

JAPAN EQUITY FUND INC

Form N-CSR

January 10, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM NCSR

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, 2004

DATE OF REPORTING PERIOD: October 31, 2004

Item 1. Reports to Stockholders.  
ANNUAL REPORT  
OCTOBER 31, 2004

[JAPAN EQUITY FUND LOGO]

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.

THE JAPAN EQUITY FUND, INC.

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### GENERAL INFORMATION

#### 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 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, a list of the Fund's top ten industries and holdings, the proxy voting policies and procedures, the code of ethics and the audit committee charter.

#### Inquiries

Inquiries concerning your share account should be directed to EquiServe Trust Company, N.A. (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, 9th 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 Investment Manager to vote proxies relating to the Fund's portfolio securities is available (1) without charge, upon request, by calling (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 Investment Manager votes these proxies is now available by calling the same number and the Commission's website. The Fund has filed its first report on Form N-PX covering the Fund's proxy voting record for the 12-month period ended June 30, 2004.

#### Quarterly Portfolio of Investments

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A Portfolio of Investments will be filed as of the end of the first and third quarter of each fiscal year on Form N-Q and will be available on the Commission's website at [www.sec.gov](http://www.sec.gov). 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.

### 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 from the Plan Agent by calling (800) 426-5523 or by writing The Japan Equity Fund, Inc., c/o EquiServe Trust Company, N.A., P.O. Box 43010, Providence, RI 02940-3010.

A brief summary of the material aspects of the Plan follows:

Who can participate in the Plan? If you wish to participate and your shares are held in your name, you may elect to become a direct participant in the Plan by completing and mailing the Enrollment Authorization form on the back cover of the Dividend Reinvestment and Cash Purchase Plan Brochure available from the Plan Agent.

However, if your shares are held in the name of a brokerage firm, bank or nominee, you should instruct your nominee to participate in the Plan on your behalf. If your nominee is unable to participate in the Plan for you, you should request that your shares be registered in your name, so that you may elect to participate directly in the Plan.

May I withdraw from the Plan? If your shares are held in your name and you wish to receive all dividends and capital gain distributions in cash rather than in shares, you may withdraw from the Plan without penalty at any time by contacting the Plan Agent. If your shares are held in nominee name, you should be able to withdraw from the Plan without a penalty at any time by sending written notice to your nominee. If you withdraw, you or your nominee will receive a share certificate for all full shares or, if you wish, the Plan Agent will sell your shares and send you the proceeds, after the deduction of brokerage commissions. The Plan Agent will convert any fractional shares to cash at the then-current market price and send to you a check for the proceeds.

How are the dividends and distributions reinvested?

If the market price of the Fund's shares on the payment date should equal or exceed their net asset value per share, the Fund will issue new shares to you at the higher of net asset value or 95% of the then-current market price. If the market price is lower than net asset value per share, the Fund will issue new shares to you at the market price. If the dividends or distributions are declared and payable as cash only, you will receive shares purchased for you by the Plan Agent on the NYSE or otherwise on the open market to the extent available.

What is the Cash Purchase feature? The Plan participants have the option of making annual investments

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in Fund shares through the Plan Agent. You may invest any amount from \$100 to \$3,000 annually. The Plan Agent will purchase shares for you on the NYSE or otherwise on the open market on or about February 15th of each year. Plan participants should send voluntary cash payments to be received by the Plan Agent approximately ten days before the annual purchase date. The Plan Agent will return any cash payments received more than thirty days prior to the purchase date. You may withdraw a voluntary cash payment by written notice, if the notice is received by the Plan Agent not less than two business days before the purchase date.

Is there a cost to participate? There are no Plan charges or brokerage charges for shares issued directly by the Fund. However, each participant will pay a pro rata portion of brokerage commissions for shares purchased on the NYSE or on the open market by the Plan Agent.

What are the tax implications? The automatic reinvestment of dividends and distributions does not relieve you of any income tax which may be payable (or required to be withheld) on such dividends and distributions. In addition, the Plan Agent will reinvest dividends for foreign participants and for any participant subject to federal backup withholding after the deduction of the amounts required to be withheld.

Please note that, if you participate in the Plan through a brokerage account, you may not be able to continue as a participant if you transfer those shares to another broker. Contact your broker or nominee or the Plan Agent to ascertain what is the best arrangement for you to participate in the Plan.

November 18, 2004

Dear Shareholders:

It is our pleasure on behalf of the Board of Directors to present the Annual Report for The Japan Equity Fund, Inc. (the "Fund") for the fiscal year ended October 31, 2004. Performance and Review of the Japanese Stock Market (November 2003 - October 2004) As of the year ended October 31, 2004, the Tokyo Stock Exchange continued to recover from the 20-year low level in April 2003. Advances in the stock market from the spring of 2003 continued until spring 2004, then the market remained in a trading range roughly between 1050 and 1200, as measured by the TOPIX Index ("TOPIX"). Stock market performance appeared to have reflected the underlying economy-Japan's real GDP growth rate turned positive in the third quarter of 2003 and nominal GDP turned positive in the fourth quarter of 2003. The surge in the TOPIX, from 788 in March 2003 to 1090 in June 2004 coincided with the improvement in the real economy. Steadily growing economies in the Americas, Europe and Asia also helped the performance of Japan's stock markets. Positive factors overcame concerns in the market such as geopolitical uncertainty in the Middle East, rising oil prices and high metal prices. The TOPIX has hovered around 1100 since May

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2004.

During the year ended October 31, 2004, shipping companies, tire makers and financial service companies were the top performing sectors, while security brokers, telecommunication and IT servicers and technology companies were the bottom performing sectors. Strong performance of shipping companies and tire companies reflect favorable operating conditions. Trade with China grew stronger over the period and, therefore, increased demand for ships to carry goods to and from China. Shipping charges increased with this strong demand. Japanese tire makers also enjoyed positive operating conditions as tire demand for new cars and replacement vehicles stayed firm, while many finance companies enjoyed low interest rates and decreased personal bankruptcies. Meanwhile, securities brokers in Japan had a tough time despite the high level of securities trading volume because fast-growing internet-based securities brokers brought down commission charges drastically. Telephone operators struggled with new entrants and saturation in the mobile telephone market in Japan. Technology companies' share prices performed poorly, despite quite favorable operating conditions. Market participants seemed to fear a peak-out in the underlying boom in electronic goods. Mobile phones, digital still cameras and flat panel TVs were expected to drive the sector's growth. They grew significantly until the summer of 2004, but they have faced a demand slow-down and decline since then. Examples of top performers and bottom performers among the major names in the TOPIX are as follows: Sumitomo Rubber gained 65% over the year. Tire makers enjoyed good market conditions and, for Sumitomo Rubber, the introduction of a new golf club through one of its diversified businesses sold extremely well. Kawasaki Kisen, a marine transportation company, returned 56% over the year, enjoying strong demand. Sanyo Shinpan gained 55% and Credit Saison gained 43%, as these consumer finance companies benefited from low interest rates and decreased personal bankruptcies. Mizuho Financial Group, a large banking and financial services company, gained 48% as sentiment towards banks improved. On the other hand, the share price of NTT Data, Japan's largest computer service company, declined 44% over the year. Severe competition hurt IT service companies. NEC, a large maker of mobile phones, telecommunication equipment and a provider of computer services, lost 43% over the year. Nikon, a maker of cameras and semiconductor production equipment, lost 42% over the period. Nomura Holdings, Japan's largest securities brokerage company, lost 35% over the year as tough competition damaged the giant. NTT Docomo, Japan's predominant mobile phone operator, lost 25% over the year as growth expectations for the company diminished and competition became tougher.

