

JAPAN SMALLER CAPITALIZATION FUND INC  
Form N-CSR  
October 31, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number: 811-05992

JAPAN SMALLER CAPITALIZATION FUND, INC.

180 Maiden Lane, New York, N.Y. 10038

Nomura Asset Management USA Inc.  
180 Maiden Lane, New York, N.Y. 10038

Registrant's telephone number, including area code: (800) 833-0018

Date of fiscal year end: February 28, 2004

Date of reporting period: August 31, 2003

ITEM 1. REPORT TO SHAREHOLDERS

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JAPAN SMALLER CAPITALIZATION FUND, INC.

October 30, 2003

To Our Shareholders:

We present the Semi-Annual Report of Japan Smaller Capitalization Fund, Inc. (the "Fund") for the six months ended August 31, 2003.

The Net Asset Value per share ("NAV") of the Fund increased by 33.8% during the six months. The closing market price of the Fund on August 31, 2003, on the New York Stock Exchange was \$9.04, representing a premium of 17.7% to the

stocks, increased by 30.7% and 45.7%, respectively, in U.S. dollar terms, during the same period. The Japanese yen (the "Yen") appreciated by 1.3% against the U.S. dollar during the six months.

Performance

The Fund outperformed the OTC Index by 3.1 percentage points during the six months ended August 31, 2003. The

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NAV of \$7.68. The net assets of the Fund amounted to \$121,718,414 on August 31, 2003.

The TOPIX, consisting of all companies listed on the Tokyo Stock Exchange (the "TSE") First Section, increased by 24.0% and the Nikkei Average Index (a price-weighted index of 225 leading stocks on the TSE) increased by 25.3%, in United States ("U.S.") dollar terms, during the six months ended August 31, 2003. The Nikkei JASDAQ 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

overweight position in the Electronics and Machinery sectors and effective stock selection in those sectors outweighed the negative effects of poor performance of some consumption-related stocks. The Fund underperformed the JASDAQ Index by 11.9 percentage points during the same period. The underexposure to major internet-related issues with large market capitalization such as Yahoo Japan Corp. and Rakuten Inc., affected the relative performance.

The NAV of the Fund increased by 23.7% for the quarter ended August 31, 2003. During the same period, the TOPIX, the Nikkei Average Index, the OTC Index and the JASDAQ Index each increased by 22.4%,

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25.7%, 21.2% and 27.0%, respectively, in U.S. dollar terms. The Yen appreciated by 2.3% during the same period. The Fund outperformed the OTC Index by 2.5 percentage points and underperformed the JASDAQ Index by 3.3 percentage points.

### The Portfolio

The Fund's equity exposure decreased from 99.1% at February 28, 2003 to 98.6% at August 31, 2003. The Fund was diversified into 91 issues, of which 57 issues were OTC stocks, 24 were other smaller capitalization stocks and 10 were TSE First Section stocks, comprising 55.1%, 31.2% and 12.3%, respectively, of net assets on August 31, 2003.

### Market Review

The OTC Index maintained an upward trend and achieved a substantial gain of 29.0% in local currency terms for the six months ended August 31, 2003.

In early March 2003, the OTC Index plunged partly because of the sharp decline of Yahoo Japan Corp.'s share price following the announcement of the

Japanese stocks, including the JASDAQ market, showed signs of a nascent recovery following the announcement of a public fund injection into the ailing banking group Resona Holdings Inc. A turnaround in the U.S. stock market also helped to push Tokyo stock prices higher. Although most Asian markets struggled early in the quarter amid fears about the economic implications of the Severe Acute Respiratory Syndrome ("SARS") outbreak, this had little impact on the Japanese market.

The Fund believes that the government rescue program for Resona Holdings Inc., which came after auditors expressed suspicions over the treatment of its deferred tax assets, was the trigger for the stock market turnaround. The program has not only helped to ease much of the anxiety surrounding the Japanese banking system, but has also raised investor confidence by indicating that existing shareholders of major Japanese banks might not be punished in the event of a government bailout. Although the re-capitalization caused some dilution for existing shareholders, the action indicated that this effective nationalization would not wipe out

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public offering of Yahoo Japan Corp.'s shares by the Softbank Group. However, with the start of U.S. and allied military operations in Iraq around mid-month, the OTC Index rebounded together with the main market.

