

JAPAN SMALLER CAPITALIZATION FUND INC  
Form DEF 14A  
July 14, 2004

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant |  
Filed by a Party other than the Registrant |  
Check the appropriate box:  
| Preliminary Proxy Statement  
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| Definitive Proxy Statement  
| Definitive Additional Materials  
| Soliciting Material Pursuant to ss.240.14a-12

JAPAN SMALLER CAPITALIZATION FUND, INC.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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| No fee required.  
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(1) Title of each class of securities to which transaction applies:  
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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:  
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(3) Filing Party:  
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(4) Date Filed:  
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JAPAN SMALLER CAPITALIZATION FUND, INC.  
535 Madison Avenue  
New York, New York 10022

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NOTICE OF 2004 ANNUAL MEETING OF SHAREHOLDERS  
August 18, 2004  
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TO THE SHAREHOLDERS OF  
JAPAN SMALLER CAPITALIZATION FUND, INC.:

Notice is hereby given that the 2004 Annual Meeting of Shareholders (the "Meeting") of Japan Smaller Capitalization Fund, Inc. (the "Fund") will be held at the offices of Nomura Asset Management U.S.A. Inc., Two World Financial Center - Building B, 22nd Floor, New York, New York, on Wednesday, August 18, 2004, at 10:30 A.M. for the following purposes:

(1) To elect two Directors to serve as Class I Directors, each to serve for a term to expire in 2007;

(2) To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants for the fiscal year ending February 28, 2005;

(3) To amend the Fund's principal investment policy concerning investment in smaller capitalization companies in Japan; and

(4) To transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on June 18, 2004 as the record date for the determination of shareholders entitled to notice of and to vote at the Meeting or any adjournment or postponement thereof.

You are cordially invited to attend the Meeting. Shareholders who do not expect to attend the Meeting in person are requested to complete, date and sign the enclosed form of proxy and return it promptly in the envelope provided for that purpose. The enclosed proxy is being solicited on behalf of the Board of Directors of the Fund.

By Order of the Board of Directors

NEIL A. DANIELE

Secretary

New York, New York  
Dated: July 14, 2004

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PROXY STATEMENT

JAPAN SMALLER CAPITALIZATION FUND, INC.  
535 Madison Avenue  
New York, New York 10022

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2004 ANNUAL MEETING OF SHAREHOLDERS  
August 18, 2004  
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INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Japan Smaller Capitalization Fund, Inc., a Maryland corporation (the "Fund"), to be voted at the 2004 Annual Meeting of Shareholders of the Fund (the "Meeting") to be held at the offices of Nomura Asset Management U.S.A. Inc. ("NAM-U.S.A."), Two World Financial Center - Building B, 22nd Floor, New York, New York, on Wednesday, August 18, 2004, at 10:30 A.M. The approximate mailing date of this Proxy Statement is July 16, 2004.

All properly executed proxies received prior to the Meeting will be voted at the Meeting in accordance with the instructions marked thereon or otherwise as provided therein. Unless instructions to the contrary are marked, proxies will be voted FOR the election of two Class I Directors (Proposal 1), FOR the ratification of the appointment of PricewaterhouseCoopers LLP ("PWC") as independent accountants for the Fund (Proposal 2), and FOR the amendment of the Fund's principal investment strategy concerning investment in smaller capitalization companies in Japan. (Proposal 3).

Any proxy may be revoked at any time prior to the exercise thereof by giving written notice to the Secretary of the Fund at the Fund's address indicated above, by submitting a subsequently executed proxy or by voting in person at the Meeting.

Only shareholders can attend the Meeting and any adjournment or postponement thereof. To gain admittance, if you are a shareholder of record, you must bring a form of personal identification to the Meeting, where your name will be verified against our shareholder list. If a broker or other nominee holds your shares and you plan to attend the Meeting, you should bring a recent brokerage statement showing your ownership of the shares, as well as a form of personal identification.

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The Board of Directors has fixed the close of business on June 18, 2004, as the record date for the determination of shareholders entitled to notice of and to vote at the Meeting and at any adjournment or postponement thereof. Shareholders on the record date will be entitled to one vote for each share held, with no shares having cumulative voting rights. As of June 18, 2004, the Fund had outstanding 15,846,384 shares of Common Stock, par value \$0.10 per share.

The Board of Directors of the Fund knows of no business other than the election of two Class I Directors, the ratification of the appointment of PWC as the Fund's independent

accountants, and the amendment of the Fund's principal investment policy. If any other matter is properly presented, it is the intention of the persons named in the enclosed proxy to vote in accordance with their best judgment.

The Fund sends annual and semi-annual reports to shareholders. The Fund will furnish, without charge, a copy of its most recent annual and semi-annual reports succeeding such annual report, if any, to shareholders upon request to the Fund at 535 Madison Avenue, New York, New York 10022 (or call 1-800-833-0018).

### PROPOSAL 1. ELECTION OF DIRECTORS

The Fund's Board of Directors is divided into three classes of Directors serving staggered three-year terms and until their successors are elected and qualify. The term of office for Directors in Class I expires at the 2004 Annual Meeting, Class II at the next succeeding annual meeting and Class III at the following succeeding annual meeting. Each year the term of office of one class will expire. Each of the two Class I Director nominees proposed in this Proxy Statement for election to the Board of Directors is currently a Director of the Fund. The balance of the current Directors consists of two Class II Directors and two Class III Directors, none of whom is a nominee for election at the Meeting and all of whom will continue in office after the Meeting.

Should any vacancy occur on the Board of Directors, the remaining Directors would be able to fill such vacancy by the affirmative vote of a majority of the remaining Directors in office, even if the remaining Directors do not constitute a quorum. Any Director elected by the Board to fill a vacancy would hold office until the remainder of the full term of the class of Directors in which the vacancy occurred and until a successor is elected and qualifies. If the size of the Board is increased, additional Directors will be apportioned among the three classes to make all classes as nearly equal as possible.

### NOMINEES PROPOSED FOR ELECTION

Messrs. William G. Barker, Jr. and John F. Wallace have been nominated by the Nominating Committee of the Board of Directors of the Fund, consisting of the Directors who are not interested persons of the Fund, to serve as Class I Directors for a three-year term expiring at the annual meeting of shareholders to be held in 2007 and until their successors are duly elected and qualified. The nominees have indicated an intention to serve if elected and have consented to be named in this Proxy Statement.

Unless authority is withheld in the proxy or properly revoked, it is the intention of the persons named in the accompanying form of proxy to vote each

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proxy for the election of the following Class I Director nominees: William G. Barker, Jr. and John F. Wallace.

The Board of Directors knows of no reason why either of the Class I Director nominees will be unable to serve, but in the event of any such unavailability, the proxies received will be voted for such substitute nominee(s) as the Board of Directors may recommend. Mr. Wallace may be considered an "interested person" of the Fund (within the meaning of the Investment Company Act of 1940, as amended (the "Investment Company Act")) as a result of his prior

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service as a director and officer of NAM-U.S.A. Mr. Barker is not an "interested person" of the Fund within the meaning of the Investment Company Act. It is currently expected that any such substitute nominee for Mr. Barker will not be an "interested person."