Performance/Attribution Analysis

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Table 1. Performance in comparison with the benchmark (TOPIX), U.S. Dollar ("USD") base

Latest 12 Months  
(As of October 31, 2004)  
%

Japan Equity Fund (time weighted return)  
6.13  
Benchmark (TOPIX)  
6.60  
Difference  
-0.47

Table 2. Attribution Analysis Summary, Japanese Yen ("JPY") base (Latest 12 Months)

Latest 12 Months  
(As of October 31, 2004)  
%

Portfolio (Equity Only)  
7.33  
Benchmark (TOPIX)  
4.03  
Difference  
3.30  
Breakdown

Sector Selection  
-0.34  
Stock Selection  
3.64  
Total  
3.30

Table 3. Portfolio Return (Equity Only) vs. Benchmark Return, JPY base (monthly)

Portfolio  
Return  
(A)  
(%)  
Benchmark  
Return  
(B)  
(%)  
Relative  
Return  
(A) - (B)  
(%)  
Sector  
Selection  
Effect  
(%)  
Stock

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Selection  
Effect  
(%)  
2003  
November  
-3.46  
-4.17  
0.71  
-0.18  
0.77  
  
December  
5.12  
4.44  
0.68  
0.01  
0.71  
2004  
January  
1.14  
0.37  
0.77  
-0.01  
0.74  
  
February  
2.73  
3.36  
-0.63  
-0.12  
-0.63  
  
March  
9.77  
9.48  
0.29  
-0.36  
0.67  
  
April  
0.46  
0.60  
-0.14  
0.19  
-0.32  
  
May  
-3.68  
-3.90  
0.22  
-0.06  
0.31  
  
June  
4.89  
4.43  
0.46  
0.09  
0.45  
  
July  
-4.78

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-4.23  
-0.55  
0.06  
-0.56

August  
-1.60  
-0.84  
-0.76  
-0.09  
-0.69

September  
-1.88  
-2.06  
0.18  
0.18  
0.02

October  
-1.79  
-1.51  
-0.28  
-0.07  
-0.24

Source: Tokyo Stock Exchange

Table 4. Attribution Analysis Breakdown, JPY base  
(Latest 12 Months)

Portfolio  
Weight  
(%)  
Benchmark  
Weight  
(%)  
Portfolio  
Return  
(%)  
Benchmark  
Return  
(%)  
Sector  
Selection  
Effect  
(%)  
Stock  
Selection  
Effect  
(%)

Technology  
17.43  
15.13  
-3.86  
-6.35  
-0.06  
0.47  
Automobile  
12.54  
11.74



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30.00  
20.80  
0.18  
0.86  
Machinery  
3.80  
3.55  
0.79  
9.36  
0.01  
-0.29  
Pharmaceutical  
4.74  
4.46  
31.93  
23.86  
-0.09  
0.30  
Personal Consumption  
7.22  
7.31  
7.44  
5.55  
0.02  
0.14  
Service  
2.94  
3.59  
6.65  
2.81  
0.01  
0.16  
Construction/Property  
3.51  
3.92  
11.21  
3.71  
-0.01  
0.25  
Metal/Glass  
6.52  
5.46  
6.98  
12.12  
-0.05  
-0.27  
Chemical/Textile  
7.86  
6.90  
1.83  
6.86  
0.00  
-0.36  
Wholesale/Transportation  
7.74  
8.24  
10.19  
4.95  
-0.05  
0.44  
Finance  
14.41

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16.71  
1.86  
10.59  
-0.28  
-1.43  
Telecom  
7.44  
9.03  
-4.80  
-11.97  
-0.02  
0.81  
Public Utility  
3.85  
3.96  
10.41  
7.41  
-0.02  
0.12  
Total  
100.00  
100.00  
6.06  
5.14  
-0.34  
1.20

### Comment

As shown in Table 1, the net asset value ("NAV") of the Fund increased by 6.13% in USD terms during the twelve months from November 1, 2003 to October 31, 2004. Over the same period, the benchmark (TOPIX) gained 6.60% in USD terms. The appreciation of the JPY against the USD was a positive factor for the absolute return in the NAV. Table 2 shows that the performance of the equity portion of the portfolio, excluding expenses and some cash positions in JPY terms was 7.33%, in comparison with 4.03% for the benchmark, indicating out-performance on this basis.

#### Attribution Analysis Throughout the Period (Stock Selection)

The attribution analysis indicates that stocks held in the Automobile (+0.86%), Telecom (+0.81%) and Technology sectors (+0.47%) helped the relative result. On the other hand, stocks held in the Financial sector (-1.43%) adversely affected the relative return. The overall stock selection effect (+1.20%) contributed positively to the portfolio.

#### (Sector Selection)

The attribution analysis also shows that an underweight in the Finance sector resulted in a negative contribution (-0.28%). An overweight position in the Autos sector made a positive contribution (+0.18%) to the portfolio.

### Outlook & Strategy

The Tokyo market appears to be in a consolidation phase since this summer, after the rally through mid-April. The TOPIX has been hovering in a range

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between 1150 and 1050 since the summer, with limited volatility in the stock market. We view that current adjustment in the market as a stage of the market to incorporate an inevitable downturn in some of the cyclical businesses like technology, machinery and materials. As the market seems to factor-in potential negative news, we believe that the market will be well prepared to advance when this process is over. It is very hard to see what time-frame the market will take from here, but the market has already been consolidating for six months, despite a healthy underlying economy. The response by the market to future economic growth, we believe, could be quite quick because of long period of consolidation. We believe the next advance stage, when it comes, will be quite different from the pattern of advance in 2003 and 2004. The rebound in the stock market so far was a response to the bottoming of the economy from quite a depressed state. Financially weak companies and smaller companies fared well in this environment. The next stage, we think, will be led by higher-quality companies with better balance sheets and sustainable growth characteristics. We will be modifying the portfolio gradually to be prepared for this stage.

### Fund Performance

During the year ended October 31, 2004, the Fund's market price on the New York Stock Exchange ("NYSE") ranged from a low of \$6.15 per share on December 18, 2003 to a high of \$7.75 on April 12, 2004. The Fund's NYSE market price closed at \$6.08 per share on October 31, 2004. The NYSE trading price in relation to the Fund's net asset value per share, as measured by the weekly closing prices during the year ended October 31, 2004, ranged from a discount of 5.89% on July 1, 2004 to a high premium of 22.90% on November 6, 2003, and ended the period at a discount of 2.56%.

On December 23, 2003, the Fund successfully completed a rights offering resulting in the issuance of 3,605,229 new shares, representing proceeds to the Fund of approximately \$19.4 million, after deducting expenses.

The Fund has not invested 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. ("DSBI") for all North American clients. A senior member of the Investment Policy Committee (IPC) of DSBI, Mr. Ogawa has 29 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. Atsuhiko Masuda, CFA is a Senior Portfolio Manager, with

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a total of 16 years of experience in the Japanese equity market. He joined Daiwa in 2003 after spending two years as a Senior Fund Manager for Invesco Asset Management. From 1995 to 2001 he was a Fund Manager for Deutsche Asset Management and from 1988 to 1993 he was an advisor in the Corporate Finance Division of Morgan Grenfell & Company. In 1995 he earned an MBA from the Wharton School at the University of Pennsylvania and in 1988 he graduated from Keio University with a B.A. in Economics. He assumed the day-to-day portfolio management responsibility for the Fund effective July 1, 2004.

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

Sincerely,

/s/ Hiroshi Kimura

/s/ Shunsuke Ichijo

HIROSHI KIMURA

SHUNSUKE ICHIJO

Chairman of the Board

President

Portfolio of Investments

October 31, 2004

COMMON STOCKS--98.01%

Shares

Value

Banks-7.93%

347

Mitsubishi Tokyo Financial Group Inc.

\$2,946,504

400

Mizuho Financial Group, Inc.

1,543,542

150,000

The Bank of Yokohama, Ltd.

897,254

300,000

The Sumitomo Trust & Banking Co., Ltd.

1,749,222

Chemicals-8.26%

7,136,522

96,000

Asahi Organic Chemicals Industry Co., Ltd.

278,064

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275,000  
Denki Kagaku Kogyo Kabushiki Kaisha  
835,456  
54,000  
Kao Corp.  
1,245,684  
92,000  
Konica Minolta Holdings, Inc.  
1,227,361  
63,000  
Shin-Etsu Chemical Co., Ltd.  
2,395,415  
300,000  
Sumitomo Chemical Co., Ltd.  
1,454,854

7,436,834  
Communications-6.71%

240  
KDDI Corp.  
1,154,826  
200  
NTT Corp.  
849,137  
1,480  
NTT DoCoMo, Inc.  
2,611,190  
56,000  
Tokyo Broadcasting System, Inc.  
897,141  
11,000  
Trend Micro Inc.  
527,220

6,039,514  
Construction-2.50%

56,000  
Daiwa House Industry Co., Ltd.  
572,733  
135,000  
Maeda Corp.  
590,999  
116,000  
Obayashi Corp.  
623,832  
110,000  
Shimizu Corp.  
467,025

2,254,589  
Electric Appliances-13.01%

32,000  
Canon Inc.