The Japanese market enjoyed a strong rebound in the quarter ended June 30, 2003.

shareholders' equity. Consequently, the Fund believes that the bailout helped to reassure equity investors over the government's handling of the Japanese banking system, leading to a strong recovery in the Japanese stock market, especially in the shares of the other major financial holding companies.

Supply pressure, particularly for large capitalization or blue chip stocks, appeared

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to continue in the form of equity disposals by financial institutions and the return of the substitute portion of corporate pension funds that companies manage on behalf of the government. However, a surge in demand from overseas investors offset the selling pressure and later became the chief driving force behind the strong rally in May and June.

Japanese equities, including the JASDAQ markets, extended rally into July. Some of the domestic macroeconomic indicators released in July were positive. Factors related to capital expenditure, such as the Bank of Japan's June Tankan survey and May machinery orders, provided a catalyst for the equity price gains. Improved prospects for technology-related capital investment in the U.S. also helped the market.

The upward momentum of the Japanese stock market continued in August. Some encouraging domestic macroeconomic indicators, a more positive outlook for the U.S. economy, and continued interest from foreign investors helped to push the market higher.

Domestic macroeconomic indicators brought a number of positive surprises. Market gains in mid-August were fueled by a surprisingly strong Gross Domestic Product ("GDP") figure of +0.6% quarter-over-quarter ("q-o-q") for the quarter ended June 30, 2003 and a solid

Meanwhile, positive macroeconomic numbers from the U.S., such as housing starts for July coupled with the Federal Reserve's reaffirmation of its low interest rate policy have helped to lift the U.S. stock markets and have helped to underpin the rally in Japan as well. Earnings revisions from global semiconductor operations, such as Intel Corp., have also helped to promote a more positive outlook for the high-technology industry, which has in turn helped to support Japan's Technology sector.

### Outlook and Strategy

The Fund remains cautiously optimistic about the prospects for the Japanese stock market. Due to the strong stock price gains in July and August, valuations of economically sensitive sectors, which include Machinery, Electronics, and Commodities, have become somewhat less attractive. However, it is likely that both macro economic and micro economic data over the coming months will continue to indicate an ongoing recovery in the Japanese and U.S. economies. As long as this trend continues the Fund does not expect to reach a significant inflection point in the market for the time being.

Economic developments remain supportive in both Japan and the U.S., while Asia is also steadily becoming another valuable source of demand.

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+2.4% month-over-month ("m-o-m") gain in machinery orders for June. The Japanese government also revised upward its economic growth assessment for this year. Positive industrial production data released at the month-end provided a further late boost to the Japanese stock market.

Japan's GDP figures for the first and second quarters of 2003 were stronger than the consensus estimates, with better than expected results from private consumption and industrial production. Now that capital expenditure is finally starting to bottom out,

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an eventual recovery should offer some support to the local economy going forward.

Corporate earnings in Japan have been on a growth trend over the past 18 months and the Fund expects another set of promising results when the fiscal first half announcements are made in early October. The absence of turbulence in the interim results is supported by the most recent revision index figures for the Nomura 400 (consists of 400 stocks with market representation out of all the stocks of a Japanese stock market) which suggest that more companies, especially in the Machinery, Commodity, and Electronics sectors will be revising their earnings projections upward over the coming months.

The Fund will continue to maintain a relatively high exposure to the global economy. Industry sectors that are sensitive to the international economy, including Automobiles, Electronics and Commodities,

will remain overweighted, although the extent of the overweight position may be adjusted depending on share price movements and valuations.

As the broad market rose substantially and some stocks are now trading at higher valuations, the Fund will focus on those that have lagged behind. The Fund aims to add value through shifting the position from relatively overvalued to relatively undervalued stocks.

We appreciate your continuing support of your Fund.