Nominees Proposed for Election at the Meeting

The following tables contain information about the nominees for election as Class I Directors and about Directors whose terms will continue after the Meeting. Each Director has served as a Director of the Fund since the Fund's inception in December 1993, except for Mr. Suzuki, who was elected to the Board effective May 8, 2003, and Mr. Grollman, who was elected to the Board to fill a vacancy on the Board effective January 1, 2004.

Interested Director

Biographical and other information relating to the Class I Director nominee who is an "interested person," as defined in the Investment Company Act, of the Fund is set forth below.

Name, Address and Age*	Position(s) Held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in the Fund Complex Overseen*
Class I (Nominee for a Term Expiring at the Annual Meeting of Shareholders to be held				
John F. Wallace (75)*** 17 Rhoda Street West Hempstead, New York 11552	Class I Director	Director since 1990	Retired since 2000; Vice President of the Fund from 1997 to 2000 and Secretary and Treasurer of the Fund from 1993 to 1997; Senior Vice President of NAM-U.S.A. from 1981 to 2000, Secretary from 1976 to 2000, Treasurer from 1984 to 2000 and Director from 1986 to 2000.	2 registered investment companies consisting of 2 portfolios

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- \* Mr. Wallace, if elected, will serve as a Class I Director for a three-year term expiring at the Annual Meeting of Shareholders to be held in 2007 and until his successor is elected and qualified or until his earlier resignation or removal.
  - \*\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc. at July 1, 2004.
  - \*\*\* Mr. Wallace is a director of Korea Equity Fund, Inc. for which NAM-U.S.A. acts as manager and for which Nomura Asset Management Co, Ltd. ("NAM") acts as investment adviser. The Fund currently treats Mr. Wallace as an "interested person," as defined in the Investment Company Act, of the Fund because of the positions he has previously held with the Fund and NAM-U.S.A.

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Non-Interested Director

Biographical and other information relating to the Class I Director nominee who is not an "interested person," as defined in the Investment Company Act, of the Fund is set forth below.

Name, Address and Age*	Position(s) Held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in the Fund Complex Overseen*
----- Class I (Nominee for a Term Expiring at the Annual Meeting of Shareholders to be held				
William G. Barker, Jr.*** (71) 111 Parsonage Road Greenwich, Connecticut 06830	Class I Director	Director since 1993	Retired.	2 registered investment companies consisting of 2 portfolios

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- \* Mr. Barker, if elected, will serve as a Class I Director for a three-year term expiring at the Annual Meeting of Shareholders to be held in 2007 and until his successor is elected and qualified or until his earlier resignation or removal.
  - \*\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc. at July 1, 2004.
  - \*\*\* Mr. Barker is also a director of Korea Equity Fund, Inc. for which NAM-U.S.A. acts as manager and NAM acts as investment adviser, and is a member of the Audit and Nominating Committees of Korea Equity Fund, Inc. and a member of the Audit and Nominating Committees of the Fund.

INFORMATION REGARDING OTHER DIRECTORS

Class II Directors

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Interested Director

Biographical and other information relating to the Class II Director who is an "interested person," as defined in the Investment Company Act, of the Fund is set forth below.

Name, Address and Age	Position(s) Held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in the Fund Complex Overseen*
Class II (Term Expiring at the Annual Meeting of Shareholders to be held in 2004)				
Yasushi Suzuki (50)* Nomura Asset Management U.S.A. Inc. 535 Madison Avenue New York, New York 10022	President and Class II Director	President and Director since May 2003	President of the Fund since May 2003; President and Director of NAM-U.S.A. since May 2003; Management Executive of NAM from December 1999 to April 2003; Deputy Managing Director of Nomura International PLC (UK) from July 1997 to November 1999.	2 registered investment companies consisting of 2 portfolios

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\* Mr. Suzuki is a director and the president of Korea Equity, Inc. for which NAM-U.S.A. acts as manager and for which NAM acts as investment adviser. Mr. Suzuki is an "interested person," as defined in the Investment Company Act, of the Fund based on his positions as President of the Fund, and as President and Director of NAM-U.S.A. and former Management Executive of NAM.

\*\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc. at July 1, 2004.

Non-Interested Director

Biographical and other information relating to the Class II Director who is not an "interested person," as defined in the Investment Company Act, of the Fund is set forth below.

Position(s) Term of Office Length of Time Served Principal Occupation(s) During Past Five Years Number of Funds in the Fund Complex Overseen\*

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Name, Address and Age	Held with the Fund	Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Funds in t Fund Compl Overseen*
----- Class II (Term Expiring at the Annual Meeting of Shareholders to be held in 200				
Chor Weng Tan (68)* The American Society of Mechanical Engineering 3 Park Avenue New York, New York 10016	Class II Director	Director since 1990	Managing Director for Education, The American Society of Mechanical Engineering since 1991; Director of Tround International, Inc. from 1984 to 1997.	2 registere investment companies consisting portfolios

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\* Mr. Tan is also a director of Korea Equity Fund, Inc. for which NAM-U.S.A. acts as manager and NAM acts as investment adviser, and is a member of the Audit and Nominating Committees of Korea Equity Fund, Inc. and a member of the Audit and Nominating Committees of the Fund.  
\*\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc. at July 1, 2004.

Class III Directors

Non-Interested Directors

Biographical and other information relating to the Class III Directors, each of which is not an "interested person," as defined in the Investment Company Act, of the Fund is set forth below.

Name, Address and Age*	Position(s) Held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number o Funds in t Fund Compl Overseen*
----- Class III (Term Expiring at the Annual Meeting of Shareholders to be held in 200				
Arthur R. Taylor (68) 3731 Devonshire Street Allentown, Pennsylvania 18103	Class III Director	Director since 1990	Retired since 2002; President of Muhlenberg College from 1992 to 2002.	2 registere investmen companies consistin 2 portfol
William K. Grollman (62) SmartPros Ltd.	Class III Director	Director since January 2004	President since 1981 and co-founder of SmartPros	2 registere investmen

12 Skyline Drive  
Hawthorne, New York  
10532

Ltd. (continuing education companies  
provider); former Partner consistin  
and National Director of portfolio

BDO Seidman (accounting firm); former professor at Fordham University Graduate School of Business Administration, 1987 to 1992.

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- \* Each Class III Director is also a director of Korea Equity Fund, Inc. for which NAM-U.S.A. acts as manager and NAM acts as investment adviser, and each is a member of the Audit and Nominating Committees of Korea Equity Fund, Inc. and a member of the Audit and Nominating Committees of the Fund.
  - \*\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc. at July 1, 2004.

Committees and Directors' Meetings. The Board of Directors has a standing Audit Committee and a standing Nominating Committee, each of which consists of the Directors who are not "interested persons" of the Fund within the meaning of the Investment Company Act and are "independent" as defined in the New York Stock Exchange listing standards. Currently, Messrs. Barker, Grollman, Tan and Taylor are members of these Committees. The principal responsibilities of the Audit Committee and the Nominating Committee are described below. The Fund has no standing Compensation Committee. The non-interested Directors have retained independent legal counsel to assist them in connection with their duties.

