

JAPAN SMALLER CAPITALIZATION FUND, INC.

April 23, 2009

To Our Shareholders:

We present the Annual Report of Japan Smaller Capitalization Fund, Inc. (the “Fund”) for the fiscal year ended February 28, 2009.

The Net Asset Value per share (“NAV”) of the Fund decreased by 30.3% and the closing market price of the Fund (on the New York Stock Exchange) decreased 34.4% for the year after giving effect for the reinvestment of income dividends and long term distributions. The closing market price of the Fund on February 28, 2009 was \$5.79 representing a discount of 10.8% to the NAV of \$6.49. The net assets of the Fund totaled \$137,859,502 on February 28, 2009.

The Fund’s benchmark—the Russell/Nomura Small Cap™ Index—decreased by 30.4% in United States (“U.S.”) dollar terms. The TOPIX, consisting of all companies listed on the First Section of the Tokyo Stock Exchange (the “TSE”), decreased by 39.1% and the Nikkei Average Index, a price-weighted index of the 225 leading stocks on the TSE, decreased by 40.7% in U.S. dollar terms for the year ended February 28, 2009. The Japanese yen (“Yen”) appreciated by 6.2% against the U.S. dollar during the year.

During the year ended February 28, 2009, the Fund outperformed the Russell/Nomura Small Cap™ Index by 0.1%.

The Portfolio

Equity holdings represented 99.7% of the Fund’s net assets at February 28, 2009. The

Fund was diversified into 132 issues, of which 109 were TSE First Section stocks, four were TSE Second Section stocks, 13 were JASDAQ stocks and six were other smaller capitalization stocks, comprising 79.4%, 2.7%, 10.6% and 7.0%, respectively, of net assets on February 28, 2009.

Performance

In terms of the sector allocation strategy, the underweight position in the Nonferrous Metals sector and the overweight position in the Retail Trade sector produced the largest positive contributions. However, the underweight position in the Foods sector had a negative impact. All together, the sector allocation strategy results were slightly negative.

Stock attribution analysis shows that some holdings in the Information & Communication sector, such as Jupiter Telecommunications Co., Ltd. contributed to the relative performance. Stock holdings from other sectors, such as Seven Bank Ltd. and Hisamitsu Pharmaceutical Co., Ltd. also added value during the review period. Meanwhile, some holdings such as Kuraray Co., Ltd. and Yamato Industry had a negative impact on the relative performance. The accounting scandal involving Futaba Industrial Co., Ltd. caused the stock price to decline, which had a negative impact on the portfolio. However, the overall stock selection result was positive.

Market Review

The Russell/Nomura Small Cap™ Index declined by 34.7% in local currency terms during the year ended February 28, 2009. Meanwhile, the broad Japanese stock market (TOPIX) declined by 42.9% and underperformed the smaller capitalization stocks. Within the Small Cap Index, the Value Sub-Index declined by 30.0% and outperformed the Growth Sub-Index, which was down by 44.3%.

The Japanese small capitalization market moved almost in parallel with the broad Japanese market over the period from March to August 2008. With no end in sight to the credit market problems originating in the U.S. and amid fears of a protracted slowdown in the American economy, global stock markets including Japan succumbed to downward pressure in March.

In the second quarter of 2008, the yen steadily weakened against the U.S. dollar amid reduced expectations of further interest rate cuts by the Federal Reserve. This also helped to underpin the recovery in the Tokyo stock market. Nevertheless, the rally failed to extend through June, faltering towards the end of the second quarter due to growing concerns that the American economy could be heading for a period of low growth combined with accelerating Consumer Price Inflation (“CPI”).

The Japanese stock market continued to decline in the second half of 2008. Following the bankruptcy of Lehman Brothers, fears of systemic risk and concerns about the collapse of other financial firms shattered market sentiment. The U.S. Treasury Secretary's plan for a financial rescue package, dubbed the Troubled Asset Relief Program (“TARP”), received a broad market welcome and triggered a relief rally in mid-September, but this was immediately reversed when the U.S. House of Representatives initially rejected the bill. Under these unstable conditions, Japanese small capitalization stocks suffered an-

other substantial drop, but the market was relatively calm in comparison with the broad Japanese market, as most small capitalization companies operate mainly in the domestic market where the decrease in demand has been less rapid and less severe.

The market suffered a precipitous drop in October, while the rebound in December was too small to have much impact on the earlier loss. Despite concerted official action to stabilize the financial system, the risk tolerance of investors collapsed and the market briefly plunged to a new post-bubble low in October. Massive fiscal policy measures to stimulate the economy were announced by several countries including China, yet the positive reaction from the market was not sustained for long, as investors judged that the plans were either ineffective or lacked the scale needed to lift the slowing economies.