Sincerely,

/s/ Yasushi Suzuki  
Yasushi Suzuki  
President

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### SHAREHOLDERS ACCOUNT INFORMATION

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

INTERNET WEBSITE

NAM-U.S.A. has established an Internet website which highlights its history, investment philosophy and process and products, which includes the Fund. The Internet web address is [www.nomura.com](http://www.nomura.com). We invite you to view the Internet website.

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JAPAN SMALLER CAPITALIZATION FUND, INC.

FUND HIGHLIGHTS--AUGUST 31, 2003

(Unaudited)

KEY STATISTICS

Net Assets.....	\$121
Net Asset Value per Share.....	
Closing NYSE Market Price.....	
Percentage Change in Net Asset Value per Share**	
Percentage Change in NYSE Market Price**	

MARKET INDICES

Percentage change in market indices:*	
TOPIX.....	22
Nikkei Average.....	23
JASDAQ.....	43
OTC.....	29

\*From March 1, 2003 through August 31, 2003.  
+Reflects the percentage change in share price.

ASSET ALLOCATION

Japanese Equities	
OTC Stocks.....	
Other Smaller Capitalization Stocks.....	
TSE First Section Stocks.....	
Cash and Cash Equivalents.....	
 Total Investments.....	
Other Assets less Liabilities, Net.....	
 Net Assets.....	

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INDUSTRY DIVERSIFICATION

	% of Net Assets -----	
Retail.....	14.4	Machinery and Machine Tools....
Chemicals and Pharmaceuticals.....	12.7	Food Manufacturing.....
Services.....	11.9	Electric.....
Miscellaneous Manufacturing.....	10.9	Textiles and Apparel.....
Electronics.....	10.6	Restaurants.....
Information and Software.....	10.2	Real Estate and Warehouse.....
Wholesale.....	5.9	Banks and Finance.....
Automotive Equipment and Parts.....	4.8	Telecommunications.....

TEN LARGEST EQUITY HOLDINGS BY MARKET VALUE

Security  
-----

Yahoo Japan Corp. ....
C. Uyemura & Co., Ltd. ....
Kuroda Electric Co., Ltd. ....
T & K Toka Co., Ltd. ....
THK Co., Ltd. ....
Chiyoda Co., Ltd. ....
Exedy Corporation.....
Hakuto Co.,Ltd. ....
Nitori Co., Ltd. ....
Arisawa Manufacturing Co., Ltd. ....

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JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS

AUGUST 31, 2003

(Unaudited)

	Shares -----	Cost -----
EQUITY SECURITIES		
Automotive Equipment and Parts		
Exedy Corporation.....	202,400	\$ 1,703,

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Automobile clutches		
Musashi Seimitsu Industry Co., Ltd. ....	73,000	1,358,
Ball joints, camshafts and gears		
Nippon Cable Systems Inc. ....	187,300	1,698,
		-----
Control cables		
Total Automotive Equipment and Parts.....		4,760,
		-----
Banks and Finance		
Aiful Corporation.....	17,050	1,440,
		-----
Consumer loans		
Chemicals and Pharmaceuticals		
Arisawa Manufacturing Co., Ltd. ....	63,230	990,
Glassfibers and insulating resins		
C. Uyemura & Co., Ltd. ....	143,000	2,365,
Chemicals		
FP Corporation.....	93,500	1,788,
Polystyrene and other synthetic resin foodware		
Konishi Co., Ltd. ....	103,500	1,131,
Adhesives and construction sealants		
Mandom Corporation.....	69,000	962,
Cosmetic products		
Matsumoto Yushi-Seiyaku Co., Ltd. ....	68,000	1,318,
Analgesic anti-inflammatory agents		
Milbon Co., Ltd. ....	51,260	1,526,
Hair-care products for beauty salons		
Shizuokagas Co., Ltd. ....	366,000	1,024,
Natural gas supplier		
T & K Toka Co., Ltd. ....	87,500	2,225,
Ink for printing		
		-----
Total Chemicals and Pharmaceuticals.....		13,332,
		-----
Electric		
Citizen Electronics Co., Ltd. ....	27,900	1,277,
Electric parts		
Eneserve Corporation.....	28,000	688,
Electric generation system for supermarkets		
Mirai Industry Co., Ltd. ....	261,000	2,586,
		-----
Plastic molded electric materials		
Total Electric.....		4,551,
		-----