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1,579,017  
10,000  
Hirose Electric Co., Ltd.  
991,603  
60,000  
Hitachi Ltd.  
377,583  
6,200  
Kyocera Corp.  
449,835  
13,000  
Mabuchi Motor Co., Ltd.  
965,280  
191,000  
Matsushita Electric Industrial Co., Ltd.  
2,769,761  
11,200  
NEC Electronics Corp.  
547,372  
10,000  
Rohm Co., Ltd.  
1,026,512  
108,000  
Sharp Corp.  
1,491,763  
500  
Sumida Corp.  
12,053  
7,500  
TDK Corp.  
520,804  
18,100  
Tokyo Electron Ltd.  
981,932

11,713,515  
Electric Power & Gas-3.75%

5,300  
Electric Power Development Co., Ltd.  
\$138,513  
85,000  
Tohoku Electric Power Co., Inc.  
1,450,750  
79,000  
Tokyo Electric Power Co., Inc.  
1,788,848

3,378,111  
Foods-1.62%

43,000  
Asahi Breweries, Ltd.  
443,023  
88,000  
Fuji Oil Co., Ltd.  
1,011,265

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1,454,288  
Glass & Ceramic Products-1.86%

96,000  
NGK Spark Plug Co., Ltd.  
943,787  
218,000  
Nippon Sheet Glass Co., Ltd.  
734,277

1,678,064  
Insurance-1.98%

192,000  
Nissay Dowa General Insurance Co., Ltd.  
898,500  
20,000  
T&D Holdings Inc.  
883,102

1,781,602  
Iron & Steel-1.73%

664,000  
Nippon Steel Corp.  
1,553,656

Land Transportation-2.55%

275  
East Japan Railway Co.  
1,445,184  
105,000  
Fukuyama Transporting Co., Ltd.  
419,049  
90,000  
Nippon Express Co., Ltd.  
433,909

2,298,142  
Machinery-5.35%

51,400  
Miura Co., Ltd.  
805,019  
100,000  
NSK Ltd.  
430,229  
78,000  
Ricoh Co., Ltd.  
1,457,119

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15,000  
SMC Corp.  
1,606,284  
65,000  
Toyoda Machine Works, Ltd.  
513,916

4,812,567  
Marine Transportation-1.23%

220,000  
Nippon Yusen Kabushiki Kaisha  
1,106,331

Non-Ferrous Metals-2.80%

139,000  
Mitsui Mining & Smelting Co., Ltd.  
549,495  
162,000  
Sumitomo Electric Industries, Ltd.  
1,536,088  
65,000  
Sumitomo Metal Mining Co., Ltd.  
438,485

2,524,068  
Other Financing Business-2.52%

53,000  
Hitachi Capital Corp.  
865,582  
12,000  
Orix Corp.  
1,407,303

2,272,885  
Other Products-2.31%

48,300  
Bandai Co., Ltd.  
1,057,232  
9,100  
Nintendo Co., Ltd.  
1,026,852

2,084,084  
Pharmaceutical-4.63%

33,300  
Eisai Co., Ltd.



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\$958,251  
40,000  
Takeda Pharmaceutical Co., Ltd.  
1,932,258  
36,000  
Tanabe Seiyaku Co., Ltd.  
327,087  
26,000  
Yamanouchi Pharmaceutical Co., Ltd.  
954,241

4,171,837  
Precision Instruments-1.11%

40,000  
Terumo Corp.  
996,320  
Pulp & Paper-0.80%

162  
Nippon Paper Group Inc.  
719,898  
Real Estate-0.94%

80,000  
Mitsui Fudosan Co., Ltd.  
849,137  
Retail Trade-5.45%

13,300  
Fast Retailing Co., Ltd.  
845,759  
55,000  
Isetan Co., Ltd.  
560,430  
12,000  
Ito-Yokado Co., Ltd.  
430,229  
45,000  
Marui Co., Ltd.  
564,251  
37,000  
Seven-Eleven Japan Co., Ltd.  
1,071,705  
6,000  
Shimamura Co., Ltd.  
439,853  
36,900  
Sundrug Co., Ltd.  
993,957

4,906,184  
Rubber Products-1.55%

24,000

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Bridgestone Corp.

434,758

270,000

Yokohama Rubber Co., Ltd.

960,374

1,395,132

Securities-1.73%

127,000

Nomura Holdings Inc.

1,557,694

Services-1.15%

6,000

Nomura Research Institute, Ltd.

524,200

14,000

Secom Co., Ltd.

508,539

1,032,739

Transportation Equipment-10.75%

36,000

Denso Corp.

862,723

55,000

Honda Motor Co., Ltd.

2,656,854

43,000

Showa Corp.

568,384

55,000

Tokai Rika Co., Ltd.

953,769

119,000

Toyota Motor Corp.

4,636,947

9,678,677

Wholesale Trade-3.79%

129,000

Mitsui & Co., Ltd.

1,084,432

332

Net One Systems Co., Ltd.

1,265,478

143,000

Sumitomo Corp.

1,064,506

3,414,416

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Total Common Stocks

(Cost-\$82,931,260)  
88,246,806

SHORT-TERM INVESTMENTS--0.01%

Principal  
Amount  
(000)

Value

U.S. DOLLAR TIME DEPOSIT-0.01%

\$8 Bank of New York Time Deposit, 0.05% due 11/1/04  
(Cost-\$8,109)

\$8,109

Total Investments-98.02%

(Cost-\$82,939,370)

88,254,915

Other assets less liabilities-1.98%

1,784,972

NET ASSETS (Applicable to 14,420,917 shares of capital stock  
outstanding; equivalent to \$6.24 per share)-100.00%

\$90,039,887

See accompanying notes to financial statements.

TEN LARGEST EQUITY

POSITIONS HELD

October 31, 2004

Issue

Percent of

Net Assets

Toyota Motor Corp.

5.15%

Mitsubishi Tokyo Financial Group Inc.

3.27

Matsushita Electric Industrial Co., Ltd.

3.08

Honda Motor Co., Ltd.

2.95

NTT DoCoMo, Inc.

2.90

Shin-Etsu Chemical Co., Ltd.

2.66

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Takeda Pharmaceutical Co., Ltd.  
2.15  
Tokyo Electric Power Co., Inc.  
.99  
The Sumitomo Trust & Banking Co., Ltd.  
1.94  
SMC Corp.  
1.78

### EQUITY

#### CLASSIFICATIONS HELD

October 31, 2004

#### Industry

Percent of

Net Assets

Electric Appliances

13.01%

Transportation Equipment

10.75

Chemicals

8.26

Banks

7.93

Communication

6.71

Retail Trade

5.45

Machinery

5.35

Pharmaceutical

4.63

Wholesale Trade

3.79

Electric Power & Gas

3.75

Non-Ferrous Metals

2.80

Land Transportation

2.55

Other Financing Business

2.52

Construction

2.50

Other Products

2.31

Insurance

1.98

Glass & Ceramic Products

1.86

Securities

1.73

Iron & Steel

1.73

Foods

1.62

Rubber Products

1.55

Marine Transportation

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1.23  
Services  
1.15  
Precision Instruments  
1.11  
Real Estate  
0.94  
Pulp & Paper  
0.80

Statement of Assets and Liabilities  
October 31, 2004  
Assets

Investment in securities, at value (cost-\$82,939,370)  
\$88,254,915  
Cash denominated in foreign currency (cost-\$1,879,070)  
1,895,985  
Receivable for securities sold  
547,467  
Interest and dividends receivable  
363,651  
Prepaid expenses  
39,192  
Total assets  
91,101,210  
Liabilities

Payable for securities purchased  
921,401  
Accrued expenses and other liabilities  
139,922  
Total liabilities  
1,061,323  
Net Assets

Capital stock, \$0.01 par value per share; total 30,000,000  
shares authorized;  
14,420,917 shares issued and outstanding  
144,209  
Paid-in capital in excess of par value  
126,488,135  
Accumulated net realized loss on investments  
(41,939,851)  
Net unrealized appreciation on investments and other assets  
and liabilities  
denominated in foreign currency  
5,347,394  
Net assets applicable to shares outstanding  
\$90,039,887  
Net Asset Value Per Share  
\$6.24

See accompanying notes to financial statements.

