.85                    | 0.00                                | 0.02                           |
| Pulp & Paper                    | 0.00                     | 0.31                  | 0.00                     | 17.93                    | 0.01                                | 0.00                           |
| Chemicals                       | 7.55                     | 5.56                  | 19.27                    | 21.55                    | 0.14                                | 0.20                           |
| Pharmaceutical                  | 4.70                     | 4.18                  | 16.80                    | 15.28                    | 0.01                                | 0.07                           |
| Oil & Coal Products             | 0.84                     | 0.75                  | 32.75                    | 30.58                    | 0.03                                | 0.03                           |
| Rubber Products                 | 0.91                     | 0.51                  | 24.61                    | 27.27                    | 0.12                                | 0.03                           |
| Glass & Ceramics Products       | 1.33                     | 1.25                  | 23.03                    | 27.67                    | 0.01                                | 0.04                           |
| Iron & Steel                    | 2.75                     | 3.17                  | 21.28                    | 18.03                    | 0.12                                | 0.09                           |
| Nonferrous Metals               | 2.52                     | 1.27                  | 25.75                    | 29.24                    | 0.19                                | 0.08                           |
| Metal Products                  | 0.69                     | 0.55                  | 1.84                     | 17.43                    | 0.01                                | 0.10                           |
| Machinery                       | 7.05                     | 4.42                  | 21.79                    | 20.89                    | 0.26                                | 0.04                           |
| Electrical Appliances           | 14.91                    | 14.18                 | 13.71                    | 12.38                    | 0.02                                | 0.18                           |
| Transport Equipment             | 12.39                    | 9.73                  | 18.55                    | 21.91                    | 0.18                                | 0.43                           |
| Precision Instruments           | 0.78                     | 1.46                  | 2.67                     | 22.83                    | 0.04                                | 0.20                           |
| Other Products                  | 0.75                     | 2.98                  | 29.18                    | 16.97                    | 0.00                                | 0.14                           |
| Wholesale Trade                 | 6.73                     | 4.97                  | 14.20                    | 15.03                    | 0.03                                | 0.04                           |
| Retail Trade                    | 3.87                     | 3.19                  | 0.55                     | 9.27                     | 0.02                                | 0.33                           |
| Banks                           | 9.12                     | 10.98                 | 4.29                     | 4.96                     | 0.14                                | 0.17                           |
| Other Financing Business        | 0.81                     | 1.32                  | 17.69                    | 12.54                    | 0.06                                | 0.09                           |
| Securities & Commodity Futures  | 1.69                     | 1.73                  | 10.93                    | 11.18                    | 0.02                                | 0.02                           |
| Insurance                       | 2.35                     | 2.58                  | 2.02                     | 3.81                     | 0.04                                | 0.06                           |
| Real Estate                     | 2.23                     | 2.72                  | 31.57                    | 24.29                    | 0.09                                | 0.17                           |
| Land Transportation             | 2.79                     | 3.43                  | 11.91                    | 11.85                    | 0.02                                | 0.01                           |
| Marine Transportation           | 1.17                     | 0.92                  | 22.76                    | 22.57                    | 0.01                                | 0.01                           |



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|                                   |        |        |       |       |      |      |
|-----------------------------------|--------|--------|-------|-------|------|------|
| Air Transportation                | 0.00   | 0.45   | 0.00  | 6.32  | 0.03 | 0.00 |
| Warehouse & Harbor Transportation | 0.00   | 0.21   | 0.00  | 18.98 | 0.01 | 0.00 |
| Information & Communication       | 4.76   | 5.22   | 17.74 | 15.09 | 0.00 | 0.14 |
| Electric Power & Gas              | 2.35   | 4.39   | 6.95  | 9.39  | 0.07 | 0.07 |
| Services                          | 2.20   | 1.42   | 18.56 | 17.07 | 0.03 | 0.03 |
| Total                             | 100.00 | 100.00 | 16.03 | 15.26 | 1.59 | 0.82 |

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## **Market Review (November 2007 – April 2008)**

The Tokyo market continued to struggle towards the end of 2007 and through the early part of 2008, as worsening U.S. sub-prime related issues, fears of a U.S. recession and its potential negative impact on the global economy, the JPY's appreciation against the USD, and a deteriorating domestic political situation were all digested by the market. On March 17, 2008, the TOPIX fell below the 1,150 level, its lowest point in more than two and a half years. On the heels of this steep decline, the market rebounded sharply following a series of unprecedented steps undertaken to ease the tension in the financial markets, including the near bail out of U.S. brokerage firm, Bear Stearns, aggressive liquidity injections by the Federal Reserve Bank and announcements of capital raising measures by several U.S. and European financial institutions. Better than expected U.S. macro-economic data and the USD's appreciation versus the JPY also helped lift the stock market higher. One encouraging development has been the market's resiliency in the face of negative earnings guidance and estimates. Most likely, the market has considerably discounted a cautious profit outlook for the year ending March 2009, and an appetite for risk is gradually returning to the market.

## **Outlook**

After a rebound of nearly 20% from the March lows, the Fund's Investment Manager expects the market to consolidate going forward, looking for clues as to the direction of external economies, particularly that of the United States.