See notes to financial sta

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SCHEDULE OF INVESTMENTS--Continued

AUGUST 31, 2003

(Unaudited)

	Shares	Cost
	-----	----
Electronics		
Chiyoda Integre Co., Ltd. ....	91,100	\$ 1,040,496
Electronic components		
Cosel Co., Ltd. ....	76,500	1,986,521
Electrical machinery		
Dainippon Screen Mfg. Co., Ltd.+ ....	287,000	1,116,079
Electronic components		
Fuji Electric Industry Co., Ltd. ....	93,000	993,449
Electronic parts		
Fukuda Denshi Co. ....	39,000	961,762
Medical electronic equipment		
Kuroda Electric Co., Ltd. ....	101,000	1,429,964
Materials and components		
Nagano Keiki Co., Ltd. ....	279	4,785
Measuring instruments		
Toshiba Tec Corp. ....	280,000	1,126,847
Electronic equipment manufacturing		
UMC Japan + ....	1,466	2,670,710
		-----
Semiconductor memory chips		11,330,613
Total Electronics.....		-----
Food Manufacturing		
Arcs Co., Ltd. ....	125,400	1,606,660
Supermarket chain		
Ariake Japan Co., Ltd. ....	35,530	739,366
Natural seasonings		
Kakiyasu Honten Co., Ltd. ....	62,000	674,732
Processed meat products, fresh meats, and side dishes		
Ozeki Co., Ltd. ....	12,000	1,132,929
Supermarket chain		
Plenus Co., Ltd. ....	45,360	1,083,852
Japanese lunch-boxes		
Q'sai Co., Ltd. ....	120,000	474,013
		-----
Frozen and processed foods and juice drinks		5,711,552
Total Food Manufacturing .....		-----
Information and Software		
Argo Graphics Inc. ....	36,000	896,182
Computer aided design software		
CAC Corp. ....	132,100	1,495,499
Information technology services		

See notes to financial statements

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JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS--Continued

AUGUST 31, 2003

(Unaudited)

	Shares		Cost
	-----		-----
Index Corporation .....	284	\$	395,185
Cellular phone, internet content			
Jastec Co., Ltd. ....	47,000		631,062
Business application software			
Konami Computer Entertainment Tokyo, Inc. ....	82,960		871,645
Video games software			
Trend Micro Inc.+ .....	19,500		1,488,481
Computer software, anti-virus server			
Works Applications Co., Ltd.+ .....	280		1,097,341
Software development			
Yahoo Japan Corp.+ .....	318		6,887,252
			-----
Internet services			
Total Information and Software .....			13,762,647
			-----
Machinery and Machine Tools			
Disco Corp. ....	25,400		1,511,243
Dicing saws for semiconductors			
THK Co., Ltd. ....	132,400		4,015,427
Linear motion systems for industrial machines			
Yushin Precision Equipment Co., Ltd. ....	57,800		2,342,621
			-----
Injection molding related machinery			
Total Machinery and Machine Tools.....			7,869,291
			-----
Miscellaneous Manufacturing			
Central Glass Co., Ltd. ....	297,000		1,565,509
Glass products			
Eidai Kako Co., Ltd. ....	139,000		1,042,977
Synthetic resin processed products			
Fuji Seal, Inc. ....	29,550		542,645
Packing materials			
Fujimi Inc. ....	62,500		1,625,209
Polishing materials for silicone wafers			
Hoden Seimitsu Kako Kenkyusho Co., Ltd. ....	62,000		1,015,688
Aluminum extruding molds			
Mani, Inc. ....	66,200		962,882
Medical goods and equipment			
Maruko Co., Ltd. ....	94,800		1,127,947

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Intimate apparel		
Mizuno Corporation.....	324,000	1,087,651
Sporting goods		
Nichiha Corporation.....	194,600	1,739,791
Ceramic exterior walls and fiber boards		

See notes to financial statements

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JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS--Continued

AUGUST 31, 2003

(Unaudited)