The stock market declined once again during January and February after a short-lived rebound in December. Amid the weakening global economy, ailing western financial institutions reminded investors of the dire conditions in the financial markets by announcing massive losses for the quarter ending December 31, 2008. Meanwhile, economic stimulus policies and measures to stabilize the financial system appeared to lag behind market participants' expectations, which were seemingly heightened by the inauguration of the Obama administration in the United States. Domestic news reports of substantial losses from leading Japanese companies, such as Toyota Motor, Sony Corp., and Hitachi, were larger than consensus estimates and further undermined market sentiment. In addition, the U.S. economic stimulus package, amounting to US\$787 billion, appeared to fall short of previous expectations. International investors remained net sellers of Japanese stocks, outweighing the purchases by domestic individual investors. The Yen declined from 90 Yen per U.S. dollar in January to 98 Yen at the end of

February, which supported the relative performance of export-oriented stocks.

Outlook and Future Strategy

Despite posting an annualized decrease in GDP of more than 12% for the fourth quarter of 2008, there are no immediate signs yet that the Japanese economy might be starting to bottom out.

Inevitably, this is having a severe impact on the Corporate sector. Operating profits have already been decimated during the early stages of this recession, but these operating losses are now being exacerbated as companies are forced to make charges against valuation losses on security holdings and foreign exchange translation losses on their overseas operations. Some companies will even face reductions in their deferred tax accounts. This is likely to result in damage to shareholder capital and also implies a reduction in the lower limit of the Fund's expected trading range and a lower floor level before the market begins to bottom out.

Although the Fund has seen a recent recovery in the U.S. dollar, foreign exchange conditions are still sure to have an impact on the full year earnings results of Japanese companies. Low risk tolerance has increased the pace of dollar repatriation recently, but reflationary government policies could put pressure on the U.S. dollar again soon. There are no signs of an improvement in economic conditions in Europe yet either, and the lack of policy coordination is also weighing on the regional economy and the euro. Ultimately, earnings and book value per share of the Japanese market will depend significantly on

the exchange rate trends up to the year-end book closing at the end of March.

Domestic fiscal policy efforts are still clouded by the government's low approval rating and the difficulty and delays resulting from the opposition's control of the Upper House. Given Prime Minister Aso's low ratings, the Fund expects the Liberal Democratic Party (Japan) to seek to install a new leader, possibly with the intention of calling a Lower House general election. However, in this case a supplementary budget could be rushed through just before the election.

The Fund expects the volatile market conditions to continue for a while longer. Meanwhile, the Fund thinks the decline in revenue across the Corporate sector will be at its most severe in this first quarter of 2009 and the Japanese stock markets should start to bottom out around those results announcements. Consequently, the Fund will limit risk by keeping a defensive bias in the portfolio. On the other hand, the Fund also feels there may be opportunities to increase the beta-value of the portfolio. The Fund's strategic policy of replacing outperforming stocks with those that have underperformed will continue in parallel with its focus on relative value.

We appreciate your continuing support of your Fund.

Sincerely,



Shigeru Shinohara
President

BENCHMARK

The Russell/Nomura Small Cap™ Index represents approximately 15% of the total market capitalization of the Russell/Nomura Total Market™ Index. It measures the performance of the smallest Japanese equity securities in the Russell/Nomura Total Market™ Index. Currently, there are 1,350 securities in the Russell/Nomura Small Cap™ Index.

SHAREHOLDERS ACCOUNT INFORMATION

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

PROXY VOTING

A description of the policies and procedures that the Fund uses to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-833-0018; and (2) on the Securities and Exchange Commission's web site at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling toll-free 1-800-833-0018; and (2) on the Securities and Exchange Commission's web site at <http://www.sec.gov>.

AVAILABILITY OF QUARTERLY SCHEDULE OF INVESTMENTS

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's web site at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

FUND CERTIFICATION

In November 2008, the Fund filed its Chief Executive Officer Certification with the New York Stock Exchange pursuant to Section 303A. 12(a) of the New York Stock Exchange Corporate Governance Listing Standards.

The Fund's Chief Executive Officer and Chief Financial Officer Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 were filed with the Fund's Form N-CSR and are available on the Securities and Exchange Commission's web site at <http://www.sec.gov>.

INTERNET WEBSITE

Nomura Asset Management U.S.A. Inc. has established an Internet website which highlights its history, investment philosophy and process and products, which include the Fund. The Internet web address is www.nomura.com. We invite you to view the Internet website.

JAPAN SMALLER CAPITALIZATION FUND, INC.