### *(1) Extreme undervaluation corrected*

The negative yield spread (10-year Japanese Government Bond ( JGB ) yield minus equity dividend yield) has corrected and is currently flat, as the 10-year JGB yield shot up to between 1.6% and 1.7%, equaling the current dividend yield level. This is a possible indication that financial market valuations have normalized, and could signal the end of the recent financial stress in the markets. The average price-earnings ( P/E ) of the Tokyo market has risen to 17 times earnings due to the market rebound together with downward revisions to earnings estimates, making stocks reasonable, but not particularly attractive, from a valuation standpoint.

### *(2) Negative profit guidance, possibly suggesting upward earnings revisions*

A number of major companies, including those in the technology, auto and steel sectors, have issued negative profit guidance for the year ending March 2009. As 40% of listed companies close their books at March end, the aggregate recurring profits of these 629 companies (excluding financials) increased by 1.8% in the year ended March 2008 and, according to Nikkei, are estimated by management to fall 6.5% in the year ending March 2009. Manufacturers predict a 12% decline in recurring profits, led by auto and steel companies, while non-manufacturers, led by trading firms, forecast growth of around 5%. The Fund's Investment Manager suspects that business considerations may have influenced some of the negative profit guidance in the steel and auto sectors, as they will each have to negotiate steel price increases in order to share the burden of iron ore and coal price hikes. Negative profit guidance, particularly for the six months ending September 2008, seems to have taken into account a JPY/USD exchange rate of 100 and a JPY/Euro rate of 155, as well as a U.S. economic recession and the resilience of emerging economies. Therefore, the Fund's Investment Manager believes that the profit outlook is more likely to be revised upward, as has been the case over the last several years, based on the potential stabilization of the U.S. economy and strengthening USD as the year progresses. This likely upward revision will provide a significant catalyst for a sustainable rally in the Tokyo market on the heels of its recent rebound.

### *(3) Rising inflation*

Core Consumer Price Index ( CPI ) (which, in Japan, excludes fresh foods but includes energy prices) rose 1.2% year-on-year in March, reflecting price increases in energy and food on a global scale. Due to minimal wage increases and zero unit labor cost hikes, Japan's problem is now slow economic growth rather than inflation. Energy and food inflation will cut into disposable income, while corporate profit

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outlooks will continue to restrict wage hikes. Consumers cannot get relief from government tax cuts, due to the huge amount of government debt. Merchandise suppliers, who remain hung up on disinflation due to their experiences in the 1990s and 2000s, remain worried about losing customers after raising prices. Energy and food inflation alone cannot justify interest rate hikes by the Bank of Japan, which has downgraded its economic growth forecast from 2.1% to 1.5% for the year ending March 2009.

(4) *Peaking political discounts*

According to several polls, the Fukuda cabinet's approval rating fell below 20% due to its weak political leadership in handling the road construction purpose gasoline surtax, which was eliminated in April and then reinstated in May, as well as its implementation of a new medical insurance scheme for people over 75 years old. It is evident that the government, which consists mainly of bureaucrats and politicians, has been a drag on private economic activity for the last couple of years and, in light of low expectations for the current government, any changes should be considered to be for the better. Prime Minister Fukuda's declining approval rating could be a catalyst for a political reshuffling or, at least, some minor changes. Politics will likely remain a neutral factor for the Japanese market, barring any reshuffling, which would be interpreted as a positive.

Regarding sector strategy, the Fund's portfolio will remain overweight in the machinery and automobile sectors and underweight in public utilities and service stocks. Although the Fund's portfolio remains underweight in financials, we have reduced the degree to which the Fund's portfolio was underweight and added positions in major banks. The Fund's portfolio will continue to overweight the beneficiaries of infrastructure developments in the emerging markets and ecology/alternative energy investments on a global basis.

## **Fund Performance**

During the six months ended April 30, 2008, the Fund's market price on the New York Stock Exchange ( NYSE ) ranged from a low of \$6.16 per share on January 22, 2008 to a high of \$8.00 on December 12, 2007. The Fund's NYSE market price closed at \$7.40 per share on April 30, 2008.

The NYSE market price in relation to the Fund's net asset value per share during the six months ended April 30, 2008 ranged from a high discount of 10.57% on April 11, 2008 to a low discount of 2.49% on February 12, 2008, and ended the period at a discount of 6.92%.

The Fund has not invested in derivative securities. Although foreign currency hedging is permitted, 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. ( DSBI ) for all North American clients. A senior member of the Investment Policy Committee (IPC) of DSBI, Mr. Ogawa has 32 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. Naoto Nagai, CFA, is a Senior Portfolio Manager with a total of 11 years of experience in the Japanese and global equity markets. Prior to joining Daiwa SB Investments in 2006, he was a fund manager and research analyst at Resona Trust Company Japan. In 1996 he earned an MBA from the University of Rochester and in 1991 he graduated from the University of Osaka Prefecture with a B.S. in chemistry. He assumed the day-to-day portfolio management responsibilities for the Fund, effective October 18, 2006.