	Shares -----	Cost -----
Nippon Kodoshi Corp. ....	188,000	\$ 2,839,396
Paper for electric insulation		
SK Kaken Co., Ltd. ....	11,000	339,559
Paints		
Suruga Co., Ltd. ....	83,600	1,270,192
		-----
Daily necessities, novelties and promotional items		
Total Miscellaneous Manufacturing.....		15,159,446
		-----
Real Estate and Warehouse		
Nippon Kanzai Co., Ltd. ....	75,580	1,103,449
Comprehensive building maintenance		
Recrm Research Co., Ltd.+ ....	945	1,172,071
		-----
Building management		
Total Real Estate and Warehouse.....		2,275,520
		-----
Restaurants		
Saint Marc Co., Ltd. ....	34,700	961,983
Restaurants and bakery shop chain		
Watami Food Service Co., Ltd. ....	159,350	2,489,530
		-----
Restaurant chain		
Total Restaurants.....		3,451,513
		-----
Retail		

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Cawachi Limited.....	22,400	1,241,833
Drug store chain		
Chiyoda Co., Ltd. ....	288,700	2,005,640
Specialty store chain		
Edion Corporation.....	206,000	1,006,273
Consumer electronics		
Kyoto Kimono Yuzen Co., Ltd. ....	491	1,664,707
Japanese traditional kimonos		
Nissen Co., Ltd. ....	83,600	350,876
Mail-order business		
Nitori Co., Ltd. ....	41,300	1,599,142
Home furnishings		
Otsuka Kagu, Ltd. ....	55,900	2,237,581
Furniture		
Prime Network Inc. ....	440	1,037,807
TV shopping business		
Toys R Us-Japan, Ltd. ....	150,500	4,069,478
Toy chain stores		

See notes to financial statements

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JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS--Continued

AUGUST 31, 2003

	Shares	Cost
	-----	----
Uoriki Co., Ltd. ....	208,400	\$ 1,422,799
Fresh fish and sushi stores		
USS Co., Ltd. ....	31,300	703,008
Automobile auction		
Total Retail.....		17,339,144
		-----
Services		
Alps Logistics Co., Ltd. ....	84,000	515,309
Transportation		
Bellsystem 24, Inc. ....	3,100	1,015,540
Telemarketing		
E-System Corporation + ....	1,260	1,251,298
Consulting services		
Fullcast Co., Ltd. ....	198	970,096
Human resources		
Leoc Japan Co., Ltd. ....	157,000	3,331,323
Nursing home caterer		

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Nichii Gakkan Company.....	29,600	1,434,734
Hospital administration services		
Nissin Healthcare Food Service Co., Ltd. ....	86,400	1,601,713
Nursing home caterer		
Pasona Inc.+ .....	265	704,397
Human resources		
Toei Animation Co., Ltd. ....	17,300	902,021
Animated cartoon movies production		
Tohokushinsha Film Corp. ....	59,300	624,843
Produces tv programs, movies and commercial films		
Toppan Forms Co., Ltd. ....	105,200	1,113,807
Commercial printing		
Tow Co., Ltd. ....	226,720	1,403,612
Entertainment		
Weathernews Inc. ....	147,300	1,816,185
Custom weather forecasting services		
Total Services.....		16,684,878
Telecommunications		
Nippon Antenna Co., Ltd. ....	12,000	185,074
Communication related equipment		

See notes to financial statements

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JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS--Continued

AUGUST 31, 2003

(Unaudited)

	Shares	Cost
	-----	----
Textiles and Apparel		
United Arrows Limited.....	53,800	\$ 972,762
Casual clothes		
Workman Co., Ltd. ....	31,600	499,486
Uniforms		
Total Textiles and Apparel.....		1,472,248

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Wholesale		
ArcLand Sakamoto Co., Ltd. ....	125,400	1,502,668
Home appliances		
Hakudo Co., Ltd. ....	115,000	555,909
Metal products		
Hakuto Co., Ltd. ....	177,600	1,916,241
Electric parts		
Kato Sangyo Co., Ltd. ....	147,000	931,837
Processed foods		
Paltac Corporation.....	85,000	701,892
Cosmetics, toiletries, and other consumer goods		
Toba, Inc. ....	67,000	1,015,391
		-----
Trading company for control systems		
Total Wholesale.....		6,623,938
		-----
TOTAL INVESTMENTS IN EQUITY SECURITIES.....		125,951,766
		-----