FUND HIGHLIGHTS—FEBRUARY 28, 2009

KEY STATISTICS

Net Assets	\$137,859,502
Net Asset Value per Share	\$6.49
Closing NYSE Market Price	\$5.79
Percentage Change in Net Asset Value per Share*†	(30.3%)
Percentage Change in NYSE Market Price*†	(34.4%)

MARKET INDICES

Percentage change in market indices:*

	<u>YEN</u>	<u>U.S.\$</u>
Russell/Nomura Small Cap™ Index	(34.7%)	(30.4%)
TOPIX	(42.9%)	(39.1%)
Nikkei Average	(44.4%)	(40.7%)

*From March 1, 2008 through February 28, 2009.

†Reflects the percentage change in share price adjusted for reinvestment of income dividends and long term capital gain distributions.

ASSET ALLOCATION

Japanese Equities	
TSE First Section Stocks	79.4%
TSE Second Section Stocks	2.7
JASDAQ Stocks	10.6
Other Smaller Capitalization Stocks	7.0
Cash and Cash Equivalents	<u>0.5</u>
Total Investments	100.2
Liabilities in Excess of Other Assets, Net	<u>(0.2)</u>
Net Assets	<u>100.0%</u>

INDUSTRY DIVERSIFICATION

	<u>% of Net Assets</u>		<u>% of Net Assets</u>
Services	18.7	Automotive Equipment and Parts	3.4
Chemicals and Pharmaceuticals	12.2	Food Manufacturing	3.2
Banks and Finance	8.9	Real Estate and Warehouse	2.9
Miscellaneous Manufacturing	8.6	Machinery and Machine Tools	2.7
Electronics	8.0	Information and Software	1.5
Retail	6.7	Textiles and Apparel	1.3
Iron and Steel	5.7	Restaurants	1.2
Telecommunications	5.1	Electric	0.9
Wholesale	4.0	Oil and Gas	0.9
Transportation	3.8		

TEN LARGEST EQUITY HOLDINGS BY MARKET VALUE

	<u>Market Value</u>	<u>% of Net Assets</u>
Security		
Jupiter Telecommunications Co., Ltd.	\$5,201,300	3.8
Moshi Moshi Hotline, Inc.	4,254,896	3.1
Air Water Inc.	3,329,059	2.4
OBIC Co., Ltd.	3,017,908	2.2
Daibiru Corporation	2,752,453	2.0
Rohito Pharmaceutical Co., Ltd.	2,391,532	1.7
Rakuten, Inc.	2,212,667	1.6
Cawachi Limited	2,121,773	1.6
Meiko Network Japan Co., Ltd.	2,087,879	1.5
Yamato Kogyo Co., Ltd.	1,985,964	1.4

JAPAN SMALLER CAPITALIZATION FUND, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of
Japan Smaller Capitalization Fund, Inc.

We have audited the accompanying statement of assets and liabilities of Japan Smaller Capitalization Fund, Inc. (the "Fund"), including the schedule of investments, as of February 28, 2009, and the related statements of operations for the year then ended, changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of February 28, 2009 by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund at February 28, 2009, the results of its operations for the year then ended, the changes in its net assets, for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

New York, New York
April 23, 2009

SCHEDULE OF INVESTMENTS*

FEBRUARY 28, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
EQUITY SECURITIES				
Automotive Equipment and Parts				
Eagle Industry Co., Ltd.	270,000	\$ 2,871,748	\$ 778,647	0.6
Valves and mechanical seals				
EXEDY Corporation	113,200	1,863,453	1,471,363	1.1
Drivetrain products				
Koito Manufacturing Co., Ltd.	126,000	771,302	792,453	0.6
Lighting equipments				
Musashi Seimitsu Industry Co., Ltd.	70,500	1,094,185	692,131	0.5
Ball joints, camshafts, and gears				
Nissin Kogyo Co., Ltd.	28,100	264,061	260,927	0.2
Brake systems				