During the fiscal year ended February 28, 2004, the Board of Directors held four regular meetings and one special meeting, the Audit Committee held two meetings and the Nominating Committee held one meeting. Each incumbent Director attended at least 75% of the aggregate number of meetings of the Board of Directors held during the fiscal year and, if a member, of the aggregate number of meetings of the Audit and Nominating Committees held during the period for which he served.

#### REPORT OF THE AUDIT COMMITTEE

The following is a report by the Fund's Audit Committee regarding the responsibilities and functions of the Audit Committee.

Pursuant to the Audit Committee Charter, as revised by the Fund's Board of Directors on August 6, 2003, the Audit Committee's principal responsibilities are to: (i) recommend to the Board the selection, retention or termination of the Fund's independent accountants; (ii) review with the independent accountants the scope, performance and anticipated cost of their audit; (iii) discuss with the independent accountants certain matters relating to the Fund's financial statements, including any adjustment to such financial statements recommended by such independent accountants, or any other results of any audit; (iv) ensure that the independent accountants submit on a periodic basis a formal written statement as to their independence, discuss with the independent accountants any relationships or services disclosed in the statement that may impact the objectivity and independence of the Fund's independent accountants and recommend that the Board take appropriate action in response to this statement to satisfy itself of the independent accountants' independence; and (v) consider the comments of the independent accountants and management's responses thereto with respect to the quality and adequacy of the

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Fund's accounting and financial reporting policies and practices and internal controls. A copy of the Audit Committee charter is attached as Exhibit I.

The Audit Committee has received written disclosures and the letter required by Independence Standards Board Standard No. 1 from PWC, the Fund's independent accountants, and discussed with PWC certain matters required to be discussed by Statement on Auditing Standards No. 61. The Audit Committee has considered whether the provision of non-audit services by PWC is compatible with maintaining the independence of those accountants. At its meeting held December 17, 2003, the Audit Committee reviewed and discussed the audit of the Fund's financial statements with Fund management and PWC. The Audit Committee discussed with PWC their independence and considered whether the provision of services by PWC to the Fund and to NAM-U.S.A. and its affiliates was compatible with maintaining PWC's independence. Based upon these reviews and discussions, the Audit Committee recommended to the Board of Directors that the Fund's audited financial statements be included in the Fund's 2004 Annual Report to shareholders for the fiscal year ended February 28, 2004.

The Audit Committee's Charter for the Fund requires the Audit Committee (a) to pre-approve all auditing services to be provided to the Fund by the Fund's independent accountants; (b) to pre-approve all non-audit services, including tax services, to be provided to the Fund by the Fund's independent accountants in accordance with the Securities Exchange Act of 1934, as amended (the "1934 Act"); provided, however, that the pre-approval requirement with respect to the provision of non-audit services to the Fund by the Fund's independent accountants may be waived by the Audit Committee under the circumstances described in the 1934 Act and (c) to pre-approve non-audit services to be provided to the Fund's investment adviser (and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Fund) if the engagement relates directly to the operations and financial reporting of the Fund.

Submitted by the Audit Committee of the Board of Directors of the Fund:

William G. Barker, Jr.  
William K. Grollman  
Chor Weng Tan  
Arthur R. Taylor

Nominating Committee; Consideration of Potential Director Nominees.  
The principal purpose of the Nominating Committee is to select and nominate the Directors of the Fund. It evaluates candidates' qualifications for Board membership and, with respect to nominees for positions as independent directors, their independence from the Fund's manager and its affiliates and other principal service providers. The Committee periodically reviews director compensation and will recommend any appropriate changes to the Board as a group. This Committee also reviews and may make recommendations to the Board relating to those issues that pertain to the effectiveness of the Board in carrying out its responsibilities in governing the Fund and overseeing the management of the Fund.

The Nominating Committee will consider potential director candidates recommended by Fund shareholders provided that the proposed candidates satisfy the director qualification

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requirements provided in the Nominating Committee's Charter; are not "interested persons" of the Fund or the Fund's investment adviser within the meaning of the Investment Company Act; and are "independent" as defined in the New York Stock Exchange listing standards. The Committee has determined that potential director candidates recommended by Fund shareholders must satisfy the Securities and Exchange Commission's ("SEC") nominee requirements found in Regulation 14A of the 1934 Act. A copy of the Nominating Committee Charter is attached as Exhibit II.

Shareholders recommending potential director candidates must substantiate compliance with these requirements at the time of submitting their proposed director candidate to the attention of the Fund's Secretary. Notice to the Fund's Secretary should be provided in accordance with the deadline specified in the Fund's Bylaws and include the information required by the Fund's Bylaws.

The Nominating Committee identifies prospective candidates from any reasonable source and has the ability to engage third-party services for the identification and evaluation of potential nominees. Generally, the Committee meets annually to identify and evaluate nominees for Director and makes its recommendations to the Board. The Committee may meet more frequently if vacancies on the Board occur during a given year. In identifying and evaluating a potential nominee to serve as an independent Director of the Fund, the Nominating Committee will consider, among other factors: (i) whether the individual has any material relationships that could create any appearance of impropriety with respect to or a lack of independence from NAM-U.S.A. or any of its affiliates; (ii) whether the individual has the integrity, independence of mind and personal qualities to fulfill the fiduciary duties of an independent Director of the Fund and to protect the interests of Fund shareholders; (iii) the individual's corporate or other business experience in significant positions which demonstrate sound business judgment; (iv) whether the individual has financial and accounting experience; (v) the individual's ability to attend at least four regular meetings a year and (vi) whether the individual can add to the balance of experience of the present independent Directors. The standard of the Nominating Committee is to treat all equally qualified nominees in the same manner.

No nominee recommendations have been received from shareholders. The Nominating Committee may modify its policies and procedures for director nominees and recommendations from time to time in response to changes in the Fund's needs and circumstances, and as applicable legal or listing standards change.

Communications with the Board of Directors. Shareholders may send written communications to the Fund's Board of Directors or to an individual Director by mailing such correspondence to the Secretary of the Fund (addressed to 535 Madison Avenue, New York, New York 10022). Such communications must be signed by the shareholder and identify the class and number of shares held by the shareholder. Properly submitted shareholder communications will, as appropriate, be forwarded to the entire Board or to the individual Director. Any shareholder proposal submitted pursuant to Rule 14a-8 under the 1934 Act, must continue to meet all the requirements of Rule 14a-8. See "Additional Information -- Proposals of Shareholders" below.

Director Attendance at Shareholder Meetings. The Fund has no formal policy regarding director attendance at shareholder meetings. Each member of

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the Board of Directors then in office was present at the Fund's 2003 annual meeting of shareholders.