Statement of Operations  
For the Year Ended October 31, 2004  
Investment Income:

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Dividends (net of withholding taxes of \$69,077)  
\$915,720  
Interest  
188  
Total investment income  
915,908  
Expenses:

Investment management fee  
312,745  
Administration fee and expenses  
163,908  
Custodian fees and expenses  
139,102  
Audit and tax services  
79,950  
Reports and notices to shareholders  
64,634  
Legal fees and expenses  
60,414  
Insurance expense  
47,885  
Directors' fees and expenses  
29,350  
Transfer agency fee and expenses  
15,003  
Other  
51,010  
Total expenses  
964,001  
Net Investment Loss  
(48,093)  
Realized and unrealized gains from investment activities and  
foreign currency  
transactions:

Net realized gains on investments  
6,197,993  
Net realized foreign currency transaction losses  
(92,782)  
Net change in unrealized appreciation (depreciation) on  
investments in equity  
securities  
(393,278)  
Net change in unrealized appreciation (depreciation) on  
assets and liabilities  
denominated in foreign currency  
31,761  
Net realized and unrealized gains from investment activities  
and foreign currency  
transactions  
5,743,694  
Net increase in net assets resulting from operations  
\$5,695,601

See accompanying notes to financial statements.

Statement of Changes in Net Assets

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For the Years Ended  
October 31,

2004

2003

Increase (decrease) in net assets from operations:

Net investment loss

\$(48,093)

\$(253,257)

Net realized gain (loss) on:

Investments

6,197,993

(5,224,636)

Foreign currency transactions

(92,782)

209,459

Net change in unrealized appreciation (depreciation) on:

Investments in equity securities

(393,278)

21,082,931

Translation of short-term investments and other assets and  
liabilities denominated in foreign currency

31,761

(2,396)

Net increase in net assets resulting from operations

5,695,601

15,812,101

From capital stock transactions:

Sale of capital stock resulting from:

Net proceeds from the sale of common shares pursuant to  
rights offering

19,425,914

-

Net increase in net assets

25,121,515

15,812,101

Net assets:

Beginning of year

64,918,372

49,106,271

End of year

\$90,039,887

\$64,918,372

See accompanying notes to financial statements.

Notes To Financial Statements

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### 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 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 applicable to regulated investment companies. Accordingly, no provision for federal income or



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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 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. 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.

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 fee 60% 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 year ended October 31, 2004, there were no out-of-pocket expenses incurred by the Manager or the Adviser.

At October 31, 2004, the Fund owed \$27,026 to the Manager. Brokerage commissions of \$42,387 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 year ended October 31, 2004.

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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 year ended October 31, 2004, expenses of \$4,350 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.

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 year ended October 31, 2004, DSTC and the Sub-Custodian earned \$47,307 and \$91,795, respectively, as compensation for custodial service to the Fund. At October 31, 2004, the Fund owed \$13,917 and \$3,957 to DSTC for administration and custodian fees, respectively, excluding fees and expenses of \$6,973 payable to the Sub-Custodian. During the year ended October 31, 2004, the Fund paid or accrued \$60,374 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 October 31, 2004 was \$83,019,154. At October 31, 2004, the net unrealized appreciation of investments for federal income tax purposes, excluding short-term securities, of \$5,227,652 was composed of gross appreciation of \$7,954,629 for those investments having an excess of value over cost, and gross depreciation of \$2,726,977 for those investments having an excess of cost over value. For the year ended October 31, 2004, total aggregate purchases and sales of portfolio securities, excluding short-term securities, were \$95,078,671 and \$75,519,346, respectively. In order to present undistributed net investment income and accumulated net realized loss on investments on the Statement of Assets and Liabilities that more closely represent their tax character, certain adjustments have been made to paid-in capital in excess of par value, undistributed net investment income and accumulated net realized loss on investments. For the year ended October 31, 2004, the adjustments were to

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decrease net investment loss by \$48,093, decrease accumulated net realized loss on investments by \$92,782 and decrease paid-in capital in excess of par by \$140,875, primarily relating to the Fund's net operating loss for the year ended October 31, 2004 and the reclassification of realized foreign currency losses. Net investment income, net realized losses and net assets were not affected by this change.

During the current year, the Fund utilized capital loss carryforwards of \$6,285,887.

At October 31, 2004, the Fund had a remaining capital loss carryover of \$41,851,957, of which \$16,888,593 expires in the year 2006, \$6,225,150 expires in the year 2009, \$13,474,882 expires in the year 2010 and \$5,263,332 expires in the year 2011 available to offset future net capital gains.

As of October 31, 2004, the Fund had no distributable earnings.

### Capital Stock

There are 30,000,000 shares of \$.01 par value common stock authorized. Of the 14,420,917 shares of the Fund outstanding at October 31, 2004, Daiwa Securities America Inc., an affiliate of the Manager, Adviser and DSTC, owns 14,532 shares. The Fund issued 3,605,229 shares on December 23, 2003 in connection with a rights offering of the Fund's shares, the proceeds of which, net of fees and expenses, were approximately \$19.4 million. Shareholders of record on December 4, 2003 were issued one transferable right for each share of common stock owned, entitling shareholders to acquire one newly-issued share of common stock for every three rights held at a subscription price of \$5.68, which was determined on December 23, 2003. Offering costs of approximately \$414,000 (\$0.03 per share), including \$100,000 paid to DSA, as reimbursement for its expenses incurred in acting as dealer manager, were charged to paid-in capital in excess of par value upon completion of the offering. Dealer manager and soliciting fees of \$637,580 (\$0.04 per share) were netted against the proceeds of the subscription. DSA earned approximately \$255,971 of the aforementioned fees with respect to its participation in the offering.

### Financial Highlights

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

For the Years Ended October 31,

2004
2003
2002
2001
2000
Net asset value, beginning of year
\$ 6.00

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\$ 4.54  
\$ 5.59  
\$ 8.35  
\$ 9.39

Net investment loss

(-)\*  
(0.02)  
(0.04)  
(0.04)  
(0.04)

Net realized and unrealized gains  
(losses) on investments and foreign  
currency transactions

0.39  
1.48  
(1.01)  
(2.72)  
(1.00)

Net increase (decrease) in net asset  
value resulting from operations

0.39  
1.46  
(1.05)  
(2.76)  
(1.04)

Dilutive effect of rights offering

(0.12)

-  
-  
-  
-

Offering costs charged to paid-in  
capital in excess of par value

(0.03)

-  
-  
-  
-

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Net asset value, end of year

\$	6.24
\$	6.00
\$	4.54
\$	5.59
\$	8.35

Per share market value, end of year

\$	6.080
\$	7.160
\$	4.150
\$	4.990
\$	7.063

Total investment return:

Based on market price at beginning  
and end of year+

(11.70)%
72.53%
(16.83)%
(29.35)%
(28.02)%

Based on net asset value at beginning  
and end of year+

5.74%
32.16%
(18.78)%
(33.05)%
(11.08)%

Ratios and supplemental data:

Net assets, end of year  
(in millions)

\$	90.0
\$	64.9
\$	49.1
\$	60.5
\$	90.3

Ratios to average net assets of:

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Expenses  
1.12%  
1.50%  
1.44%  
1.12%  
0.96%  
Net investment loss  
(0.06)%  
(0.48)%  
(0.74)%  
(0.51)%  
(0.48)%  
Portfolio turnover  
90.03%  
84.00%  
76.19%  
63.39%  
61.91%

---

\* Represents less than \$0.005 per share.

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

Report of Independent Registered Public Accounting Firm  
To the Shareholders and  
Board of Directors of  
The Japan Equity Fund, Inc.  
In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Japan Equity Fund, Inc. (the "Fund") at October 31, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the

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standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
300 Madison Avenue  
New York, New York 10017  
December 22, 2004

### Tax Information (Unaudited)

The Fund is required by Subchapter M of the Internal Revenue Code of 1986, as amended, to advise you within 60 days of the Fund's fiscal year end (October 31, 2004) as to the federal tax status of distributions received by you during such fiscal year. There were no dividend payments or foreign tax credits with respect to the fiscal year 2004. Shareholders are strongly advised to consult their own tax advisers with respect to the tax consequences of their investment in the Fund.