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* – Continued

FEBRUARY 28, 2009

	Shares	Cost	Market Value	% of Net Assets
Nittan Valve Co., Ltd.	239,900	\$ 2,291,622	\$ 591,255	0.4
Engine valves				
<i>Total Automotive Equipment and Parts</i>		<u>9,156,371</u>	<u>4,586,776</u>	<u>3.4</u>
Banks and Finance				
The Aichi Bank, Ltd.	24,300	2,312,114	1,657,524	1.2
General banking services				
Aizawa Securities Co., Ltd.	57,900	503,609	71,646	0.1
Financial services				
The Bank of Iwate, Ltd.	24,700	1,444,778	1,356,435	1.0
General banking services				
The Hachijuni Bank, Ltd.	156,000	1,090,195	872,649	0.6
General banking services				
Iwai Securities Co., Ltd.	129,700	3,200,848	878,063	0.6
Financial services				
The Keiyo Bank, Ltd.	219,000	1,074,192	1,019,021	0.8
General banking services				
The Mie Bank, Ltd.	410,000	2,013,200	1,245,283	0.9
General banking services				
The Musashino Bank, Ltd.	66,100	2,602,063	1,967,081	1.4
Regional bank				
The San-in Godo Bank, Ltd.	237,000	2,096,222	1,696,579	1.2
General banking services				
Seven Bank, Ltd.	561	<u>1,119,147</u>	<u>1,543,274</u>	<u>1.1</u>
General banking services				
<i>Total Banks and Finance</i>		<u>17,456,368</u>	<u>12,307,555</u>	<u>8.9</u>
Chemicals and Pharmaceuticals				
Adeka Corporation	286,000	2,745,741	1,558,910	1.1
Resin products				
Air Water Inc.	388,000	3,653,085	3,329,059	2.4
Industrial gases				
Daicel Chemical Industries, Ltd.	310,000	1,270,967	1,090,556	0.8
Organic/inorganic chemicals				
Hitachi Chemical Company, Ltd.	98,500	1,718,529	994,217	0.7
Semiconductor materials				
Koatsu Gas Kogyo Co., Ltd.	190,000	1,086,312	761,671	0.6
High-pressured gases and chemicals				
Kobayashi Pharmaceutical Co., Ltd.	17,300	540,082	573,217	0.4
Pharmaceuticals and medical equipment				
Kuraray Co., Ltd.	113,000	1,236,175	841,274	0.6
Synthetic and chemical fibers				
Lintec Corporation	126,600	1,957,615	1,435,797	1.0
Adhesive products				

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* – Continued

FEBRUARY 28, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
Miraca Holdings Inc.	21,100	\$ 417,179	\$ 441,269	0.3
Medical drugs and equipment				
Mitsubishi Gas Chemical Company, Inc.	262,000	1,549,332	1,042,266	0.8
Xylene and methanol producer				
The Nippon Synthetic Chemical Industry Co., Ltd.	64,000	298,929	138,753	0.1
Fine chemicals				
Nippon Shokubai Co., Ltd.	154,000	1,125,432	955,954	0.7
Synthetic resins				
Rohto Pharmaceuticals Co., Ltd.	224,000	2,630,272	2,391,532	1.7
Pharmaceuticals manufacturer				
Tosoh Corporation	700,000	1,478,820	1,073,784	0.8
Petrochemical and other chemical products				
Towa Pharmaceutical Co., Ltd.	5,900	<u>207,032</u>	<u>244,363</u>	<u>0.2</u>
Generic medicine				
<i>Total Chemicals and Pharmaceuticals</i>		<u>21,915,502</u>	<u>16,872,622</u>	<u>12.2</u>
 Electric				
Mirai Industry Co., Ltd.	188,300	<u>1,338,316</u>	<u>1,193,905</u>	<u>0.9</u>
Plastic molded electric materials				
 Electronics				
Daishinku Corp.	422,000	2,559,162	617,129	0.4
Monolithic crystal filters				
Enplas Corporation	123,100	1,875,173	1,213,564	0.9
Electronic plastic products				
Foster Electric Company, Limited	42,400	834,351	231,545	0.2
Speaker systems				
Hamamatsu Photonics K.K.	96,100	2,780,101	1,560,636	1.1
Semiconductors				
Kanaden Corporation	31,000	193,095	137,588	0.1
Components and devices				
Kuroda Electric Co., Ltd.	55,500	744,386	314,435	0.2
Semiconductor devices				
Minebea Co., Ltd.	385,000	2,172,498	1,330,777	1.0
Ball bearings				
Sanshin Electronics Co., Ltd.	170,300	2,152,558	1,186,013	0.9
Semiconductors				
Shinko Electric Industries Co., Ltd.	154,000	1,263,925	1,431,569	1.0
Semiconductor packages				
Taiyo Yuden Co., Ltd.	247,000	1,928,465	1,490,310	1.1
Electronic components				
Tomen Devices Corporation	58,500	1,219,157	546,802	0.4
Semiconductors				