*The Japan Equity Fund, Inc.*

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

Sincerely,

**YOSHIHIRO FUJISAWA**  
*Chairman of the Board*

**HIDEO TANAKA**  
*President*

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*The Japan Equity Fund, Inc.***Portfolio of Investments****April 30, 2008 (unaudited)****COMMON STOCKS 98.42%**

| <b>Shares</b>                         |   | <b>Value</b> |
|---------------------------------------|---|--------------|
| <b>Apparel 0.60%</b>                  |   |              |
| 68,000                                | Asics Corp                              | \$ 684,963   |
| <b>Banks 11.91%</b>                   |   |              |
| 526,000                               | Mitsubishi UFJ Financial Group, Inc     | 5,778,222    |
| 832                                   | Mizuho Financial Group, Inc             | 4,314,192    |
| 170                                   | Seven Bank, Ltd.                        | 306,895      |
| 172,000                               | The Bank of Yokohama, Ltd.              | 1,258,537    |
| 2,300                                 | The Musashino Bank, Ltd                 | 99,827       |
| 211,000                               | The Sumitomo Trust & Banking Co., Ltd.  | 1,894,421    |
|                                       |   | 13,652,094   |
| <b>Chemicals 7.62%</b>                |   |              |
| 199,000                               | Asahi Kasei Corp                        | 1,125,514    |
| 127,000                               | Daicei Chemical Industries Ltd          | 748,781      |
| 37,100                                | Fujifilm Holdings Corp.                 | 1,421,442    |
| 29,000                                | Nihon Parkerizing Co., Ltd              | 461,148      |
| 44,600                                | Shin-Etsu Chemical Co., Ltd             | 2,749,491    |
| 88,000                                | Sumitomo Chemical Co., Ltd              | 570,386      |
| 4,000                                 | Taiyo Nippon Sanso Corp.                | 32,495       |
| 93,000                                | Toyo Ink Manufacturing Co., Ltd         | 335,779      |
| 370,000                               | Ube Industries, Ltd.                    | 1,293,259    |
|                                       |   | 8,738,295    |
| <b>Commerce 0.31%</b>                 |   |              |
| 18,000                                | Canon Marketing Japan Inc               | 349,145      |
| <b>Communication 2.80%</b>            |   |              |
| 128                                   | KDDI Corp                               | \$ 818,590   |
| 337                                   | NTT Corp                                | 1,449,741    |
| 520                                   | NTT DoCoMo, Inc                         | 763,972      |
| 3,400                                 | Obic Business Consultants Co., Ltd      | 174,995      |
|                                       |   | 3,207,298    |
| <b>Construction 0.99%</b>             |   |              |
| 51,000                                | Daiwa House Industry Co., Ltd           | 573,468      |
| 80,000                                | Sumitomo Forestry Co., Ltd              | 566,161      |
|                                       |   | 1,139,629    |
| <b>Electric Appliances 14.66%</b>     |   |              |
| 57,600                                | Canon Inc                               | 2,876,128    |
| 17,900                                | Fanuc Ltd                               | 1,878,692    |
| 136,000                               | Fujitsu Ltd                             | 865,834      |
| 34,000                                | Hamamatsu Photonics K.K                 | 1,034,953    |
| 5,500                                 | Kyocera Corp                            | 504,897      |
| 88,000                                | Matsushita Electric Industrial Co., Ltd | 2,066,065    |
| 220,000                               | Mitsubishi Electric Corp                | 2,243,518    |
| 20,000                                | Omron Corp                              | 414,826      |
| 43,000                                | Sony Corp                               | 1,973,689    |
| 20,000                                | Star Micronics Co., Ltd                 | 339,927      |
| 18,700                                | Tokyo Electron Ltd                      | 1,212,070    |
| 23,500                                | Ushio Inc                               | 444,095      |
| 33,000                                | Yamatake Corp                           | 956,981      |
|                                       |   | 16,811,675   |
| <b>Electric Power &amp; Gas 1.69%</b> |   |              |
| 36,500                                | Kansai Electric Power Co., Inc          | 867,462      |
| 47,000                                | Tohoku Electric Power Co., Inc          | 1,065,105    |
|                                       |   | 1,932,567    |

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**Foods 1.18%**

|        |                    |            |
|--------|--------------------|------------|
| 88,000 | Meiji Dairies Corp | \$ 538,275 |
|--------|--------------------|------------|