See notes to financial statements

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JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS--Continued

AUGUST 31, 2003

(Unaudited)

	Principal Amount	Cost
	-----	----
INVESTMENTS IN FOREIGN CURRENCY		
Hong Kong Shanghai Bank-Tokyo		
Non-interest bearing account.....	JPY 39,989,895	\$ 342,570
		-----
TOTAL INVESTMENTS IN FOREIGN CURRENCY.....		342,570
		-----
TOTAL INVESTMENTS.....		126,294,336
		-----
OTHER ASSETS LESS LIABILITIES, NET.....		1,332,890
		-----
NET ASSETS.....		\$127,627,226
		=====

+ Non-income producing security.

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Portfolio securities and foreign currency holdings were translated at the following exchange rate as of August 31, 2003.

Japanese Yen JPY (Y) 116.735 = \$1.00

See notes to financial statements

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JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

AUGUST 31, 2003

(Unaudited)

ASSETS:

Investments in securities, at market value (cost--\$125,951,766).....  
Investments in foreign currency, at market value (cost--\$342,570).....  
Receivable for investments sold.....  
Receivable for dividends and interest, net of withholding taxes.....  
Prepaid expenses.....  
Cash.....  
  
Total Assets.....

LIABILITIES:

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

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JAPAN SMALLER CAPITALIZATION FUND, INC.  
STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED AUGUST 31, 2003  
(Unaudited)

INCOME:  
Dividend income (less \$73,155 withholding taxes)..... \$7  
Interest income..... --  
Total Income.....

EXPENSES:  
Management fee..... 5  
Custodian fees.....  
Legal fees.....  
Auditing and tax reporting fees.....  
Directors' fees and expenses.....  
Shareholder reports.....  
Registration fees.....  
Annual meeting expenses.....  
Transfer agency fees.....  
Miscellaneous.....  
Insurance.....  
Total Expenses.....

INVESTMENT LOSS--NET.....

REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:  
Realized gain/(loss) on investments and foreign currency transactions:  
Net realized loss on investments.....  
Net realized loss on foreign exchange.....

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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 appreciation on investments.....  
  
Net realized and unrealized gain on investments and foreign exchange.....  
  
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS.....

See notes to financial statements

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JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF CHANGES IN NET ASSETS

FROM INVESTMENT ACTIVITIES:

Net investment loss.....  
Net realized loss on investments.....  
Net realized gain/(loss) on foreign exchange.....  
Change in net unrealized appreciation on investments and  
foreign exchange.....  
  
Increase/(decrease) in net assets derived from investment activities.....

NETASSETS:

Beginning of period.....  
  
End of period.....

See notes to financial statements

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JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Significant Accounting Policies

Japan Smaller Capitalization 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 3,804,940 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

was 60 days or less, or by amortizing the 61st day prior to maturity if the date of purchase exceeded 60 days and other assets for which market values are not readily available are valued at a value 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 exchange rate at the time of the transaction. Asset and liability values that are denominated in Yen are adjusted to the current exchange rate at the end of the reporting period. Transaction gains or losses resulting from changes in the exchange rate during the reporting period are included in operations for the current period.

The net assets of the Fund are presented at the current exchange rate and market values at the end of the reporting period. The Fund isolates that portion of net assets in unrealized appreciation (depreciation) and includes it in the statement of operations arising as a result of changes in Yen rates at August 31, 2000. Foreign exchange gains and losses, net of foreign exchange gains or losses included in operations, and other assets and liabilities are included in operations for the current period. Foreign exchange gains or losses included in operations are net of foreign exchange gains or losses realized between the transaction dates on securities transactions and foreign withholding taxes recorded in 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. Investment income and distributions are recorded on the dividend date and interest income is recorded on the interest date.

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mature in 60 days or less are valued at amortized cost if their original maturity at the date of purchase

accrual basis. Realized gains and loss of investments are calculated on the i basis.