### Information Concerning Directors and Officers (Unaudited)

The following table sets forth information concerning each of the Directors and Officers of the Fund. The Directors of the Fund will serve for terms expiring on the date of subsequent Annual Meetings of Stockholders in the year 2006 for Class I Directors, 2007 for Class II Directors and 2005 for Class III Directors, or until their successors are duly elected and qualified.

Name (Age) and Address  
of Directors/Officers  
Principal Occupation  
or Employment During Past  
Five Years and  
Directorships in  
Publicly Held Companies  
Director or  
Officer of  
Fund Since  
Number of  
Funds in  
Fund  
Complex for  
Which  
Director

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Serves (1)  
Directors

Austin C. Dowling (72)  
1002 E Long Beach Boulevard  
North Beach, NJ 08008  
Retired; Director, The Thai Capital Fund, Inc., since 1990;  
Director,  
The Singapore Fund, Inc., since 2000.  
Class III  
Director  
since 1992  
3

Martin J. Gruber (67)  
229 South Irving Street  
Ridgewood, NJ 07450  
Professor of Finance, Leonard N. Stern School of Business,  
New  
York University, since 1965; Director, The Thai Capital Fund,  
Inc.,  
since 2000; Director, The Singapore Fund, Inc., since 2000;  
Trustee,  
Scudder New York Mutual Funds, since 1992; Trustee, C.R.E.F.,  
since 2001 and Chairman from December 2003; Trustee,  
T.I.A.A.,  
from 1996 to 2000.  
Class I  
Director  
since 1992  
3

David G. Harmer (61)  
4337 Bobwhite Court  
Ogden, UT 84403  
Executive Director, Department of Community and Economic  
Development for the State of Utah since May 2002; Chairman,  
2K2  
Hosting Corporation, from April 2001 to April 2002;  
President,  
Jetway Systems, a division of FMC Corporation, from 1997  
until  
2001; Director, The Thai Capital Fund, Inc., since 2000;  
Director,  
The Singapore Fund, Inc., since 1996.  
Class II  
Director  
since 1997  
3

\* Hiroshi Kimura (51)  
One Evertrust Plaza  
Jersey City, NJ 07302-3051  
Chairman and President, Daiwa Securities Trust Company, since  
July  
2001; Director and Senior Vice President of Daiwa Securities  
Trust  
Company, from April 1999 to June 2001; Associate Director,  
Daiwa  
Europe Bank, from April 1996 to March 1999.  
Chairman of  
the Board and  
Class I



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Director  
since 2001

1

Oren G. Shaffer (62)  
1801 California Street  
Denver, CO 80202  
Vice Chairman and Chief Financial Officer, Qwest  
Communications  
International Inc., since July 2002; Executive Vice President  
and  
Chief Financial Officer, Ameritech Corporation, from 1994 to  
2000;  
Director, The Thai Capital Fund, Inc., since 2000; Director,  
The  
Singapore Fund, Inc., since 1997.

Class II  
Director  
since 2000

3

Name (Age) and  
Address  
of  
Directors/Office  
rs  
Principal Occupation  
or Employment During Past  
Five Years and  
Directorships in  
Publicly Held Companies  
Direct  
or or  
Office  
r of  
Fund  
Since  
Number  
of  
Funds  
in  
Fund  
Comple  
x for  
Which  
Direct  
or  
Serves  
(1)  
Officers

Shunsuke  
Ichijo (51)  
7-9,  
Nihonbashi 2-  
chome,  
Chuo-ku, Tokyo  
103-0027

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Japan  
Chief Executive Officer and  
Director, Daiwa SB Investments  
since 1999; General Manager,  
International Division of  
DICAM Tokyo since 1996.

Presid  
ent of  
the  
Fund  
since  
2000

-

John J.  
O'Keefe (45)  
One Evertrust  
Plaza  
Jersey City,  
NJ 07302-3051  
Vice President and Treasurer,  
The Thai Capital Fund, Inc.  
and The Singapore Fund, Inc.,  
since 2000; Vice President,  
Fund Accounting Department of  
Daiwa Securities Trust  
Company, since 2000; Assistant  
Controller, Reserve Management  
Corporation, from 1999 to  
2000; Accounting Manager,  
Prudential Investments, from  
1998 to 1999; and Assistant  
Vice President, Daiwa  
Securities Trust Company from  
1990 to 1998.

Vice  
Presid  
ent  
and  
Treasu  
rer of  
the  
Fund  
since  
2000

-

Yuko Uchida  
(26)  
One Evertrust  
Plaza  
Jersey City,  
NJ 07302-3051  
Secretary, The Thai Capital  
Fund, Inc. and The Singapore  
Fund, Inc., since 2004; Client  
Reporting Department of Daiwa  
Securities Trust Company,  
since 2002.

Secret  
ary of  
the  
Fund  
since

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2004

-

Leonard B.  
Mackey, Jr.  
(53)  
31 West 52nd  
Street  
New York, NY  
10019-6131  
Partner in the law firm of  
Clifford Chance US LLP, since  
1983; Assistant Secretary, The  
Thai Capital Fund, Inc. and  
The Singapore Fund, Inc.,  
since 2004.

Assist  
ant  
Secret  
ary of  
the  
Fund  
since  
2004

-

Anthony  
Cambria (50)  
One Evertrust  
Plaza  
Jersey City,  
NJ 07302-3051  
Chief Compliance Officer, the  
Thai Capital Fund, Inc. and  
The Singapore Fund, Inc.,  
since 2004; Director and  
Executive Vice President,  
Daiwa Securities Trust  
Company, since 1999.

Chief  
Compli  
ance  
Office  
r of  
the  
Fund  
since  
2004

-

1 "Fund Complex" includes the Fund, The Thai Capital Fund, Inc., The Singapore Fund, Inc. and other investment companies advised by SCB Asset Management Co., Ltd., Daiwa SB Investments (H.K.) Ltd., DBS Asset Management (United States) Pte. Ltd., Daiwa SB Investments (Singapore) Ltd., Daiwa SB Investments (USA) Ltd., Daiwa SB Investments Ltd. or their respective affiliates.

\* Directors so noted are deemed by the Fund's counsel to be "interested persons" (as defined in the U.S. Investment Company Act of 1940, as amended). Mr. Kimura is deemed an interested person of the Fund because of his affiliation with Daiwa Securities Trust Company, an affiliate of the Fund's investment adviser, Daiwa SB Investments Ltd.

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BOARD OF DIRECTORS

Hiroshi Kimura, Chairman

Austin C. Dowling

Martin J. Gruber

David G. Harmer

Oren G. Shaffer

OFFICERS

Shunsuke Ichijo

President

John J. O'Keefe

Vice President and Treasurer

Yuko Uchida

Secretary

Leonard B. Mackey, Jr.

Assistant Secretary

Anthony Cambria

Chief Compliance Officer

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

EquiServe Trust Company,

N.A.

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

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mentioned in the report.

Annual Report  
October 31, 2004

JAPAN EQUITY FUND LOGO

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 ADVISOR  
Daiwa SB Investments Ltd.

Item 2. Code of Ethics.

(a) The registrant has adopted a code of ethics (the "Code of Ethics") that applies to the registrant's principal executive officer and principal financial and accounting officer. A copy of the registrant's Code of Ethics is attached hereto as Exhibit 11(a).

(b) No information need be disclosed pursuant to this paragraph.

(c) The registrant has not amended the Code of Ethics during the period covered by the shareholder report presented in Item 1 hereto.

(d) The registrant has not granted a waiver or an implicit waiver from a provision of its Code of Ethics.

(e) Not applicable.

(f) (1) The Code of Ethics is attached hereto as Exhibit 11(a).

(2) Not applicable.

(3) Not applicable.

Item 3. Audit Committee Financial Expert.

The registrant's board of directors has determined that the registrant has at least one audit committee financial expert serving on its audit committee. The audit committee financial expert is Oren G. Shaffer who is "independent" for purposes of this item.

Item 4. Principal Accountant Fees and Services.