Compliance with Section 16(a) of the Securities Exchange Act of 1934. Section 16(a) of the 1934 Act requires the officers and directors of the Fund and persons who own more than 10% of a registered class of the Fund's equity securities to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC, the New York Stock Exchange and the Boston Stock Exchange. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Fund with copies of all Forms 3, 4 and 5 that they file.

Based solely on the Fund's review of the copies of such forms, and amendments thereto, furnished to it during or with respect to its most recent fiscal year, and written representations from certain reporting persons that they were not required to file Form 5 with respect to the most recent fiscal year, the Fund believes that all of its officers, directors, greater than 10% beneficial owners and other persons subject to Section 16 of the 1934 Act due to the requirements of Section 30 of the Investment Company Act (i.e., any advisory board member, investment adviser or affiliated person of the Fund's investment adviser), have complied with all filing requirements applicable to them with respect to transactions during the Fund's most recent fiscal year.

Director Nominee who is an Interested Person. The Fund currently treats one Class I Director nominee, Mr. Wallace, as an "interested person" of the Fund within the meaning of Section 2(a)(19) of the Investment Company Act because of the positions he held with the Fund and NAM-U.S.A. Prior to his retirement from NAM-U.S.A. in 2000, Mr. Wallace was a Vice President, Treasurer and Secretary of the Fund and a Senior Vice President, Secretary, Treasurer and Director of NAM-U.S.A.

Compensation of Directors. NAM-U.S.A. pays all compensation of all Directors of the Fund who are affiliated with NAM-U.S.A. or any of its affiliates. The Fund pays to each Director not affiliated with NAM-U.S.A. or any of its affiliates an annual fee of \$5,000 plus \$500 per Board or committee meeting attended, together with such Director's actual out-of-pocket expenses relating to attendance at meetings. Such fees and expenses aggregated \$35,090 for the fiscal year ended February 28, 2004.

The following table sets forth for the periods indicated compensation paid by the Fund to its Directors and the aggregate compensation paid to the Directors by all U.S. registered investment companies managed by NAM-U.S.A. or advised by NAM:

Name of Director -----	Aggregate Compensation from Fund For its Fiscal Year Ended February 28, 2004 -----	Pension or Retirement Benefit Accrued as Part of Fund Expenses for its Fiscal Year Ended February 28, 2004 -----	Aggregate Fund C Direct Calen Decem -----
William G. Barker, Jr.....	\$8,500	None	
William K. Grollman**.....	-	None	
Yasushi Suzuki.....	-	None	
Chor Weng Tan.....	\$8,000	None	
Arthur R. Taylor.....	\$8,500	None	
John F. Wallace.....	\$7,500	None	

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- \* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc. Because the funds in the Fund Complex do not share a common fiscal year, the information relating to compensation from the Fund Complex paid to the Directors is provided as of December 31, 2003.
- \*\* Mr. Grollman was appointed a Director of the Fund effective January 1, 2004.

Officers of the Fund. Officers of the Fund are elected and appointed by the Directors and hold office until they resign, are removed or are otherwise disqualified to serve. Biographical and other information relating to the officers of the Fund is set forth below:

Name, Address* and Age of Officers	Position(s) Held with the Fund	Term of Office** and Length of Time Served	Principal Occupation During Past Five Years
Yasushi Suzuki (50)	President and Director	President since 2003	President of the Fund since President and Director since May 2003; Management NAM from 1999 to April
Kenneth L. Munt (57)	Vice President	Vice President since 2001	Senior Vice President at NAM-U.S.A. since 1999; President of Human Resources Middlesex Mutual Assurance (insurance company) from
Rita Chopra- Brathwaite (35)	Treasurer	Treasurer since 2002	Vice President of NAM-U.S.A. Assistant Vice President from 1999 to 2000. Senior Manager from 1997 to 1999
Neil Daniele (43)	Secretary	Secretary since 2002	Senior Vice President of since 2002; Vice President Officer of Munich Re Capital Corp. (asset management 2002; Vice President of Investment Group, Inc. firm) from 2000 to 2001 of AIG Global Investments 2000.

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- \* The address of each officer listed above is 535 Madison Avenue, New York, New York 10022.
- \*\* Elected by and serves at the pleasure of the Board of Directors.

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Stock Ownership. Information relating to the share ownership by each Director nominee and each current Director at July 1, 2004 is set forth below.

Name of Director Nominee/ Current Directors -----	Shares of Common Stock of the Fund Beneficially Owned -----	Aggregate Dollar Range of Equity Securities in the Fund -----	Aggregat Securitie Funds in Overseen -----
Nominees			
William G. Barker, Jr.....	-0-	None	
John F. Wallace.....	700	\$1-\$10,000	\$10

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Current Directors			
Yasushi Suzuki .....	-0-	None	
Chor Weng Tan.....	1,000	\$10,000-\$50,000	\$10
William K. Grollman.....	-0-	None	
Arthur R. Taylor.....	-0-	None	

As of July 1, 2004, the Directors and officers of the Fund as a group (nine persons) owned an aggregate of less than 1% of the outstanding shares of the Fund. At such date, all of the officers of the Fund as a group (four persons) owned an aggregate of less than 1% of the outstanding shares of Nomura Holdings, Inc., the parent company of each of NAM-U.S.A. and NAM.

### PROPOSAL 2. RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS

The Audit Committee has approved PWC as independent accountants for the Fund for the fiscal year ending February 28, 2005. A majority of members of the Board of Directors, including a majority of the members of the Board of Directors who are not "interested" persons of the Fund, has ratified the appointment of PWC as the Fund's independent accountants for that fiscal year. Based principally on representations from PWC, the Fund knows of no direct financial or material indirect financial interest of PWC in the Fund. PWC, or a predecessor firm, has served as the independent accountants for the Fund since inception.

PWC also acts as independent accountants for NAM-U.S.A. and certain of its affiliated entities and for one other investment company for which NAM-U.S.A. acts as a manager. The Audit Committee of the Fund considered the fact that PWC has been retained as the independent accountants for these other entities in its evaluation of the ability of PWC to also function in that capacity for the Fund.

A representative of PWC is expected to be present at the Meeting and will have the opportunity to make a statement and is expected to be available to answer appropriate questions from shareholders concerning the Fund's financial statements. See "ADDITIONAL INFORMATION - Independent Accountants' Fees" for

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information concerning the aggregate fees paid to PWC for the Fund's fiscal year ended February 28, 2004.

### PROPOSAL 3. AMENDMENT OF THE FUND'S PRINCIPAL INVESTMENT POLICY CONCERNING INVESTMENT IN SMALLER CAPITALIZATION COMPANIES IN JAPAN

The Fund's Board of Directors unanimously recommends that all of the Fund's shareholders vote FOR Proposal 3.

Background. The Fund was organized in 1990 to invest primarily in the equity securities of emerging companies in Japan. At that time, the equity securities of emerging companies were

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primarily traded on the Japanese over-the-counter market ("OTC market"), the principal trading market for small capitalization growth companies in Japan.

Since that time, the Japanese equity market for emerging companies in Japan has changed significantly. The formation of other markets in Japan designed for the listing of equity securities of emerging companies has provided an increased opportunity for emerging companies in Japan to list their equity securities in a wider range of markets.