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* – Continued

FEBRUARY 28, 2009

	Shares	Cost	Market Value	% of Net Assets
Yaskawa Electric Corporation	238,000	\$ 1,593,127	\$ 941,924	0.7
Servomotors and industrial robots				
<i>Total Electronics</i>		<u>19,315,998</u>	<u>11,002,292</u>	<u>8.0</u>
Food Manufacturing				
Doutor Nichires Holdings Co., Ltd.	122,100	2,094,271	1,724,396	1.3
Coffee and restaurant chain				
J-Oil Mills, Inc.	103,000	420,521	278,079	0.2
Cooking oil				
Mitsui Sugar Co., Ltd.	148,000	568,517	431,355	0.3
Sugar and related products				
Nippon Flour Mills Co., Ltd.	35,000	181,201	157,846	0.1
Flour				
Oenon Holdings, Inc..	72,000	211,831	129,590	0.1
Rice wine and spirits				
Ozeki Co., Ltd.	37,700	1,048,977	983,126	0.7
Supermarket chain				
Q.P. Corporation	45,900	594,797	510,235	0.4
Various food products				
Showa Sangyo Co., Ltd.	18,000	58,242	51,358	0.0
Flour				
Warabeya Nichiyo Co., Ltd.	8,300	<u>143,383</u>	<u>110,599</u>	<u>0.1</u>
Prepared boxed lunches				
<i>Total Food Manufacturing</i>		<u>5,321,740</u>	<u>4,376,584</u>	<u>3.2</u>
Information and Software				
Fujitsu Business Systems, Ltd.	117,600	1,770,884	1,538,175	1.1
Business systems network				
Works Applications Co., Ltd.	1,252	<u>1,153,811</u>	<u>512,144</u>	<u>0.4</u>
Payroll software				
<i>Total Information and Software</i>		<u>2,924,695</u>	<u>2,050,319</u>	<u>1.5</u>
Iron and Steel				
Hanwa Co., Ltd.	412,000	1,923,369	1,129,171	0.8
Steel imports/exports				
Hitachi Metals, Ltd.	237,000	1,281,741	1,357,263	1.0
Specialty steel and metal				
Neturen Co., Ltd.	249,500	2,395,976	1,518,152	1.1
Induction hardening equipment				
Osaka Steel Co., Ltd.	118,900	1,891,978	1,860,377	1.4
Electric furnace steelmaker				
Yamato Kogyo Co., Ltd.	95,900	<u>4,061,451</u>	<u>1,985,964</u>	<u>1.4</u>
Railroad related products				
<i>Total Iron and Steel</i>		<u>11,554,515</u>	<u>7,850,927</u>	<u>5.7</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* – Continued

FEBRUARY 28, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
Machinery and Machine Tools				
Kato Works Co., Ltd.	324,000	\$ 1,328,425	\$ 553,336	0.4
Construction and industrial machinery				
Modec, Inc.	60,400	1,063,043	699,216	0.5
Extraction machinery for marine use				
NS Tool Co., Ltd.	7,300	390,403	140,349	0.1
Industrial cutting tools				
O-M Ltd.	276,000	1,384,822	945,544	0.7
Automatic packaging equipment				
Taiho Kogyo Co., Ltd.	164,900	1,998,108	711,641	0.5
Metal forgings				
Yuken Kogyo Co., Ltd.	480,000	<u>1,753,844</u>	<u>706,857</u>	<u>0.5</u>
Hydraulic equipment				
<i>Total Machinery and Machine Tools</i>		<u>7,918,645</u>	<u>3,756,943</u>	<u>2.7</u>
Miscellaneous Manufacturing				
Chuetsu Pulp & Paper Co., Ltd.	50,000	109,104	111,980	0.1
Paper and pulp				
Fujimi Incorporated	40,800	783,946	488,590	0.4
Silicon wafer polishing materials				
Furuno Electric Co., Ltd.	162,200	2,172,222	711,600	0.5
Marine equipment				
Hokuetsu Paper Mills, Ltd.	138,000	822,814	509,465	0.4
Paper and pulp				
Japan Digital Laboratory Co., Ltd.	88,700	1,110,744	758,329	0.6
Computers for accounting and financial use				
Kansai Paint Co., Ltd.	268,000	1,473,082	1,395,020	1.0
Paint				
Kitz Corporation	68,000	211,491	211,402	0.1
Industrial valves				
Mani, Inc.	28,500	1,270,789	1,413,560	1.0
Medical goods and equipment				
Mitsubishi Paper Mills Limited	330,000	740,949	421,844	0.3
Paper and pulp				
Mitsui Mining & Smelting Company, Limited	300,000	552,676	429,514	0.3
Non-ferrous metals				
Nippon Paper Group, Inc.	24,800	706,723	554,155	0.4
Paper and pulp				
Rengo Co., Ltd.	79,000	578,430	433,840	0.3
Corrugated and paperboard containers				
Rinnai Corporation	17,000	609,905	592,831	0.4
Gas appliances				
Sumitomo Osaka Cement Co., Ltd.	282,000	686,423	611,382	0.4
Cement and ultrafine particles				