(a) (b) (c) (d) and (g). Based on fees billed for the periods shown:

2004

Registrant  
Covered  
Entities(1)

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Audit Fees  
(2) \$96,750  
N/A

Non-Audit Fees

Audit-Related Fees

Tax Fees  
(3) \$8,400

All Other Fees

Total Non-Audit Fees  
\$8,400

Total  
\$105,150

2003

Registrant  
Covered  
Entities (1)

Audit Fees  
\$64,200  
N/A

Non-Audit Fees

Audit-Related Fees

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Tax Fees  
(3) \$7,650

All Other Fees

Total Non-Audit Fees  
\$7,650

Total  
\$71,850

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N/A- Not applicable, as not required by Item 4.

(1) "Covered Entities" include the registrant's investment adviser (excluding any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by or under common control with the registrant's adviser that provides ongoing services to the registrant.

(2) Audit Fees for 2004 include \$30,000 representing procedures performed in connection with the December 2003 rights offering of the Fund.

(3) Tax Fees represent fees received for tax compliance services provided to the registrant, including the review of tax returns.

(e) (1) Before the registrant's principal accountant is engaged to render audit or non-audit services to the registrant and non-audit services to the registrant's investment adviser and its affiliates, each engagement is approved by the registrant's audit committee.

(e) (2) 100% of the services described in each of (b) through (d) of this Item 4 were approved by the registrant's audit committee pursuant to paragraph (c) (7) (i) (C) of Rule 2-01 of Regulation S-X.

(f) Not applicable.

(g) See table above.

(h) The registrant's audit committee of the board of directors has considered whether the provision of non-audit services that were rendered to Covered Entities that were not pre-approved pursuant to paragraph (C) (7) (ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the auditors' independence in performing audit services.

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

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the audit committee are as follows: Austin C. Dowling, Martin J. Gruber, David G. Harmer and Oren G. Shaffer.

### 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.

The registrant has delegated to its investment adviser the voting of proxies relating to the registrant's portfolio securities. The registrant's policies and procedures and those used by the investment adviser to determine how to vote proxies relating to the registrant's portfolio securities, including the procedures used when a vote presents a conflict of interest involving the investment adviser or any of its affiliates, are contained in the investment adviser's Proxy Voting Guidelines, which are attached hereto as Exhibit 11(c).

### Item 8. Purchase of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

#### REGISTRANT PURCHASES OF EQUITY SECURITIES

Period

(a)

Total

Number of

Shares

(or

Units)

Purchased

(b)

Average

Price

Paid per

Share

(or

Unit)

(c)

Total Number

of Shares

(or Units)

Purchased as

Part of

Publicity

Announced

Plans or

Programs

(d)

Maximum Number

(or Approximate

Dollar Value) of

Shares (or Units)

that may yet be

Purchased Under

the Plans or

Programs

November

0

N/A



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0

0

December

0

N/A

0

0

January

0

N/A

0

0

February

0

N/A

0

0

March

0

N/A

0

0

April

0

N/A

0

0

May

0

N/A

0

0

June

0

N/A

0

0

July

0

N/A

0

0

August

0

N/A

0

0

September

0

N/A

0

0

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October

0  
N/A  
0  
0  
Total

0  
N/A  
0  
0

Item 9. 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 10. Controls and Procedures.

(a) Based on an evaluation of the registrant's disclosure controls and procedures as of December 14, 2004, the disclosure controls and procedures are reasonably designed to ensure that the information required in filings on Forms N-CSR is recorded, processed, summarized, and reported on a timely basis.

(b) There were no significant changes in the registrant's internal controls or in other factors that could affect these controls subsequent to the date of our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 11. Exhibits.

(a) Code of Ethics for Principal Executive and Senior Financial Officers.

(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.

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

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John J. O'Keefe, Vice President  
& Treasurer

Date: January 6, 2005

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

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John J. O'Keefe, Vice President  
& Treasurer

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Date: January 6, 2005  
By \s\ Hiroshi Kimura

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Hiroshi Kimura, Chairman  
Date: January 6, 2005

EXHIBIT 11 (a)  
CODE OF ETHICS FOR PRINCIPAL EXECUTIVE AND SENIOR FINANCIAL OFFICERS

I. This Code of Ethics (the "Code") for The Thai Capital Fund, Inc., The Japan Equity Fund, Inc. and The Singapore Fund, Inc. (each a "Fund" and collectively the "Funds") applies to each Fund's President and Treasurer (or persons performing similar functions) ("Covered Officers") for the purpose of promoting:

? honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

? full, fair, accurate, timely and understandable disclosure in reports and documents that a Fund files with, or submits to, the Securities and Exchange Commission ("SEC") and in other public communications made by a Fund;

? compliance with applicable laws and governmental rules and regulations;

? prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and

? accountability for adherence to the Code.

Each Covered Officer should adhere to a high standard of business ethics and should be sensitive to situations that may give rise to actual as well as apparent conflicts of interest. A Fund will expect all Covered Officers to comply at all times with the principles in this Code. A violation of this Code by an employee is grounds for disciplinary action up to and including discharge and possible legal prosecution. Any question about the application of the Code should be referred to the Audit Committee of the Fund's Board of Directors ( the "Audit Committee").

II. Covered Officers Should Handle Ethically Actual and Apparent Conflicts of Interest

Overview. A "conflict of interest" occurs when a Covered Officer's private interest interferes with the interests of, or his service to, a Fund. For example, a conflict of interest would arise if a Covered Officer, or a member of his family, receives improper personal benefits as a result of his position with a Fund.

Certain conflicts of interest arise out of the relationships between Covered Officers and a Fund and already are subject to conflict of interest provisions in the Investment Company Act of 1940 (the "Investment Company Act") and the Investment Advisers Act of 1940 (the "Investment Advisers Act"). For example, Covered Officers may not individually engage in certain transactions (such as the purchase or sale of securities or other property) with a Fund because of their status as "affiliated persons" of a Fund. The compliance programs and procedures of a Fund and the Fund's Investment Manager and Investment Adviser are designed

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to prevent, or identify and correct, violations of these provisions. Certain conflicts of interest also arise out of the personal securities trading activities of the Covered Officers and the possibility that they may use information regarding a Fund's securities trading activities for their personal benefit. Each Fund's Code of Ethics under Rule 17j-1 under the Investment Company Act is designed to address these conflicts of interest. This Code does not, and is not intended to, replace these programs and procedures or a Fund's Rule 17j-1 Code of Ethics, and this Code's provisions should be viewed as being additional and supplemental to such programs, procedures and code.

Although typically not presenting an opportunity for improper personal benefit, conflicts arise from, or as a result of, the contractual relationship between a Fund and its Investment Adviser or Investment Manager of which the Covered Officers are also officers or employees. As a result, this Code recognizes that the Covered Officers will, in the normal course of their duties (whether formally for a Fund or for its Investment Adviser or Investment Manager, or for all parties), be involved in establishing policies and implementing decisions that will have different effects on the Investment Adviser or Investment Manager and a Fund. The participation of the Covered Officers in such activities is inherent in the contractual relationship between a Fund and its Investment Adviser or Investment Manager and is consistent with the performance by the Covered Officers of their duties as officers of a Fund. Thus, if performed in conformity with the provisions of the Investment Company Act and the Investment Advisers Act, such activities will be deemed to have been handled ethically. In addition, it is recognized by a Fund's Board of Directors (the "Board") that the Covered Officers may also be officers or employees of one or more other investment companies covered by other codes.

Each Covered Officer must not:

? use his personal influence or personal relationships improperly to influence investment decisions or financial reporting by a Fund whereby the Covered Officer would benefit personally to the detriment of a Fund;

? cause a Fund to take action, or fail to take action, for the individual personal benefit of the Covered Officer rather than the benefit of the Fund; and

? use material non-public knowledge of portfolio transactions made or contemplated for, or actions proposed to be taken by, a Fund to trade personally or cause others to trade personally in contemplation of the market effect of such transactions.

Each Covered Officer must, at the time of signing this Code, report all material business affiliations outside a Fund and must update the report annually.

Covered Officers should avoid situations which involve the appearance of, or potential for, conflicts of interest.

Examples of these situations include:

? accepting directly or indirectly, anything of value, including gifts and gratuities in excess of \$100 per year from any person or entity with which a Fund has current or prospective business dealings, not including occasional meals or tickets to theatre or sporting events or other similar

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entertainment, provided it is business-related, reasonable in cost, appropriate as to time and place and not so frequent as to raise any question of impropriety;

? any ownership interest in, or any consulting or employment relationship with, any of a Fund's service providers, other than its Investment Adviser or Investment Manager or any affiliated person thereof; and

? a direct or indirect financial interest in commissions, transaction charges or spreads paid by a Fund for effecting portfolio transactions or for selling or redeeming shares other than an interest arising from the Covered Officer's employment, such as compensation or equity ownership.

