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

JAPAN OTC EQUITY FUND, INC.

September 28, 2001

To Our Shareholders:

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

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

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

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

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

#### The Portfolio

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

#### Japanese Economy and Stock Market Outlook

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

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

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

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

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

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

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

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

Given the deteriorating domestic economy

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

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

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

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

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

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

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

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

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

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

We appreciate your continuing support of your Fund.

Sincerely,

Kazuhiko Hama  
President

SHAREHOLDERS ACCOUNT INFORMATION

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

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

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

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

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

(Unaudited)

#### KEY STATISTICS

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

#### MARKET INDICES

Percentage change in market indices:

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

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

+Reflects the percentage change in share price.

#### ASSET ALLOCATION

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

#### INDUSTRY DIVERSIFICATION

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

TEN LARGEST EQUITY HOLDINGS BY MARKET VALUE

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

See notes to financial statements

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

(Unaudited)

Shares -----	Cost -----
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EQUITY SECURITIES

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

See notes to financial statements

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

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

See notes to financial statements

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

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

See notes to financial statements

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

See notes to financial statements

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

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

See notes to financial statements

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

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

See notes to financial statements

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

See notes to financial statements

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

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

Japanese Yen JPY(Y) 118.735 = \$1.00

See notes to financial statements

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

(Unaudited)

ASSETS:

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

LIABILITIES:

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

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Total Liabilities.....

NET ASSETS:

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

See notes to financial statements

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

(Unaudited)

INCOME

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

EXPENSES:

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

INVESTMENT LOSS - NET.....

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

Realized loss on investments and foreign currency transactions: .....

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

See notes to financial statements

JAPAN OTC EQUITY FUND, INC.

STATEMENT OF CHANGES IN NET ASSETS

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

See notes to financial statements

JAPAN OTC EQUITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

## 2. Management Agreement and Transactions With Affiliated Persons

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

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

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

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

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

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

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

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

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

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

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

### 3. Purchases and Sales of Investments

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

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

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

JAPAN OTC EQUITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS--Continued

### FINANCIAL HIGHLIGHTS

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

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

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

OFFICERS

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

MANAGER

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OTC Equity  
Fund, Inc.

INVESTMENT ADVISOR

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Tokyo 103-8260, Japan

CUSTODIAN, DIVIDEND PAYING AGENT, TRANSFER AGENT AND  
REGISTRAR

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INDEPENDENT ACCOUNTANTS

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SEMI-ANNUAL REPORT

JAPAN OTC EQUITY FUND, INC.

180 MAIDEN LANE  
NEW YORK, NEW YORK 10038-4936

AUGUST 31, 2001

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

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

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