As a result, the Fund's Board of Directors approved, and thereafter the Fund's shareholders approved at the Fund's 2000 Annual Meeting of Shareholders, an amendment to the Fund's principal investment strategy whereby the Fund will, under normal circumstances, invest at least 65% of its total assets in equity securities traded in the Japan OTC market and up to 35% of its total assets in equity securities of emerging companies traded in other markets determined by NAM-U.S.A. to be appropriate markets for emerging companies in Japan.

Since 2000, further trading market developments have provided additional opportunities for emerging companies in Japan to list their equity securities. The JASDAQ, which has taken over as the successor market to what was previously known as the OTC market, has experienced strong competition for listings of the equity securities of emerging companies from newly developed trading markets (such as Mothers, Hercules and Centrex) and from established stock exchanges through the relaxation of listing requirements, particularly the Tokyo Stock Exchange.

In 2002, the Fund's Board of Directors adopted a non-fundamental investment objective and policy whereby the Fund, under normal circumstances, invests at least 80% of its total assets in smaller capitalization Japanese equity securities traded in the Japanese OTC market, Second Section of the Tokyo, Osaka and Nagoya Stock Exchanges, JASDAQ, Mothers, NASDAQ Japan, and other Japanese equity securities included in the indices determined by NAM-U.S.A. to be appropriate indices for smaller capitalization companies in Japan.

Proposed New Principal Investment Strategy. In order to address trading market developments in Japan, the Fund's Board of Directors has approved, and recommends that the shareholders of the Fund approve, a proposal that would modify the Fund's principal investment strategy concerning investment in smaller capitalization companies in Japan. If the proposal is approved by shareholders, the Fund will adopt the following principal investment strategy

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whereby the Fund will, under normal circumstances:

invest at least 80% of its total assets in smaller capitalization Japanese equity securities traded on the Tokyo, Osaka and Nagoya Stock Exchanges, JASDAQ, Mothers, Hercules, Centrex, and other indices or markets determined by Nomura Asset Management U.S.A. Inc. to be appropriate indices or markets for smaller capitalization companies in Japan ("Smaller Capitalization Companies").

The proposed principal investment strategy will allow the Fund to provide a more effective vehicle for investment in Smaller Capitalization Companies by increasing the Fund's ability to invest in Smaller Capitalization Companies listed on the broadest possible range of stock exchange and off-exchange trading markets. In addition to the markets in which the Fund already invests, the Fund would be able to invest in Smaller Capitalization Companies listed on

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the First Section of the Tokyo Stock Exchange, the Hercules market, the Centrex market and in any other markets that develop in the future for Smaller Capitalization Companies. Since the proposed principal investment strategy will be substantially similar to the Fund's current non-fundamental investment objective and policy, the Fund's Board of Directors has removed the Fund's non-fundamental policy. Shareholder approval will be required to amend the Fund's principal investment strategy in the future.

Mothers. Mothers (market of the high-growth and emerging stocks) is a market established by the Tokyo Stock Exchange that provides venture companies access to capital markets at an early stage of their development and provides investors with more diversified investment products. Japanese and non-Japanese companies may seek a listing on Mothers.

Hercules. Hercules is the successor market to the NASDAQ Japan Market, and the New Market Section of the Osaka Stock Exchange.

Centrex. Centrex is the growth company market section of the Nagoya Stock Exchange (the "NSE"). The goal of Centrex is to provide venture companies who wish to eventually list their shares on the larger sections of the NSE with a marketplace to raise funds in a flexible manner. Because Centrex does not have restrictive listing requirements based on company size or history, companies are able to list their shares on Centrex at their earliest stage of growth.

Defining Smaller Capitalization Companies. Currently, NAM-U.S.A. considers Smaller Capitalization Companies as those companies whose equity securities are included, at the time of purchase, in the RUSSELL/NOMURA Small Cap(TM) Index (the "RN Small Cap Index"). This index represents the bottom 15% of the total market capitalization of the RUSSELL/NOMURA Total Market (TM) Index (the "RN Total Index"). The RN Small Cap Index measures the performance of small companies and currently consists of approximately 1,250 of the smallest securities in the RN Total Index. The RN Total Index represents approximately 98% of the investable Japan equity market, and is currently comprised of approximately 1,600 of the largest Japanese equity securities as determined by total market capitalization and measures the performance of the broad market. NAM-USA also considers Smaller Capitalization Companies as those equity securities that, at the time of purchase, are not included in the RN Total Index. Currently, the largest of the Smaller Capitalization Companies has an approximate market capitalization of 82.5 billion Yen (approximately US\$750 million).

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The Fund's Investment Objective Remains the Same. The Fund's investment objective is, and will remain, to provide shareholders with long-term capital appreciation primarily through investments in Smaller Capitalization Companies. Since its inception, the Fund has established itself as a vehicle for investment in Smaller Capitalization Companies.

The New Investment Strategy Will Provide the Fund with Greater Investment Flexibility. By amending its principal investment strategy, the Fund may invest in a broader range of emerging companies in Japan and maintain its position as an effective vehicle for investment in newly established companies in Japan.

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Possible Risks Associated With Newly Organized Trading Exchanges. Trading on newly organized trading exchanges may be more sensitive to adverse changes in economic or political conditions than the well-established stock exchanges. Such new financial markets also will be subject to governmental regulation and may be adversely affected by government policies. There can be no assurance that new trading markets will be successful in attracting new listings of companies or survive for any particular period of time.

Your Board's Recommendation. The Board has concluded that the revised investment strategy will benefit the Fund and its shareholders. The Directors recommend that all shareholders vote FOR the proposal. Upon shareholder approval, the proposed principal investment strategy will become effective immediately. If the proposal is not approved by the Fund's shareholders, the Fund's current principal investment strategy will remain in effect and the Board will readopt the Fund's previous non-fundamental policy.

### ADDITIONAL INFORMATION

#### Expenses and Methods of Proxy Solicitation

The expense of preparation, printing and mailing of the enclosed form of proxy, this Proxy Statement and the accompanying Notice of Meeting will be borne by the Fund. The Fund will reimburse banks, brokers and others for their reasonable expenses in forwarding proxy solicitation material to the beneficial owners of the shares of the Fund. In addition to the solicitation of proxies by mail, proxies may be solicited in person or by telephone. The Fund has retained The Altman Group ("Altman"), a firm that specializes in proxy solicitation services, to assist in the solicitation of proxies for the Meeting for a fee of approximately \$6,000, together with reimbursement of such firm's expenses. Altman is obligated to provide proxy solicitation services including, but not limited to, distribution of proxies to broker-dealers, telephonic communication with shareholders and broker-dealers, and monitoring of voting results.

#### Independent Accountants' Fees

The SEC's auditor independence rules require the Fund's Audit Committee to pre-approve: (a) all audit and permissible non-audit services provided by the Fund's independent accountants directly to the Fund and (b) those permissible non-audit services provided by the Fund's independent accountants to NAM-U.S.A. and entities controlling, controlled by or under common control with NAM-U.S.A., if the services relate directly to the operations and financial reporting of the Fund.