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|   |   |            |
|---|---|------------|
| 76,000                                    | Nisshin Seifun Group Inc                      | 812,983    |
|   |   | 1,351,258  |
| <b>Glass &amp; Ceramic Products 1.22%</b> |   |            |
| 118,000                                   | Asahi Glass Co., Ltd                          | 1,403,899  |
| <b>Insurance 2.64%</b>                    |   |            |
| 218,000                                   | Aioi Insurance Co., Ltd                       | 1,371,135  |
| 41,700                                    | Mitsui Sumitomo Insurance Group Holdings, Inc | 1,657,749  |
|   |   | 3,028,884  |
| <b>Iron &amp; Steel 2.19%</b>             |   |            |
| 179,000                                   | Nippon Steel Corp                             | 1,003,803  |
| 360,000                                   | Sumitomo Metal Industries, Ltd                | 1,510,659  |
|   |   | 2,514,462  |
| <b>Land Transportation 2.60%</b>          |   |            |
| 374                                       | East Japan Railway Co                         | 2,977,204  |
| <b>Machinery 6.98%</b>                    |   |            |
| 54,000                                    | Daifuku Co., Ltd                              | 673,574    |
| 35,000                                    | JTEKT Corp                                    | 618,398    |
| 67,000                                    | Komatsu Ltd                                   | 2,033,032  |
| 49,000                                    | Makita Corp                                   | 1,684,463  |
| 349,000                                   | Mitsubishi Heavy Industries, Ltd              | 1,615,306  |
| 80,000                                    | Ricoh Co., Ltd                                | 1,377,377  |
|   |   | 8,002,150  |
| <b>Marine Transportation 1.24%</b>        |   |            |
| 58,000                                    | Kawasaki Kisen Kaisha, Ltd                    | 588,131    |
| 86,000                                    | Nippon Yusen Kabushiki Kaisha                 | 834,070    |
|   |   | 1,422,201  |
| <b>Metal Products 0.77%</b>               |   |            |
| 51,000                                    | JS Group Corp                                 | \$ 881,995 |
| <b>Non-Ferrous Metals 2.58%</b>           |   |            |
| 121,000                                   | Mitsubishi Materials Corp                     | 572,815    |
| 90,500                                    | Sumitomo Electric Industries, Ltd             | 1,162,752  |
| 67,000                                    | Sumitomo Metal Mining Co., Ltd                | 1,216,603  |
|   |   | 2,952,170  |
| <b>Oil &amp; Coal Products 0.79%</b>      |   |            |
| 10,700                                    | Idemitsu Kosan Co., Ltd                       | 910,332    |
| <b>Other Financing Business 0.52%</b>     |   |            |
| 3,300                                     | Orix Corp                                     | 594,469    |
| <b>Other Products 0.16%</b>               |   |            |
| 15,000                                    | Namco Bandai Holdings Inc                     | 187,536    |
| <b>Pharmaceutical 4.11%</b>               |   |            |
| 30,800                                    | Daiichi Sankyo Co., Ltd                       | 845,861    |
| 14,500                                    | Ono Pharmaceuticals Co., Ltd                  | 765,796    |
| 74,000                                    | Rohto Pharmaceutical Co., Ltd                 | 789,457    |
| 43,900                                    | Takeda Pharmaceutical Co., Ltd                | 2,314,298  |
|   |   | 4,715,412  |
| <b>Precision Instruments 0.60%</b>        |   |            |
| 25,000                                    | Hoya Corp                                     | 691,377    |
| <b>Real Estate 1.98%</b>                  |   |            |
| 31,000                                    | Mitsui Fudosan Co., Ltd                       | 779,912    |
| 171,000                                   | Tokyo Tatemono Co., Ltd                       | 1,487,670  |
|   |   | 2,267,582  |
| <b>Retail Trade 4.60%</b>                 |   |            |
| 7,500                                     | FamilyMart Co., Ltd                           | \$ 261,427 |
| 17,900                                    | Nitori Co., Ltd                               | 941,924    |
| 73,500                                    | Seven & I Holdings Co., Ltd                   | 2,180,862  |
| 28,800                                    | Shimachu Co., Ltd                             | 790,935    |
| 36,500                                    | Xebio Co., Ltd                                | 1,097,033  |
|   |   | 5,272,181  |
| <b>Rubber Products 0.41%</b>              |   |            |

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|                         |                     |           |
|-------------------------|---------------------|-----------|
| 26,000                  | Bridgestone Corp    | 474,112   |
| <b>Securities 1.93%</b> |                     |           |
| 127,500                 | Nomura Holdings Inc | 2,213,559 |

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*The Japan Equity Fund, Inc.***Services 3.44%**

|        |                                |           |
|--------|--------------------------------|-----------|
| 470    | Dentsu Inc                     | 1,078,644 |
| 37,900 | Nomura Research Institute, Ltd | 835,227   |
| 20,500 | Secom Co., Ltd                 | 952,756   |
| 268    | Tempstaff Co., Ltd             | 293,374   |
| 34,500 | Toho Co., Ltd                  | 788,458   |
|        |                                | 3,948,459 |

**Textile & Apparel 0.49%**

|        |                      |         |
|--------|----------------------|---------|
| 91,000 | Toray Industries Inc | 566,238 |
|--------|----------------------|---------|

**Transportation Equipment 10.71%**

|         |                                |            |
|---------|--------------------------------|------------|
| 26,500  | Aisin Seiki Co., Ltd           | 923,708    |
| 90,000  | Daihatsu Motor Co., Ltd        | 1,073,363  |
| 58,000  | Denso Corp                     | 1,960,438  |
| 380,000 | Kawasaki Heavy Industries, Ltd | 977,914    |
| 114,000 | Nissan Motor Co., Ltd          | 1,009,295  |
| 25,400  | Shimano Inc                    | 1,153,659  |
| 102,500 | Toyota Motor Corp              | 5,187,008  |
|         |                                | 12,285,385 |