In situations involving a Covered Officer which involve the appearance of, or the potential for, conflicts of interest, but where the Covered Officer believes that no significant conflict of interest exist, the Covered Officer must obtain prior written approval from the Audit Committee before becoming involved in that situation. No such approval shall be considered a waiver of this Code.

### III. Disclosure and Compliance

? Each Covered Officer should familiarize himself with the disclosure and compliance requirements generally applicable to a Fund;

? Each Covered Officer should not knowingly misrepresent, or cause others to misrepresent, facts about a Fund to others, whether within or outside a Fund, including to a Fund's directors and auditors, or to governmental regulators and self-regulatory organizations;

? Each Covered Officer should, to the extent appropriate within his area of responsibility, consult with other officers and employees of a Fund and its Investment Adviser or Investment Manager with the goal of promoting full, fair, accurate, timely and understandable disclosure in the reports and documents a Fund files with, or submits to, the SEC and in other public communications made by a Fund; and

? It is the responsibility of each Covered Officer to promote compliance with the standards and restrictions imposed by applicable laws, rules and regulations.

### IV. Reporting and Accountability

Each Covered Officer must:

? upon adoption of the Code or (thereafter as applicable, upon becoming a Covered Officer), affirm in writing to the Board that he has received, read and understands the Code;

? annually thereafter affirm to the Board that he has complied with the requirements of the Code;

? not retaliate against any other Covered Officer or any employee of a Fund or their affiliated persons for reports of potential violations that are made in good faith; and

? notify the Audit Committee promptly if he knows of any violation of this Code. Failure to do so is itself a violation of this Code.

The Audit Committee is responsible for applying this Code to specific situations in which questions are presented

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under it and has the authority to interpret this Code in any particular situation. Any waivers sought by a Covered Officer must be considered by the Audit Committee.

A copy of this Code shall be delivered to each employee of a Fund and each employee of its Investment Adviser and Investment Manager annually together with a memorandum requesting that any violations of the Code be communicated immediately to the Audit Committee.

Each Fund will follow these procedures in investigating and enforcing this Code:

? the Audit Committee will take all appropriate action to investigate any potential violations reported to it;

? if, after such investigation, the Audit Committee believes that no violation has occurred, the Audit Committee is not required to take any further action;

? if the Audit Committee determines that a violation has occurred, it will consider appropriate action, which may include review of, and appropriate modifications to, applicable policies and procedures; notification to appropriate personnel of the Investment Adviser or its board; or a recommendation to dismiss the Covered Officer;

? the Audit Committee will be responsible for granting waivers of this Code, as appropriate; and

? any changes to or waivers of this Code will, to the extent required, be disclosed as provided by SEC rules.

### V. Changes To or Waivers of the Code

No change to or waiver of any provision of this Code will be effective until a Fund discloses the nature of any amendment to, or waiver from, a provision of the Code in its Form N-CSR, or on its website within five business days following the date of the amendment or waiver if this method of disclosure has been established in its Form N-CSR and made available on its website for twelve months. Any waiver of provisions of this Code will be reported in filings with the SEC and otherwise reported to a Fund's stockholders to the full extent required by the rules of the SEC and by any applicable rules of any securities exchange on which a Fund's securities are listed.

### VI. Other Policies and Procedures

This Code shall be the sole code of ethics adopted by each Fund for purposes of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules and forms applicable to registered investment companies thereunder. Insofar as other policies or procedures of a Fund or its Investment Adviser, Investment Manager or other service providers govern or purport to govern the behavior or activities of the Covered Officers who are subject to this Code, they are superseded by this Code to the extent that they conflict with the provisions of this Code.

### VII. Amendments

Any amendments to this Code must be approved or ratified by a majority vote of the Audit Committee and the Board, including a majority of directors who are not interested persons as defined in the Investment Company Act.

### VIII. Confidentiality

All reports and records prepared or maintained pursuant to this Code will be considered confidential and shall be maintained and protected accordingly. Except as otherwise

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required by law or this Code, such matters shall not be disclosed to anyone other than the Audit Committee, the Board, the Fund and its counsel and its Investment Adviser and Investment Manager and their respective counsel.

### IX. Internal Use

The Code is intended solely for the internal use by a Fund and does not constitute an admission, by or on behalf of a Fund, as to any fact, circumstance or legal conclusion.

I have read and understand the terms of the Code. I recognize the responsibilities and obligations incurred by me as a result of my being subject to the Code. I hereby agree to abide by the Code.

\_\_\_\_\_  
Date:\_\_\_\_\_

### EXHIBIT 11(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 officers 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) 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) 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
  - (c) Disclosed in this report any change in the registrant's internal control over financial

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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 officers 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: January 6, 2005

\s\John J. O'Keefe

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John J. O'Keefe, Vice President  
& Treasurer

CERTIFICATION

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 I, Hiroshi Kimura, 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 officers 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) 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



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which this report is being prepared;

(b) 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

(c) 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 officers 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: January 6, 2005

\s\ Hiroshi Kimura

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Hiroshi Kimura, 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 October 31, 2004 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: January 6, 2005

/s/ John J. O'Keefe

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John J. O'Keefe

This certification is being furnished solely pursuant to

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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, 2004 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: January 6, 2005

/s/ Hiroshi Kimura

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Hiroshi Kimura

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.

### EXHIBIT 11 (c)

The Japan Equity Fund, Inc.

Proxy Voting Policy and Procedures

The Board of Directors of The Japan Equity Fund, Inc. (the "Fund") hereby adopts the following policy and procedures with respect to voting proxies relating to Fund securities managed by Daiwa SB Investments (USA) Ltd. (the "Investment Manager").

#### I. Policy

It is the policy of the Board of Directors of the Fund (the "Board") to delegate the responsibility for voting proxies relating to securities held by the Fund to the Investment Manager as part of the Manager's general management of the Fund's assets, subject to the Board's continuing oversight. The Board of Directors of the Fund hereby delegates such responsibility to the Investment Manager, and directs the Investment Manager to vote proxies relating to Fund portfolio securities managed by the Investment Manager consistent with the duties and procedures set forth below. The Investment Manager may retain one or more vendors to review, monitor and recommend how to vote proxies in a manner consistent with the duties and procedures set forth below, to ensure such proxies are voted on a timely basis and to provide reporting and/or record retention services in connection with proxy voting for the Fund.

#### II. Fiduciary Duty

The right to vote a proxy with respect to securities held by the Fund is an asset of the Fund. The Investment Manager, to which authority to vote on behalf of the Fund is delegated, acts as a fiduciary of the Fund and must vote proxies in a manner consistent with the best interest of the Fund and its shareholders. In discharging this fiduciary duty, the Investment Manager must maintain and adhere to its

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policies and procedures for addressing conflicts of interest and must vote in a manner substantially consistent with its policies, procedures and guidelines, as presented to the Board.

### III. Procedures

The following are the procedures adopted by the Board for the administration of this policy.

A. Review of Investment Manager's Proxy Voting Procedures. The Investment Manager shall present to the Board their policies, procedures and other guidelines for voting proxies at least annually, and must notify the Board promptly of material changes to any of these documents, including changes to policies addressing conflicts of interest.

B. Voting Record Reporting. The Investment Manager shall provide the voting record information necessary for the completion and filing of Form-NPX to the Fund at least annually. Such voting record information shall be in a form acceptable to the Fund and shall be provided at such time(s) as are required for the timely filing of Form-NPX and at such additional time(s) as the Fund and the Investment Manager may agree from time to time. With respect to those proxies that the Investment Manager has identified as involving a conflict of interest, the Investment Manager shall submit a separate report indicating the nature of the conflict of interest and how that conflict was resolved with respect to the voting of the proxy.

C. Record Retention. The Investment Manager shall maintain such records with respect to the voting of proxies as may be required by the Investment Advisers Act of 1940 and the rules promulgated thereunder or by the Investment Company Act of 1940 and the rules promulgated thereunder.