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* – Continued

FEBRUARY 28, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
Taiheiyo Cement Corporation	843,000	\$ 1,301,246	\$ 1,215,555	0.9
Cement and limestone				
Tokai Rubber Industries, Ltd.	113,400	1,891,162	684,215	0.5
Rubber and plastic products				
Toyo Tanso Co., Ltd.	7,300	534,410	227,693	0.2
Carbon and graphite				
The Yokohama Rubber Company Limited	317,000	<u>1,303,593</u>	<u>1,095,730</u>	<u>0.8</u>
Rubber products				
<i>Total Miscellaneous Manufacturing</i>		<u>16,859,709</u>	<u>11,866,705</u>	<u>8.6</u>
Oil and Gas				
Cosmo Oil Company, Limited	317,000	841,691	888,255	0.6
Crude oil refiner and distributor				
Tokai Carbon Co., Ltd.	107,000	<u>422,735</u>	<u>342,496</u>	<u>0.3</u>
Industrial products				
<i>Total Oil and Gas</i>		<u>1,264,426</u>	<u>1,230,751</u>	<u>0.9</u>
Real Estate and Warehouse				
Daibiru Corporation	364,700	3,606,251	2,752,453	2.0
Leases office buildings, apartments and hotels				
Sekisui Chemical Co., Ltd.	292,000	1,926,961	1,257,166	0.9
Prefabricated residential housing				
TOC Co., Ltd.	9,000	<u>30,549</u>	<u>31,845</u>	<u>0.0</u>
Commercial building leasing				
<i>Total Real Estate and Warehouse</i>		<u>5,563,761</u>	<u>4,041,464</u>	<u>2.9</u>
Restaurants				
Hiday Hidaka Corp.	175,200	<u>1,597,444</u>	<u>1,712,852</u>	<u>1.2</u>
Chinese restaurant chain				
Retail				
Cawachi Limited	127,600	3,293,514	2,121,773	1.6
Drug store chain				
Cocokara Fine Holdings Inc.†	78,010	1,534,878	725,173	0.5
Drug store chain				
Felissimo Corporation	79,100	1,830,600	1,240,071	0.9
Catalog shopping				
Fields Corporation.	261	406,650	397,699	0.3
Pinball machines				
Ministop Co., Ltd.	2,300	44,938	36,575	0.0
Convenience stores				
Nitori Co., Ltd.	11,350	611,556	602,408	0.4
Furniture store chain				
Otsuka Kagu, Ltd.	53,800	407,012	349,369	0.3
Furniture and interior décor				

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* – Continued

FEBRUARY 28, 2009

	Shares	Cost	Market Value	% of Net Assets
Shimachu Co., Ltd.	100,700	\$ 2,381,120	\$ 1,570,461	1.1
Furniture store chain				
Sugi Holdings Co., Ltd.	34,800	773,581	738,457	0.5
Drug store chain				
Village Vanguard Co., Ltd.	227	1,724,230	680,176	0.5
Books, cd's, videos and office supplies				
Yaoko Co., Ltd.	26,100	<u>673,963</u>	<u>751,358</u>	<u>0.6</u>
Supermarkets				
<i>Total Retail</i>		<u>13,682,042</u>	<u>9,213,520</u>	<u>6.7</u>
Services				
Asahi Net, Inc.	207,000	673,205	535,573	0.4
Internet access				
EPS Co., Ltd.	451	2,000,824	1,844,864	1.4
Clinical testing				
Fuyo General Lease Co., Ltd.	85,300	2,451,154	1,011,021	0.7
Machinery leasing				
GMO Internet, Inc.	94,900	472,519	367,818	0.3
Server rental and internet domain name registration				
Kyoritsu Maintenance Co., Ltd.	58,900	1,070,462	1,023,981	0.7
Student dormitories				
Meiko Network Japan Co., Ltd.	472,600	2,717,774	2,087,879	1.5
Private schools and academic tutoring				
Moshi Moshi Hotline, Inc.	216,250	5,304,848	4,254,896	3.1
Marketing				
NEC Networks & System Integration Corporation	156,000	1,932,895	1,383,157	1.0
Communication systems				
Nippo Corporation	234,000	1,766,090	1,883,295	1.4
Heavy construction				
Nissay Dowa General Insurance Company, Limited	259,000	1,455,774	1,096,549	0.8
Automobile, fire, accident, and marine insurance				
OBIC Co., Ltd.	22,510	3,854,451	3,017,908	2.2
Computer system integration				
Rakuten, Inc.	4,276	2,425,718	2,212,667	1.6
Manages consumer websites				
Relo Holdings, Inc.	10,800	252,089	77,312	0.1
Housing maintenance				
So-Net Entertainment Corporation	243	575,348	467,934	0.3
Internat service provider				
Taihei Dengyo Kaisha, Ltd.	139,000	1,111,087	1,238,114	0.9
Chemical plant engineering				
Toppan Forms Co., Ltd.	154,300	1,788,113	1,691,564	1.2
Business form printing				