The following table sets forth the aggregate fees paid to PWC,

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independent accountants for the Fund, for the Fund's fiscal year ended February 28, 2004 for professional services rendered for: (i) the audit of the Fund's annual financial statements and the review of financial statements included in the Fund's reports to shareholders; (ii) financial information systems design and implementation services provided to the Fund, NAM-U.S.A. and entities controlling, controlled by or under common control with NAM-U.S.A. that provide services to the Fund; and (iii) all other non-audit services provided to the Fund, NAM-U.S.A. and entities controlling, controlled by or under common control with NAM-U.S.A. that provide services to the Fund. For the Fund's fiscal year ended February 28, 2004, the independent accountants did not render any

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other audit-related services to the Fund, except as described under clauses (i) above. The Fund's Audit Committee has determined that the provision of non-audit services under clause (iii) is compatible with maintaining the independence of the independent accountants from the Fund.

Fiscal Year End	Audit Fees Charged to the Fund	Audit-Related Fees	Tax Fees	Financial Information Systems Design and Implementation Fees
February 28, 2004	\$58,000	None	\$7,500	None
February 28, 2003	\$56,000	None	\$7,500	None

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 \* These fees relate to tax advisory services for NAM, NAM-U.S.A., Nomura Asset Management Hong Kong Limited ("NAM-Hong Kong") and Nomura Asset Management Singapore Limited; audit and audit-related services for NAM-Hong Kong; and non-audit services for the Fund.

### Voting Requirements

The holders of a majority of the shares of stock of the Fund entitled to vote at the Meeting, present in person or by proxy, shall constitute a quorum for the transaction of business at the Meeting. If, by the time scheduled for the Meeting, a quorum of the Fund's shareholders is not present, or if a quorum is present but sufficient votes to act upon the proposals are not received from the shareholders, the chairman of the meeting may propose one or more adjournments of the Meeting to permit further solicitation of proxies from shareholders. No additional notice will be provided to you in the event the Meeting is adjourned unless otherwise required by Maryland law.

All shares represented by properly executed proxies, unless such proxies have previously been revoked, will be voted at the Meeting in accordance with the directions on the proxies; if no direction is indicated, the shares will be voted FOR the election of two Class I Director nominees (Proposal 1), FOR the ratification of the appointment of PWC as independent accountants for the Fund (Proposal 2), and FOR the amendment of the Fund's principal investment policy (Proposal 3). Provided that a quorum has been established at the Meeting, approval of the election of two Class I Directors to the Board of

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Directors (Proposal 1) requires the affirmative vote of a majority of the shares outstanding and entitled to vote thereon, in person or by proxy. Approval of the ratification of PWC as independent accountants for the Fund requires the affirmative vote of a majority of the votes cast at the Meeting (Proposal 2). Approval of the proposal to modify the Fund's fundamental investment policy (Proposal 3) requires the affirmative vote of a majority of the outstanding voting securities of the Fund, as defined in the Investment Company Act, which is the vote (a) of 67% or more of the shares of the Fund present at the meeting of the holders if more than 50% of the outstanding shares are present or represented by proxy, or (b) of more than 50% of the outstanding shares, whichever is less. Approval of any other routine matter which may properly come before the Meeting for consideration requires the affirmative vote of a majority of the votes cast.

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### Broker Non-Votes and Abstentions

The Fund expects that broker-dealer firms holding shares of the Fund in "street name" for the benefit of their customers and clients may request the instructions of such customers, clients and beneficial shareholders, on how to vote their shares on each proposal before the Meeting. The Fund understands that under the rules of the New York Stock Exchange, broker-dealers may, without instructions from such customers, clients and beneficial shareholders, grant authority to the proxies designated by the Fund to vote on certain matters to be considered if no instructions have been received prior to the date specified in the broker-dealer firm's at the Meeting request for voting instructions. Certain broker-dealer firms may exercise discretion over shares held in their name for which no instructions are received by voting such shares in the same proportion as they have voted shares for which they have received instructions.

The shares as to which the proxies so designated are granted authority by broker-dealer firms to vote on the proposals to be considered at the Meeting, the shares as to which broker-dealer firms have declined to vote ("broker non-votes"), as well as the shares as to which proxies are returned by record shareholders but which are marked "abstain" on any proposal will be included in the Fund's tabulation of the total number of votes present for purposes of determining whether the necessary quorum of shareholders exists. However, abstentions and broker non-votes will not be counted as votes cast. Therefore, abstentions and broker non-votes will have the same effect as a vote against the election of Director nominees (Proposal 1) and the proposal to amend the Fund's principal investment policy (Proposal 3). Abstentions and broker non-votes will have no effect on the vote required to ratify the appointment of PWC as independent accountants for the Fund (Proposal 2).

### Address of Manager, Investment Adviser and Investment Sub-Advisers

The address of NAM-U.S.A. is 535 Madison Avenue, New York, New York 10022. The address of NAM is 1-12-1 Chome, Nihonbashi, Chuo-ku, Tokyo 103-8260, Japan.

### Proposals of Shareholders

Proposals of shareholders intended to be presented at the next annual meeting of shareholders of the Fund, which is expected to be held in November 2005, must be received by the Fund for inclusion in its proxy statement and form of proxy relating to that meeting by March 17, 2005. The persons named as proxies in future proxy materials of the Fund may exercise discretionary

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authority with respect to any shareholder proposal presented at any subsequent shareholder meeting if written notice of such proposal has not been received by the Fund by June 2, 2005. Written proposals with regard to the Fund should be sent to the Secretary of the Fund, 535 Madison Avenue, New York, New York 10022.

Shareholders wishing to present proposals at the next annual meeting of shareholders of the Fund that they do not wish to be included in the Fund's proxy statement and form of proxy, must send written notice of such proposals to the Secretary of the Fund, 535 Madison Avenue, New York, New York 10022, and such notice must be received by the Secretary no sooner than March 18, 2005 and no later than April 18, 2005 in the form prescribed from time to time in the Fund's Bylaws.

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By Order of the Board of Directors

Neil A. Daniele  
Secretary

New York, New York  
Dated: July 14, 2004

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Exhibit I

JAPAN SMALLER CAPITALIZATION FUND, INC.  
KOREA EQUITY FUND, INC.  
CHARTER OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS

For the purpose of this Audit Committee Charter, the Audit Committee of each of Japan Smaller Capitalization Fund, Inc. and Korea Equity Fund, Inc. (each a "Fund") will be referred to as the "Audit Committee".