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### JAPAN SMALLER CAPITALIZATION FUND, INC.

#### NOTES TO FINANCIAL STATEMENTS (Unaudited)--Continued

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 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 15% 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, 2003, the Fund's accumulated net realized loss was increased by \$44,279 and paid in capital was decreased by \$798,103, with an offsetting decrease in accumulated net investment loss of \$842,382. 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

(g) Concentration of Risk-- A significant portion of the Fund's net assets consists of Japanese securities which involve certain considerations not typically associated with investments in the United States. In addition to the smaller market and greater volatility, there is often substantially less publicly available information about Japanese securities than there is about U.S. issuers. Future economic and political developments in Japan could affect the value of securities in which the Fund is invested. Further, the Fund may be exposed to currency devaluation and other exchange rate fluctuations.

(h) Indemnifications--Under the Fund's governing documents its officers and directors are indemnified against certain liabilities incurred in the performance of their duties to the Fund. In the normal course of business, the Fund enters into contracts that contain a variety of indemnification provisions which provide general indemnification for the Fund's maximum exposure under these agreements is unknown as this would involve future events that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

#### 2. Management Agreement and Transactions With Affiliated Persons

Nomura Asset Management U.S.A. Inc. ("Nomura") acts as the manager of the Fund pursuant to a management agreement. Under the agreement, the Manager provides all office space, personnel necessary to perform its duties under the management agreement, the Manager has retained its parent company, Nomura Asset Management Co., Ltd. (the "Investment Adviser") as investment adviser for the Fund.

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and disclosures in the financial statements. Actual results could differ from these estimates.

As compensation for its services to Manager receives a monthly fee at the

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### JAPAN SMALLER CAPITALIZATION FUND, INC.

#### NOTES TO FINANCIAL STATEMENTS (Unaudited)--Continued

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 accrued fees to the Manager of \$529,001 for the six months ended August 31, 2003. Under the Investment Advisory Agreement, the Manager informed the Fund that the Investment Adviser earned fees of \$239,198 for the six months ended August 31, 2003. At August 31, 2003, the fee payable to the Manager, by the Fund, was \$94,124.

Certain Officers and/or Directors of the Fund are officers and/or directors of the Manager. Nomura Holdings, Inc. (the Manager's indirect parent) and affiliates earned \$448 in commissions on the execution of portfolio security transactions for the six months ended August 31, 2003. 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 expenses related to attendance at meetings and fees and expenses for unaffiliated Directors aggregated \$25,240 for the six months ended August 31, 2003.

#### 3. Purchases and Sales of Investments

Purchases and sales of investments, investments in foreign currencies and securities, for the six months ended August 31, 2003, were \$15,003,395 and \$15,997,986, respectively.

As of August 31, 2003, net unrealized gains on investments exclusive of investment currency and short-term securities for income tax purposes was \$5,913,769 of which \$20,242,147 related to appreciated securities and \$26,155,916 related to depreciated securities. The aggregate cost of investments, exclusive of investments in foreign currencies and short-term securities, was \$342,570 at August 31, 2003 for Federal income tax purposes was \$125,951,766. In accordance with U.S. Treasury regulations, the Fund elected to recognize \$345,077 of net realized foreign currency losses of \$1,945,147 of net realized capital losses for the six months ended October 31, 2002. Such losses are treated as capital losses for income tax purposes as arising on March 1, 2003. The Fund has a capital loss carryforward as of February 28, 2003 of approximately \$28,827,665 of which \$1,945,147 expires February 28, 2010 and \$6,143,800 expires February 28, 2011.