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* – Continued

FEBRUARY 28, 2009

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
Totetsu Kogyo Co., Ltd.	89,000	\$ 571,311	\$ 415,033	0.3
Civil engineering work				
Yahoo Japan Corporation	4,027	<u>1,535,912</u>	<u>1,164,220</u>	<u>0.8</u>
Internet				
<i>Total Services</i>		<u>31,959,574</u>	<u>25,773,785</u>	<u>18.7</u>
Telecommunications				
Daimei Telecom Engineering Corp.	201,000	2,025,171	1,611,536	1.2
Wire installations and related works				
Jupiter Telecommunications Co., Ltd.	6,529	5,014,216	5,201,300	3.8
Cable television broadcasting				
MTI Ltd.	129	<u>164,793</u>	<u>200,785</u>	<u>0.1</u>
Cellular services				
<i>Total Telecommunications</i>		<u>7,204,180</u>	<u>7,013,621</u>	<u>5.1</u>
Textiles and Apparel				
Workman Co., Ltd.	178,600	<u>1,944,185</u>	<u>1,799,059</u>	<u>1.3</u>
Uniforms				
Transportation				
Alps Logistics Co., Ltd.	106,900	1,170,521	830,843	0.6
Trucking				
Iino Kaiun Kaisha, Ltd.	218,600	1,691,761	1,191,530	0.9
Oil tankers				
Kintetsu World Express Inc.	56,500	1,176,688	1,031,948	0.7
Distribution services				
Nippon Express Co., Ltd.	222,000	920,029	644,761	0.5
Frieght				
Senko Co., Ltd.	466,000	<u>1,627,674</u>	<u>1,477,323</u>	<u>1.1</u>
Trucking and warehousing				
<i>Total Transportation</i>		<u>6,586,673</u>	<u>5,176,405</u>	<u>3.8</u>
Wholesale				
Hitachi High-Technologies Corporation	156,200	3,077,168	1,944,014	1.4
Electronic components				
Kondotec, Inc.	242,700	1,938,499	1,365,087	1.0
Construction materials				
Nagase & Company, Ltd..	137,000	1,751,015	1,088,603	0.8
Dyestuff				
Ryoden Trading Company, Ltd.	243,000	<u>1,808,108</u>	<u>1,158,030</u>	<u>0.8</u>
Electronic components				
<i>Total Wholesale</i>		<u>8,574,790</u>	<u>5,555,734</u>	<u>4.0</u>
TOTAL INVESTMENTS IN EQUITY SECURITIES		<u>\$192,138,934</u>	<u>\$137,381,819</u>	<u>99.7</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* – Continued

FEBRUARY 28, 2009

	<u>Principal Amount</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Net Assets</u>
INVESTMENTS IN FOREIGN CURRENCY				
Hong Kong Shanghai Bank-Tokyo				
Non-interest bearing account	JPY 70,235,041	\$ 712,721	\$ 718,260	0.5
TOTAL INVESTMENTS IN FOREIGN CURRENCY		<u>712,721</u>	<u>718,260</u>	<u>0.5</u>
TOTAL INVESTMENTS		<u>\$192,851,655</u>	<u>\$138,100,079</u>	<u>100.2</u>
LIABILITIES IN EXCESS OF OTHER ASSETS, NET			<u>(240,577)</u>	<u>(0.2)</u>
NET ASSETS			<u>\$137,859,502</u>	<u>100.0</u>

* The description following each investment is unaudited and not covered by the Report of Independent Registered Public Accounting Firm.

† Non-income producing security.

Portfolio securities and foreign currency holdings were translated
at the following exchange rate as of February 28, 2009.

Japanese Yen JPY ¥ 97.785 = \$1.00

JAPAN SMALLER CAPITALIZATION FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES
FEBRUARY 28, 2009

ASSETS:

Investments in securities, at market value (cost—\$192,138,934)	\$137,381,819
Investments in foreign currency, at market value (cost—\$712,721)	718,260
Cash and cash equivalents	124,989
Receivable for investments sold	318,969
Receivable for dividends and interest, net of withholding taxes	208,671
Prepaid expenses	<u>27,386</u>
Total Assets	<u>138,780,094</u>

LIABILITIES:

Payable for investments purchased	536,950
Accrued management fee	119,266
Other accrued expenses	<u>264,376</u>
Total Liabilities	<u>920,592</u>