D. Conflicts of Interest. Any actual or potential conflicts of interest between the Investment Manager and the Fund's shareholders arising from the proxy voting process will be addressed by the Investment Manager and the Investment Manager's application of its proxy voting procedures pursuant to the delegation of proxy voting responsibilities to the Investment Manager. In the event that the Investment Manager notifies the officer(s) of the Fund that a conflict of interest cannot be resolved under the Investment Manager's Proxy Voting Procedures, such officer(s) are responsible for notifying the Chairman of the Board of the Fund of the irreconcilable conflict of interest and assisting the Chairman with any actions he determines are necessary.

### IV. Revocation

The delegation by the Board of the authority to vote proxies relating to securities of the Fund is entirely voluntary and may be revoked by the Board, in whole or in part, at any time.

### V. Annual Filing

The Fund shall file an annual report of each proxy voted with respect to securities of the Fund during the twelve-month period ended June 30 on Form N-PX not later than August 31 of each year.

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### VI. Disclosures

A. The Fund shall include in its annual report filed on Form N-CSR:

1. a description of this policy and of the policies and procedures used by the Fund and the Investment Manager to determine how to vote proxies relating to portfolio securities or copies of such policies and procedures; and
2. a statement disclosing that a description of the policies and procedures used by or on behalf of the Fund to determine how to vote proxies relating to securities of the Fund is available without charge, upon request, by calling the Fund's toll-free telephone number; through a specified Internet address, if applicable; and on the SEC's website; and
3. a statement disclosing that information regarding how the Fund voted proxies relating to Fund securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling the Fund's toll-free telephone number; or through a specified Internet address; or both; and on the SEC's website.

### VII. Review of Policy

The Board shall review from time to time this policy to determine its sufficiency and shall make and approve any changes that it deems necessary from time to time.

Adopted: November 25, 2003

### Exhibit 10 (d)

Proxy voting policy for Daiwa SB Investments (USA) Ltd.  
Statement of Policies and Procedures for  
Voting Proxies

#### INTRODUCTION

As a registered investment adviser, Daiwa SB Investments (USA) Ltd. ("Daiwa," "we" or "us") has a fiduciary duty to act solely in the best interests of our clients. As part of this duty, we recognize that we must exercise voting rights in the best interests of our clients.

Daiwa recognizes the importance of good corporate governance in ensuring that management and boards of directors fulfill their obligations to shareholders. As part of our investment process, we take into account the attitudes of management and boards of directors on corporate governance issues when deciding whether to invest in a company.

Daiwa is a global investment manager, and invests significantly in emerging markets. It should be noted that protection for shareholders may vary significantly from jurisdiction to jurisdiction, and in some cases may be substantially less than in the U.S. or developed countries. This statement is intended to comply with Rule 206(4)-6 of the Investment Advisers Act of 1940. It sets forth the policy and procedures of Daiwa for voting proxies for our clients, including investment companies registered under the Investment Company Act of 1940.

#### PROXY VOTING POLICIES

It is the general policy of Daiwa to support management of the companies in which it invests and will cast votes in

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accordance with management's proposals. However, Daiwa reserves the right to depart from this policy in order to avoid voting decisions that we believe may be contrary to our clients' best interests.

**Elections of Directors:** In many instances, election of directors is a routine voting issue. Unless there is a proxy fight for seats on the Board or we determine that there are other compelling reasons for withholding votes for directors, we will vote in favor of the management proposed slate of directors. That said, we believe that directors have a duty to respond to shareholder actions that have received significant shareholder support. We may withhold votes for directors that fail to act on key issues such as failure to implement proposals to declassify boards, failure to implement a majority vote requirement, failure to submit a rights plan to a shareholder vote and failure to act on tender offers where a majority of shareholders have tendered their shares.

**Appointment of Auditors:** The selection of an independent accountant to audit a company's financial statements is generally a routine business matter. Daiwa believes that management remains in the best position to choose the accounting firm and will generally support management's recommendation.

**Changes in Capital Structure:** Changes in a company's charter, articles of incorporation or by-laws are often technical and administrative in nature. Absent a compelling reason to the contrary, Daiwa will cast its votes in accordance with the company's management on such proposals. However, we will review and analyze on a case-by-case basis any non-routine proposals that are likely to affect the structure and operation of the company or have a material economic effect on the company.

**Corporate Restructurings, Mergers and Acquisitions:** Daiwa believes proxy votes dealing with corporate reorganizations are an extension of the investment decision and will take account of our investment process policy in deciding how to vote.

**Corporate Governance:** Daiwa recognizes the importance of good corporate governance in ensuring that management and the board of directors fulfill their obligations to the shareholders. We generally favor proposals promoting transparency and accountability within a company.

**Social and Corporate Responsibility:** Daiwa recognizes the importance of supporting sound and responsible policies in relation to social, political and environmental issues. However, in the interests of shareholders, we reserve the right to vote against proposals that are unduly burdensome or result in unnecessary and excessive costs to the company. We may abstain from voting on social proposals that do not have a readily determinable financial impact on shareholder value.

**Executive Compensation:** Daiwa believes that company management and the compensation committee of the board of directors should, within reason, be given latitude to determine the types and mix of compensation and benefit awards offered. Whether proposed by a shareholder or management, we will review proposals relating to executive compensation plans and, if deemed excessive, may vote against the proposals.

### PROXY VOTING PROCEDURES

Proxy voting

Our portfolio management team is responsible for the

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coordination of Daiwa's proxy voting. They liaise with the Product managers and/or the Proxy voting committee to ascertain how Daiwa will vote. They will then instruct the relevant Custodians. The portfolio management team is also responsible for ensuring that full and adequate records of proxy voting are kept.

The Product managers will implement the Proxy voting policies by instructing proxy voting in accordance with the general principles contained herein.

### Proxy Voting Committee

We have formed a Proxy Voting Committee to regularly review our general proxy policies and consider specific proxy voting matters as and when deemed necessary. Members of the committees include senior investment personnel and representatives of the Legal & Compliance Department. The committee may also evaluate proxies where we face a material conflict of interest (as discussed below).

### Conflicts of Interest

Daiwa recognizes that there is a potential conflict of interest when we vote a proxy solicited by an issuer with whom we have any material business or personal relationship that may affect how we vote on the issuer's proxy. We believe that oversight by the proxy voting committee ensures that proxies are voted with only our clients' best interests in mind. In order to avoid any perceived conflict of interests, the following procedures have been established for use when we encounter a potential conflict.

The portfolio management team will refer to the Legal and compliance team any proxy votes that are issued by existing clients or where Daiwa holds a significant voting percentage of the company. The Legal and compliance team will make the initial determination about whether a material conflict of interest exists based on the facts and circumstances of each particular situation.

If our proposed vote is consistent with our stated proxy voting policy, no further review is necessary.

If our proposed vote is contrary to our stated proxy voting policy but is also contrary to management's recommendation, no further review is necessary.

If our proposed vote is contrary to our stated proxy voting policy and is consistent with management's recommendation, the proposal is escalated to the proxy committee for final review and determination.

### Proxies of Certain Non-U.S. Issuers

Proxy voting in certain countries requires "share blocking." That is, shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting (usually one-week) with a designated depository. During this blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares are returned to the clients' custodian banks.

Daiwa may determine that the value of exercising the vote does not outweigh the detriment of not being able to transact in the shares during this period. Accordingly, if share blocking is required we may abstain from voting those shares. In such a situation we would have determined that the cost of voting exceeds the expected benefit to the client.

### PROXY VOTING RECORD

Clients may obtain information on how Daiwa voted with respect to their proxies by contacting our Client services team at Daiwa SB Investments (USA) Ltd., 32 Old Slip, 11th Floor, New York, New York, Tel No. 212-612-8500, Fax No. 212-

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612-8518/8519 or email a\_baksi@dsbiusa.net /  
m\_gugliotta@dsbiusa.net.

As it is used in this document, the term "conflict of interest" refers to a situation in which the Investment Manager or affiliated persons of the Investment Manager have a financial interest in a matter presented by a proxy other than the obligation they incur as Investment Manager to the Fund which could potentially compromise the Investment Manager's independence of judgment and action with respect to the voting of the proxy.

The Fund must file its first report on Form N-PX not later than August 31, 2004, for the twelve-month period beginning July 1, 2003, and ending June 30, 2004.

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