**Wholesale Trade 6.70%**

|         |                                |            |
|---------|--------------------------------|------------|
| 49,000  | Hitachi High-Technologies Corp | \$ 971,625 |
| 132,000 | Marubeni Corp                  | 1,050,778  |
| 121,000 | Mitsubishi Corp                | 3,880,738  |
| 132,300 | Sumitomo Corp                  | 1,774,756  |
|         |                                | 7,677,897  |

**Total Common Stocks**

|                      |             |
|----------------------|-------------|
| (Cost \$106,733,506) | 112,854,428 |
|----------------------|-------------|

**SHORT-TERM INVESTMENTS 0.07%****Principal Amount (000)****U.S. DOLLAR TIME DEPOSIT 0.07%**

|  |               |
|--|---------------|
| \$81 Bank of New York Time Deposit, 0.05%, due 5/1/08 (Cost \$81,049)  | 81,049        |
| Total Investments 98.49% (Cost \$106,814,555)  | 112,935,477   |
| Other assets less liabilities 1.51%  | 1,731,916     |
| <b>NET ASSETS</b> (Applicable to 14,431,605 shares of capital stock outstanding; equivalent to \$7.95 per share) 100.00% | \$114,667,393 |

See accompanying notes to financial statements.

*The Japan Equity Fund, Inc.***EQUITY CLASSIFICATIONS HELD****April 30, 2008 (unaudited)**

| <b>Industry</b>          | <b>Percent of Net Assets</b> |
|--------------------------|------------------------------|
| Electric Appliances      | 14.66%                       |
| Banks                    | 11.91                        |
| Transportation Equipment | 10.71                        |
| Chemicals                | 7.62                         |
| Machinery                | 6.98                         |
| Wholesale Trade          | 6.70                         |
| Retail Trade             | 4.60                         |
| Pharmaceutical           | 4.11                         |
| Services                 | 3.44                         |
| Communication            | 2.80                         |
| Insurance                | 2.64                         |
| Land Transportation      | 2.60                         |
| Non-Ferrous Metals       | 2.58                         |
| Iron & Steel             | 2.19                         |
| Real Estate              | 1.98                         |
| Securities               | 1.93                         |
| Electric Power & Gas     | 1.69                         |
| Marine Transportation    | 1.24                         |
| Glass & Ceramic Products | 1.22                         |
| Foods                    | 1.18                         |
| Construction             | 0.99                         |
| Oil & Coal Products      | 0.79                         |
| Metal Products           | 0.77                         |
| Precision Instruments    | 0.60                         |
| Apparel                  | 0.60                         |
| Other Financing Business | 0.52                         |
| Textile & Apparel        | 0.49                         |
| Rubber Products          | 0.41                         |
| Commerce                 | 0.31                         |
| Other Products           | 0.16                         |

**TEN LARGEST EQUITY POSITIONS HELD****April 30, 2008 (unaudited)**

| <b>Issue</b>                        | <b>Percent of Net Assets</b> |
|-------------------------------------|------------------------------|
| Mitsubishi UFJ Financial Group, Inc | 5.04%                        |
| Toyota Motor Corp                   | 4.52                         |
| Mizuho Financial Group, Inc         | 3.76                         |
| Mitsubishi Corp                     | 3.38                         |
| East Japan Railway Co               | 2.60                         |
| Canon Inc                           | 2.51                         |
| Shin-Etsu Chemical Co., Ltd         | 2.40                         |
| Takeda Pharmaceutical Co., Ltd      | 2.02                         |
| Mitsubishi Electric Corp            | 1.96                         |
| Nomura Holdings Inc                 | 1.93                         |



*The Japan Equity Fund, Inc.***Statement of Assets and Liabilities****April 30, 2008 (unaudited)**

|   |                       |
|---|-----------------------|
| <b>Assets</b>   |                       |
| Investment in securities, at value (cost \$106,814,555)   | \$ 112,935,477        |
| Cash denominated in foreign currency (cost \$985,674)   | 982,353               |
| Receivable for securities sold  | 710,950               |
| Interest and dividends receivable   | 821,410               |
| Prepaid expenses  | 20,954                |
| Total assets  | 115,471,144           |
| <b>Liabilities</b>  |                       |
| Payable for securities purchased  | 645,127               |
| Payable for management fees   | 11,828                |
| Payable for advisory fees   | 17,741                |
| Payable for other affiliates  | 26,712                |
| Accrued expenses and other liabilities  | 102,343               |
| Total liabilities   | 803,751               |
| <b>Net Assets</b>   | <b>\$ 114,667,393</b> |
| <b>Net Assets consist of:</b>   |                       |
| Capital stock, \$0.01 par value per share; total 30,000,000 shares authorized; 14,431,605 shares issued and outstanding | 144,317               |
| Paid-in capital in excess of par value  | 125,321,410           |
| Accumulated net investment income   | 36,880                |
| Accumulated net realized loss on investments  | (16,915,553)          |
| Net unrealized appreciation on investments and other assets and liabilities denominated in foreign currency             | 6,080,339             |
| Net assets applicable to shares outstanding   | \$ 114,667,393        |
| <b>Net Asset Value Per Share</b>  | <b>\$ 7.95</b>        |

See accompanying notes to financial statements.