### I. Composition of the Audit Committee

The Audit Committee shall be composed of all of the Directors who satisfy the following criteria:

- (a) each of whom shall not be an "interested person" of the Fund, as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended;
- (b) each of whom shall not accept directly or indirectly any consulting, advisory, or other compensatory fee from the Fund (other than in his or her capacity as a member of the Board of Directors or any committee thereof) or have any other relationship to the Fund or Nomura Asset Management U.S.A. Inc. or its affiliates that may interfere with the exercise of such person's independence from the Fund and Fund management;

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- (c) each of whom shall otherwise satisfy the applicable independence requirements for any stock exchange on which Fund shares are listed;
- (d) each of whom shall be financially literate, as such qualification is interpreted by the Board of Directors in its business judgment, or shall become financially literate within a reasonable period of time after his or her appointment to the Audit Committee; and
- (e) at least one of whom shall have accounting or related financial management expertise, as the Board of Directors interprets such qualification in its business judgment.

The Audit Committee shall make a determination from time to time whether at least one member of the Audit Committee is a "financial expert" as defined in rules promulgated by the U.S. Securities and Exchange Commission (the "SEC") under the Sarbanes-Oxley Act of 2002 and shall consider whether any member thereof serves on the audit committee of any other public companies.

### II. Purposes of the Audit Committee

The Audit Committee, in its capacity as a committee of the Board of Directors, is directly responsible for the appointment, compensation, and oversight of the Fund's independent

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accountants (including the resolution of disagreements between Fund management and such independent accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee shall report regularly to the Board of Directors with respect to the matters described in Section III of this Audit Committee Charter. The Fund's independent accountants report directly to the Audit Committee.

### III. Responsibilities and Duties of the Audit Committee

The policies and procedures of the Audit Committee shall remain flexible to facilitate its ability to react to changing conditions and to generally discharge its functions. The following listed responsibilities describe areas of attention in broad terms.

To carry out its purposes, the Audit Committee shall have the following responsibilities and duties:

- (a) upon submission of an application form by the Fund's independent public accountants to the Public Company Accounting Oversight Board, to request (i) a copy of such application form; (ii) any material amendments to such application form; and (iii) the written findings of the Public Company Accounting Oversight Board in connection with that Board's inspection of the Fund's independent accountants;
- (b) to preapprove all auditing services to be provided to the Fund by the Fund's independent accountants\*;
- (c) to preapprove all non-audit services, including tax services, to be provided to the Fund by the Fund's independent accountants in accordance with the Securities Exchange Act of 1934, as amended (the "1934 Act"); provided, however, that the preapproval requirement with respect to the provision of non-audit services to the Fund by the Fund's independent accountants may be waived by the Audit

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Committee under the circumstances described in the 1934 Act\*\*;

- (d) to preapprove non-audit services to be provided to the Fund's investment adviser (and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Fund) if the engagement relates directly to the operations and financial reporting of the Fund;

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- \* The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant such preapprovals; provided, however, that the Audit Committee shall not delegate preapproval of the audit required by the 1934 Act. The decisions of any member or members of the Audit Committee to whom such authority has been given shall be reported to the full Audit Committee at each of its scheduled meetings.
  - \*\* The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant such preapprovals. The decisions of any member or members of the Audit Committee to whom such authority has been granted shall be reported to the full Audit Committee at each of its scheduled meetings.

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- (e) to ensure that the Fund's independent accountants submit on a periodic basis to the Audit Committee a formal written statement delineating all relationships between such independent accountants and the Fund, consistent with Independence Standards Board Standard No. 1, to actively engage in a dialogue with the Fund's independent accountants with respect to any disclosed relationships or services that affect the objectivity and independence of such independent accountants and, if deemed appropriate by the Audit Committee, to recommend that the Board of Directors take appropriate action in response to the report of such independent accountants to satisfy itself of the independence of such independent accountants;
- (f) to receive and consider specific written representations from the Fund's independent public accountants with respect to the independence of such accountants, audit partner rotation, and conflicts of interest described in Section 10A(1) of the 1934 Act, and to consider whether the provision of any non-audit services to the Fund by the Fund's independent accountants as described in Section III(c) of this Audit Committee Charter is compatible with maintaining the independence of those accountants;
- (g) to review arrangements for annual and special audits and the scope of such audits with the Fund's independent accountants;
- (h) to review and discuss the Fund's audited financial statements with Fund management;
- (i) to discuss with the independent accountants those matters required to be discussed by Statement of Accounting Standards Nos. 61 and 90, as may be modified or supplemented, relating to the Fund's financial statements, including, without limitation, any adjustment to such financial statements recommended by such independent accountants, or any other results of any audit;
- (j) to cause to be prepared and to review and submit any report, including any recommendation of the Audit Committee, required to be

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prepared by the Audit Committee by rules or regulations promulgated by the SEC ("SEC Rules") to be included in the Fund's annual proxy statement;

- (k) to review and discuss any report required to be reviewed by the Audit Committee pursuant to SEC Rules, as well as any reports prepared by the independent accountants of the Fund with respect to all services provided by the independent accountants to the Fund and the Fund's investment adviser and the fees related to such services;
- (l) to review legal and regulatory matters presented by counsel and the Fund's independent accountants that may have a material impact on the Fund's financial statements;
- (m) to establish and administer policies and procedures relating to (i) the hiring of employees and former employees of the Fund's independent accountants and (ii) the resolution of any disagreements between Fund management and the Fund's

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independent accountants regarding accounting and/or financial reporting policies and procedures;

- (n) to consider with the Fund's independent accountants their comments with respect to the quality and adequacy of the Fund's accounting and financial reporting policies, practices and internal controls and management's responses thereto, including, without limitation, the effect on the Fund of any recommendation of changes in accounting principles or practices by management or the independent public accountants;
- (o) to receive and consider reports from the Fund's independent accountants regarding (i) all critical accounting policies and practices to be used; (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with Fund management, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountants; (iii) other material written communications between the independent accountants and Fund management, such as any management letter or schedule of unadjusted differences; and (iv) all non-audit services provided to any entity in the Fund's investment company complex that were not pre-approved by the Fund's Audit Committee;
- (p) to receive reports from the principal executive officer and the principal financial officer, or persons performing similar functions, regarding: (i) all significant deficiencies in the design or operation of Fund internal controls that could adversely affect the Fund's ability to record, process, summarize, and report financial data and have identified for the Fund's independent accountants any material weaknesses in internal controls; (ii) any fraud, whether or not material, that involves Fund management or other employees who have a significant role in the Fund's internal controls; and (iii) whether or not there have been significant changes in the Fund's internal controls or in other factors that could significantly affect the Fund's internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and

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material weaknesses;

- (q) to establish procedures for (i) the receipt, retention and treatment of complaints received by the Fund regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission of concerns regarding questionable accounting or auditing matters;
- (r) to discuss with Fund management and the Fund's independent accountants policies with respect to risk assessment and risk management and the quality and adequacy of the Fund's internal controls and processes that could materially affect the Fund's financial statements and financial reporting;
- (s) to assist the Fund, if necessary, in preparing any written affirmation or written certification required to be filed with any stock exchange on which Fund shares are listed;

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- (t) to review and assess the adequacy of this Audit Committee Charter on an annual basis and recommend any changes to the Board of Directors; and
- (u) to perform such other functions consistent with this Audit Committee Charter, the Fund's Articles of Incorporation, as applicable, the Fund's By-laws and applicable law, as the Audit Committee or the Board of Directors deems necessary or appropriate.