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JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Unaudited)--Continued

FINANCIAL HIGHLIGHTS

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

	For the Six Months ended August 31, 2003 (Unaudited)	February 28,		For th 20
	-----	2003	2002	-----
Net asset value, beginning of period.....	\$5.74	\$5.86	\$7.59	\$16
Rights offering costs* .....	--	--	--	--
Net investment loss @ .....	(0.01)	(0.05)	(0.06)	(0
Net realized and unrealized gain (loss) on investments and foreign currency.....	1.95	(0.07)	(1.59)	(7
Total from investment operations.....	1.94	(0.12)	(1.65)	(7
Distributions to shareholders from:				
Net realized capital gains.....	--	--	(0.08)	(0
Net investment income.....	--	--	--	--
Total distributions.....	0.00	(0.00)	(0.08)	(0
Decrease in net asset value due to shares issued through rights offering* .....	--	--	--	--
Net asset value, end of period.....	\$7.68	\$5.74	\$5.86	\$7
Market value, end of period.....	\$9.04	\$6.38	\$5.53	\$6
Total investment return+ .....	41.7%	15.4%	(18.6%)	(31
Ratio to average net assets/supplemental data:				
Net assets, end of period (in 000).....	\$121,718	\$90,930	\$92,815	\$120,
Operating expenses.....	1.60%+	1.63%	1.58%	1.
Net investment loss.....	(0.18%)+	(0.75%)	(0.84%)	(0.
Portfolio turnover.....	15%	28%	38%	

+Based on market value per share, adjusted for reinvestment of income dividends and long term capital gain distributions, and capital share transactions. Total return does not reflect sales commissions.

\*Decrease is due to rights offering (see note 1).

+Annualized.

@Based on average shares outstanding.

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### BOARD OF DIRECTORS

William G. Barker, Jr.  
Yasushi Suzuki  
Chor Weng Tan  
Arthur R. Taylor  
John F. Wallace

### OFFICERS

Yasushi Suzuki, President  
Keisuke Haruguchi, Vice President  
Kenneth L. Munt, Vice President  
Rita Chopra-Brathwaite, Treasurer  
Neil A. Daniele, Secretary

### MANAGER

Nomura Asset Management U.S.A. Inc.  
180 Maiden Lane  
New York, New York 10038-4936  
Internet Address  
www.nomura.com

### INVESTMENT ADVISOR

Nomura Asset Management Co., Ltd.  
1-12-1-Chome Nihonbashi, Chuo-ku,  
Tokyo 103-8260, Japan

### DIVIDEND PAYING AGENT, TRANSFER AGENT AND REGISTRAR

Equiserve Trust Company, N.A.  
P.O. Box 43011  
Providence, RI 02940-3011

### CUSTODIAN

Brown Brothers Harriman & Co.  
40 Water Street  
Boston, Massachusetts 02109

### COUNSEL

Sidley Austin Brown & Wood LLP  
787 Seventh Avenue  
New York, New York 10019

### INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York, New York 10036-2798

JAPAN SMALLER CAPITALIZATION FUND, INC.  
180 MAIDEN LANE  
NEW YORK, NEW YORK 10038-4936

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This Report, including the Financial Statements, is transmitted to the Shareholders of Japan Smaller Capitalization 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

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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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ITEM 2. CODE OF ETHICS

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Not applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

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Not applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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Not applicable.

ITEMS 5-6. [RESERVED]

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ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END  
MANAGEMENT INVESTMENT COMPANIES

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Not applicable.

ITEM 8. [RESERVED]

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ITEM 9. CONTROLS AND PROCEDURES

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(a) The registrant's principal executive officer and principal financial and accounting officer, after evaluating the effectiveness of the registrant's disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940, as amended) as of a date within ninety days of the filing date of this Form N-CSR, have concluded that the registrant's disclosure controls and procedures are adequate and effective.

(b) There were no significant changes in the registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, nor were

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there any significant deficiencies or material weaknesses in the registrant's internal controls. As a result, no corrective actions were required or undertaken.

ITEM 10. EXHIBITS

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(a) Not applicable.

(b) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2 under the Act (17 CFR 270.30a-2) is attached as Exhibit 99.CERT.

(c) A separate certification for the principal executive officer of the registrant as required by 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is attached as Exhibit 99.906CERT

SIGNATURES

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

Japan Smaller Capitalization Fund, Inc.

By: /s/ Yasushi Suzuki

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Yasushi Suzuki, President

Date: October 30, 2003

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

By: /s/ Rita Chopra-Brathwaite

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Rita Chopra-Brathwaite, Treasurer

Date: October 30, 2003