*The Japan Equity Fund, Inc.***Statement of Operations****For the Six Months Ended April 30, 2008 (unaudited)**

|   |                       |
|---|-----------------------|
| <b>Investment income:</b>   |                       |
| Dividends (net of withholding taxes of \$79,030)  | \$ 1,051,566          |
| Interest  | 37                    |
| Total investment income   | 1,051,603             |
| <b>Expenses:</b>  |                       |
| Investment management and advisory fee and expenses   | 189,280               |
| Administration fee and expenses   | 144,668               |
| Custodian fees and expenses   | 95,152                |
| Directors' fees and expenses  | 43,261                |
| Audit and tax services  | 42,466                |
| Reports and notices to shareholders   | 28,345                |
| Legal fees and expenses   | 19,891                |
| Insurance expense   | 14,259                |
| Transfer agency fee and expenses  | 5,538                 |
| Other   | 33,676                |
| Total expenses  | 616,536               |
| <b>Net investment income</b>  | <b>435,067</b>        |
| <b>Realized and unrealized gains from investment activities and foreign currency transactions:</b>  |                       |
| Net realized gains on investments   | 884,314               |
| Net realized foreign currency transaction gains   | 110,259               |
| Net change in unrealized appreciation (depreciation) on investments in equity securities  | (11,017,010)          |
| Net change in unrealized appreciation (depreciation) on short-term investments and other assets and liabilities denominated in foreign currency | (36,697)              |
| Net realized and unrealized losses from investment activities and foreign currency transactions   | (10,059,134)          |
| <b>Net decrease in net assets resulting from operations</b>   | <b>\$ (9,624,067)</b> |

See accompanying notes to financial statements.

*The Japan Equity Fund, Inc.***Statement of Changes in Net Assets**

|   | <b>For the Six Months<br/>Ended April 30,<br/>2008<br/>(unaudited)</b> | <b>For the Year Ended<br/>October 31,<br/>2007<br/>(unaudited)</b> |
|---|--|--|
| <b>Increase (decrease) in net assets from operations:</b>   |  |  |
| Net investment income   | \$ 435,067   | \$ 252,346   |
| Net realized gain (loss) on:  |  |  |
| Investments   | 884,314  | 7,067,731  |
| Foreign currency transactions   | 110,259  | (13,650)   |
| Net change in unrealized depreciation on:   |  |  |
| Investments in equity securities  | (11,017,010)   | (5,579,598)  |
| Translation of short term investments and other assets and liabilities denominated in foreign currency                                      | (36,697)   | (576)  |
| Net increase (decrease) in net assets resulting from operations   | (9,624,067)  | 1,726,253  |
| <b>Dividends and distributions to shareholders from:</b>  |  |  |
| Net investment income   |  | (1,297,949)  |
| <b>From capital stock transactions:</b>   |  |  |
| Sale of capital stock resulting from:   |  |  |
| Reinvestment of dividends   |  | 84,221   |
| Net increase (decrease) in net assets   | (9,624,067)  | 512,525  |
| <b>Net assets:</b>  |  |  |
| Beginning of period   | 124,291,460  | 123,778,935  |
| End of period (including undistributed net investment income and accumulated net investment loss of \$36,880 and \$(398,186), respectively) | \$ 114,667,393   | \$ 124,291,460   |

See accompanying notes to financial statements.

*The Japan Equity Fund, Inc.*

## Notes to Financial Statements

### 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 accounting principles generally accepted in the United States of America 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 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 of 1986 applicable to regulated investment companies. Accordingly, no provision for federal income 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 7% on interest and 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 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.

*The Japan Equity Fund, Inc.*

## Notes to Financial Statements (continued)

*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 tax purposes are reported as distributions of paid-in-capital.

*New Accounting Pronouncement* In July 2006, Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109 (FIN 48) was issued and is effective for fiscal years beginning after December 15, 2006. FIN 48 sets forth a threshold for financial statement recognition, measurement and disclosure of a tax position taken or expected to be taken on a tax return. Management has concluded that the adoption of FIN 48 did not result in a material impact to the Fund's net assets, results of operations and financial statement disclosures. Management will continue to monitor the Fund's tax positions prospectively for potential future impacts.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( FAS 157 ). FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FAS 157 applies to reporting periods beginning after November 15, 2007. The adoption of FAS 157 is not expected to have a material impact on the Fund's financial statements.

## 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* ), 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 60% of this fee is paid by the Manager to DSBI. In addition, the Fund has agreed to reimburse the Manager and the Adviser for all out-of-pocket expenses related to the Fund. For the six months ended April 30, 2008, expenses of \$7,871 were paid to the Manager, representing reimbursement to the Manager of costs relating to the attendance by its employees at meetings of the Fund's Board. No such expenses were paid to the Adviser.

At April 30, 2008, the Fund owed \$29,569 to the Manager.

## 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. In addition, as permitted by the Administration Agreement, the Fund reimburses the Administrator for its out-of-pocket expenses related to the Fund. For the six months ended April 30, 2008, expenses of \$11,491 were paid to the Administrator, representing reimbursement to the Administrator of costs relating to the attendance by its employees at meetings of the Fund's Board.