In fulfilling their responsibilities under this Audit Committee Charter, it is recognized that members of the Audit Committee are not full-time employees of the Fund. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures. Each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Fund from which the Audit Committee receives information and (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations absent actual knowledge to the contrary (which actual knowledge shall be promptly reported to the Board of Directors).

Fund management is responsible for maintaining appropriate systems for accounting. The Fund's independent public accountants are responsible for conducting a proper audit of the Fund's financial statements and are directly accountable to the Audit Committee. The Audit Committee has the ultimate authority and responsibility to select (subject, if applicable, to shareholder approval) and evaluate the Fund's independent accountants, to determine the compensation of the Fund's independent accountants and, where appropriate, to replace the Fund's independent public accountants (or to nominate the independent accountants to be proposed for shareholder approval in the proxy statement).

#### IV. Meetings

The Audit Committee shall meet at least annually with the Fund's independent accountants (outside the presence of Fund management) and at least annually with the representatives of Fund management responsible for the financial and accounting operations of the Fund. The Audit Committee shall hold special meetings when and if circumstances require. Members of the Audit Committee may

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participate in a meeting of the Audit Committee by means of conference call or similar communications equipment by means of which all persons participating in such meeting can hear each other.

### V. Assistance from Fund Management; Authority to Engage Advisers; Funding

The appropriate officers of the Fund shall provide or arrange to provide such information, data and services as the Audit Committee may request. The Audit Committee shall have the authority to discharge its responsibility, including the power and authority to retain their own independent counsel and other advisers. The Fund shall provide for appropriate funding, as determined by the Audit Committee as a committee of the Board of Directors, for payment of compensation to: (i) the Fund's independent accountants, (ii) any advisers employed by the Audit Committee under this Section V and (iii) any ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

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Dated August 6, 2003

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Exhibit II

JAPAN SMALLER CAPITALIZATION FUND, INC.  
KOREA EQUITY FUND, INC.

### CHARTER OF THE NOMINATING COMMITTEE OF THE BOARD OF DIRECTORS

For the purpose of this Nominating Committee Charter, the Nominating Committee of each of Japan Smaller Capitalization Fund, Inc. and Korea Equity Fund, Inc. (each, a "Fund") will be referred to as the "Nominating Committee." This charter relates to the responsibilities of the Nominating Committee in connection with the nomination of Independent Directors.

#### 1. Composition of the Nominating Committee

The members of the Nominating Committee shall be composed solely of all of the Independent Directors. (1) The Chair of the Nominating Committee shall be selected by the members. The Nominating Committee will meet at least annually and at such dates and times as called by the Chair. A quorum shall consist of at least two Independent Directors.

#### II. Purpose of the Nominating Committee

The Nominating Committee, in its capacity as a committee of the Board of Directors, is responsible for the process of identifying, evaluating, selecting and appointing Independent Directors to fill vacancies among the Independent Directors in accordance with the Statement of Criteria for the Selection of Independent Directors attached. Any person selected to serve as an Independent Director shall be nominated and selected to fill such office solely by the Nominating Committee. The Nominating Committee may retain

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consultants or search firms to assist it to identify Independent Director candidates on such terms and conditions, including fees, as the Nominating Committee considers appropriate.

### III. Qualifications of Candidates

The Nominating Committee will seek to identify candidates it believes are highly qualified to serve as Independent Directors of the Fund. It may consider Independent Director candidates recommended by shareholders, taking into account the same criteria applied to candidates identified by the Nominating Committee. In evaluating a candidate recommended by a shareholder, the Nominating Committee may consider, in addition to the criteria discussed

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(1) Independent Directors are those who satisfy the following criteria: (a) each shall not be an "interested person" of the Fund, as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended, and (b) each shall otherwise satisfy the applicable independence requirements for any stock exchange on which Fund shares are listed.

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above, the objectives of the shareholders in submitting the candidate's name for nomination and whether or not such objectives are consistent with the interests of all shareholders.

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#### Statement of Criteria for Selection of Independent Directors

The Nominating Committee of the Fund has adopted this statement of its views as to the appropriate criteria for the selection of Independent Directors to fill vacancies among the Independent Directors of the Fund.

- o The candidate must meet the definition of an Independent Director and have no material relationships that could create any appearance of impropriety with respect to or a lack of independence from Nomura Asset Management (U.S.A.) Inc. or any of its affiliates.
- o The candidate must have the integrity, independence of mind and personal qualities to fulfill the fiduciary duties of an Independent Director of the Fund and to protect the interests of Fund shareholders.
- o The candidate needs to have corporate or other business experience in significant positions demonstrating sound business judgment.
- o The candidate should have financial and accounting experience and at least one Independent Director should qualify as an "Audit Committee Financial Expert."
- o The candidate should have the ability to and attend at least four regular meetings a year.

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- o The candidate should add to the balance of experience of the present Independent Directors. Familiarity with the Asian markets in which the Fund invests is desirable.

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JAPAN SMALLER CAPITALIZATION FUND, INC.

535 Madison Avenue  
New York, New York 10022

PROXY

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby appoints Yasushi Suzuki and Neil A. Daniele as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse hereof, all the common stock of Japan Smaller Capitalization Fund, Inc. (the "Fund") held of record by the undersigned on June 18, 2004 at the Annual Meeting of the Shareholders of the Fund to be held on August 18, 2004 or any adjournment thereof.

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PLEASE VOTE, DATE AND SIGN ON REVERSE AND RETURN PROMPTLY USING  
THE ENCLOSED ENVELOPE.  
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Please sign exactly as name(s) appear(s) hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized persons.

HAS YOUR ADDRESS CHANGED?

DO YOU HAVE ANY COMMENTS?

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PLEASE MARK VOTES  
AS IN THIS EXAMPLE

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JAPAN SMALLER CAPITALIZATION FUND, INC.  
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This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted FOR Proposals 1, 2, and 3.

Mark box at right if an address change or comment has been noted on the reverse side of this card. |\_|

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CONTROL NUMBER:

Please be sure to sign and date this Proxy

THE BOARD OF DIRECTORS	For		For All
RECOMMENDS A VOTE	All	With-	Nominees
"FOR" ALL CLASS I DIRECTOR	Nominees	hold	Except
NOMINEES	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 1. Election of two Class I Directors for a three-year term:  
 William G. Barker, Jr.  
 John F. Wallace

NOTE: If you do not wish your shares voted "For" a particular nominee, mark the "For All Nominees Except" box and strike a line through the nominee's name. Your shares will be voted for the remaining nominee.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEM 2.

- 2. To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants for the fiscal year ending February 28, 2005.  
 FOR     AGAINST     ABSTAIN

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEM 3.

- 3. To amend the Fund's principal investment policy concerning investment in smaller capitalization companies in Japan.  
 FOR     AGAINST     ABSTAIN

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- 4. In the discretion of such proxies, upon such other business as may properly come before the meeting or any adjournments thereof.

Date -----

----- Shareholder sign here ----- Co-owner sign here -----

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