The Board of Directors of the Fund has also approved the payment of the administrative compliance expense for the Fund in the amount of \$75,000 per annum to DSTC, for services provided by DSTC staff in implementing the Fund's compliance management system and the Fund's compliance review program. This amount is included in the administration fee in the Fund's Statement of Operations.





*The Japan Equity Fund, Inc.*

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 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, 2008, DSTC and the Sub-Custodian earned \$29,398 and \$65,754, respectively, as compensation for custodial service to the Fund.

At April 30, 2008, the Fund owed \$15,604, \$6,250 and \$4,858 to DSTC for administration, compliance and custodian fees, respectively, excluding fees and expenses of \$9,067 payable to the Sub-Custodian.

During the six months ended April 30, 2008, the Fund paid or accrued \$19,891 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 consultant.

### **Investments in Securities and Federal Income Tax Matters**

For federal income tax purposes, the cost of securities owned at April 30, 2008 was \$106,769,228, excluding short-term interest bearing investments. At April 30, 2008, the net unrealized appreciation of investments for federal income tax purposes, excluding short-term securities, of \$6,085,200 was composed of gross appreciation of \$12,353,712 for those investments having an excess of value over cost, and gross depreciation of \$6,268,512 for those investments having an excess of cost over value. For the six months ended April 30, 2008, total aggregate purchases and sales of portfolio securities, excluding short-term securities, were \$19,588,234 and \$19,510,360, respectively.

At October 31, 2007, the Fund had a remaining capital loss carryover of \$17,908,676, of which \$12,645,344 expires in the year 2010 and \$5,263,332 expires in the year 2011, available to offset future net capital gains.

### **Capital Stock**

There are 30,000,000 shares of \$.01 par value common stock authorized. Of the 14,431,605 shares of the Fund outstanding at April 30, 2008, Daiwa Securities America Inc., an affiliate of the Manager, Adviser and DSTC, owned 14,790 shares.

*The Japan Equity Fund, Inc.***Financial Highlights**

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

|   | <b>For the Six<br/>Months Ended<br/>April 30,<br/>2008<br/>(unaudited)</b> | <b>For the Years Ended October 31,</b> |             |             | <b>2004</b> | <b>2003</b> |
|---|--|--|-------------|-------------|-------------|-------------|
|   |  | <b>2007</b>                            | <b>2006</b> | <b>2005</b> |             |             |
| Net asset value, beginning of period  | \$ 8.61  | \$ 8.58                                | \$ 7.79     | \$ 6.24     | \$ 6.00     | \$ 4.54     |
| Net investment income (loss)  | 0.03   | 0.02                                   | 0.01        | *           | *           | (0.02)      |
| Net realized and unrealized gains (losses) on investment and foreign currency transactions  | (0.69)   | 0.10                                   | 0.83        | 1.55        | 0.39        | 1.48        |
| Net increase (decrease) in net asset value resulting from operations                        | (0.66)   | 0.12                                   | 0.84        | 1.55        | 0.39        | 1.46        |
| Less: dividends and distributions to shareholders   |  |  |             |             |             |             |
| Net investment income   |  | (0.09)                                 | (0.05)      |             |             |             |
| Dilutive effect of rights offering  |  |  |             |             | (0.12)      |             |
| Offering costs charged to paid-in capital in excess of par value                            |  |  |             |             | (0.03)      |             |
| Net asset value, end of period  | \$ 7.95  | \$ 8.61                                | \$ 8.58     | \$ 7.79     | \$ 6.24     | \$ 6.00     |
| Per share market value, end of period   | \$ 7.40  | \$ 7.97                                | \$ 8.14     | \$ 8.51     | \$ 6.08     | \$ 7.16     |
| Total investment return:  |  |  |             |             |             |             |
| Based on market price at beginning and end of period, assuming reinvestment of dividends    | (7.15)%  | (1.05)%                                | (3.68)%     | 39.97%      | (11.70)%    | 72.53%      |
| Based on net asset value at beginning and end of period, assuming reinvestment of dividends | (7.67)%  | 1.42%                                  | 10.91%      | 24.84%      | 5.74%       | 32.16%      |
| Ratios and supplemental data:   |  |  |             |             |             |             |
| Net assets, end of period (in millions)   | \$ 114.7   | \$124.3                                | \$ 123.8    | \$ 112.4    | \$ 90.0     | \$ 64.9     |
| Ratios to average net assets of:  |  |  |             |             |             |             |
| Expenses  | 1.10%**  | 0.95%                                  | 0.94%       | 1.07%       | 1.12%       | 1.50%       |
| Net investment income (loss)  | 0.78%**  | 0.20%                                  | 0.12%       | 0.07%       | (0.06)%     | (0.48)%     |
| Portfolio turnover  | 17.19%   | 61.22%                                 | 59.36%      | 72.35%      | 90.03%      | 84.00%      |

For the year ended October 31, 2004, the total investment return includes the benefit of shares resulting from the exercise of rights.

\* Represents less than \$0.005 per share.

\*\* Annualized.

*The Japan Equity Fund, Inc.***Results of Annual Meeting of Stockholders (unaudited)**

On June 2, 2008, 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 one Class I Director 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 2009. Election of one Class II Director 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 2010. Election of two Class III 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 2011.

| <b>Number of Shares/Votes</b> | <b>Voted For</b> | <b>Withheld</b> |
|-------------------------------|------------------|-----------------|
| <b>Class I</b>                |                  |                 |
| Yoshihiro Fujisawa            | 11,071,809       | 1,195,697       |
| <b>Class II</b>               |                  |                 |
| Rahn K. Porter                | 11,074,494       | 1,193,012       |
| <b>Class III</b>              |                  |                 |
| Austin C. Dowling             | 11,029,049       | 1,238,457       |
| Richard J. Herring            | 11,073,959       | 1,193,547       |

In addition to the Directors re-elected at the Meeting, Martin J. Gruber and David G. Harmer were the other members of the Board who continued to serve as Directors of the Fund.

**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**

Yoshihiro Fujisawa, *Chairman*  
Austin C. Dowling  
Martin J. Gruber  
David G. Harmer  
Richard J. Herring  
Rahn K. Porter

**OFFICERS**

Hideo Tanaka  
*President*  
John J. O'Keefe  
*Vice President and Treasurer*  
Yuko Tatezawa  
*Secretary*  
Anthony Cambria  
*Chief Compliance Officer*  
Leonard B. Mackey, Jr.  
*Assistant Secretary*

**ADDRESS OF THE FUND**

c/o Daiwa Securities Trust Company  
One Evertrust Plaza, 9th Floor  
Jersey City, NJ 07302-3051

**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**

American Stock Transfer & Trust Company

**LEGAL COUNSEL**

Clifford Chance US LLP

**INDEPENDENT REGISTERED PUBLIC**

**ACCOUNTING FIRM**

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 the Independent Registered Public Accounting Firm which

**Semi-Annual Report**

**April 30, 2008**

**The Japan Equity Fund, Inc.**

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

**INVESTMENT MANAGER**

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

**INVESTMENT ADVISER**

Daiwa SB Investments Ltd.

does not express an opinion thereon.

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**Item 2. Code of Ethics.**

Not applicable for this semi-annual report.

**Item 3. Audit Committee Financial Expert.**

Not applicable for this semi-annual report.

**Item 4. Principal Accountant Fees and Services.**

Not applicable for this semi-annual report.

**Item 5. Audit Committee of Listed Registrants.**

Not applicable for this semi-annual report.

**Item 6. Schedule of Investments.**

A Schedule of Investments is included as part of the report to shareholders filed under Item 1.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

Not applicable for this semi-annual report.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

Not applicable for this semi-annual report.

**Item 9. Purchase of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**

Not applicable for this semi-annual report.

**Item 10. Submission of Matters to a Vote of Security Holders.**

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors.

**Item 11. Controls and Procedures.**

- (a) The registrant's principal executive and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this Form N-CSR based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the 1934 Act (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 12. Exhibits.**

(a) Code of Ethics for Principal Executive and Senior Financial Officers.  
Not applicable for this semi-annual report.

(b) Certifications required by Rule 30a-2(a) of the Investment Company Act of 1940, as amended, and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

(c) Proxy Voting Guidelines for the registrant and its adviser.  
Not applicable for this semi-annual report.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Japan Equity Fund, Inc.

By  \s\ John J. O Keefe

John J. O Keefe, Vice President and Treasurer

Date: June 16, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By  \s\ John J. O Keefe

John J. O Keefe, Vice President and Treasurer

Date: June 16, 2008

By  \s\ Yoshihiro Fujisawa

Yoshihiro Fujisawa, Chairman

Date: June 16, 2008

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EXHIBIT 12 (b)

**CERTIFICATION**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John J. O Keefe, certify that:

1. I have reviewed this report on Form N-CSR of The Japan Equity Fund, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, changes in net assets, and cash flows (if the financial statements are required to include a statement of cash flows) of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: June 16, 2008

\s\ John J. O Keefe

John J. O Keefe, Vice President and Treasurer

**CERTIFICATION**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Yoshihiro Fujisawa, certify that:

1. I have reviewed this report on Form N-CSR of The Japan Equity Fund, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, changes in net assets, and cash flows (if the financial statements are required to include a statement of cash flows) of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: June 16, 2008

By Yoshihiro Fujisawa

Yoshihiro Fujisawa, Chairman

**CERTIFICATION**

**PURSUANT TO SECTION 906**

**OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the Vice President & Treasurer of The Japan Equity Fund, Inc. (the Fund ), with respect to the Form N-CSR for the period ended April 30, 2008 as filed with the Securities and Exchange Commission, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. such Form N-CSR fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in such Form N-CSR fairly presents, in all material respects, the financial condition and results of operations of the Funds.

Dated: June 16, 2008

\s\ John J. O Keefe

John J. O Keefe, Vice President and Treasurer

This certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION**

**PURSUANT TO SECTION 906**

**OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the Chairman of The Japan Equity Fund, Inc. (the Fund ), with respect to the Form N-CSR for the period ended April 30, 2008 as filed with the Securities and Exchange Commission, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. such Form N-CSR fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in such Form N-CSR fairly presents, in all material respects, the financial condition and results of operations of the Funds.

Dated: June 16, 2008

\s\ Yoshihiro Fujisawa

Yoshihiro Fujisawa, Chairman

This certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.