NET ASSETS:

Capital stock (par value of 21,242,170 shares of capital stock outstanding, authorized 100,000,000, par value \$0.10 each)	2,124,217
Paid-in capital	236,536,143
Accumulated net realized loss on investments and foreign currency transactions	(45,878,903)
Unrealized net depreciation on investments and foreign exchange	(54,758,448)
Distribution in excess of net investment income	<u>(163,507)</u>
Net Assets	<u>\$137,859,502</u>
Net asset value per share	<u>\$6.49</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED FEBRUARY 28, 2009

INCOME:

Dividend income (less \$252,501 withholding taxes)	\$3,354,653	
Securities lending, net earnings	58,206	
Interest income	<u>3,684</u>	
Total Income		<u>\$3,416,543</u>

EXPENSES:

Management fees	1,712,734	
Custodian fees	262,000	
Legal fees	176,875	
Auditing and tax reporting fees	100,425	
Directors' fees and expenses	90,230	
Shareholder reports	63,100	
Annual meeting expenses	32,120	
Registration fees	25,551	
Miscellaneous fees	14,965	
Transfer agency fees	11,140	
Insurance	<u>5,755</u>	
Total Expenses		<u>2,494,895</u>

INVESTMENT INCOME—NET		<u>921,648</u>
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REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:

Realized gain (loss) on investments and foreign currency transactions:		
Net realized loss on investments		(31,999,764)
Net realized gain on foreign exchange		<u>176,441</u>
Net realized loss on investments and foreign exchange		(31,823,323)
Change in net unrealized depreciation on translation of foreign currency and other assets and liabilities denominated in foreign currency		(7,731,959)
Change in net unrealized depreciation on investments		<u>(22,009,502)</u>
Net realized and unrealized loss on investments and foreign exchange		<u>(61,564,784)</u>
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS		<u><u>(\$60,643,136)</u></u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF CHANGES IN NET ASSETS

	For the Year Ended	
	<u>February 28, 2009</u>	<u>February 29, 2008</u>
FROM INVESTMENT ACTIVITIES:		
Net investment income (loss)	\$ 921,648	\$ (191,704)
Net realized loss on investments	(31,999,764)	(9,013,036)
Net realized gain on foreign exchange	176,441	199,083
Change in net unrealized depreciation on investments and foreign exchange	<u>(29,741,461)</u>	<u>(40,599,490)</u>
Decrease in net assets derived from investment activities and net decrease in net assets	<u>(60,643,136)</u>	<u>(49,605,147)</u>
FROM DISTRIBUTIONS TO SHAREHOLDERS:		
Net investment income (\$0.114 and \$0.0035 per shares, respectively)	<u>(2,421,607)</u>	<u>(74,348)</u>
Decrease in net assets	<u>(2,421,607)</u>	<u>(74,348)</u>
NET ASSETS:		
Beginning of year	<u>200,924,245</u>	<u>250,603,740</u>
End of year (including distribution in excess net investment income of (\$163,507) and (\$191,704)	<u><u>\$137,859,502</u></u>	<u><u>\$200,924,245</u></u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2009

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 following is a summary of significant accounting policies followed by the Fund.

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

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

The net assets of the Fund are presented at the exchange rate and market values at the end of the year. The Fund does not isolate that portion of the change in unrealized appreciation (depreciation) included in the statement of operations arising as a result of changes in Yen rates at February 28, 2009 on investments and other assets and liabilities. Net realized foreign exchange gains or losses includes gains or losses arising from sales of portfolio securities, sales and maturities of short-term securities, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid.

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

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

(d) Income Taxes — A provision for United States income taxes has not been made since it is the intention of the Fund to qualify as a regulated investment company 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 7% (7% effective 1/1/04 to 3/31/09) 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.

At February 28, 2009, the components of accumulated earnings on a tax basis were as follows:

Accumulated capital and other	
loss deferrals	(\$45,782,433)
Unrealized depreciation on investments	(\$55,279,045)
Undistributed ordinary income	<u>\$260,620</u>
Total accumulated deficit	(\$100,800,858)

The tax character of distributions paid during the fiscal years ended February 28, 2009 and February 29, 2008 were as follows:

	February-09	February-08
Ordinary Income	\$2,421,607	\$74,318
Capital Gains	\$0	\$0

In accordance with U.S. Treasury regulations, the Fund has elected to defer \$8,955,608 of net realized capital losses arising after October 31, 2008. Such losses are treated for tax purposes as arising on March 1, 2009. The Fund has a capital loss carry-forward as of February 28, 2009 of \$36,826,825, of which

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

\$8,728,309 expires on February 28, 2016 and \$28,098,516 expires on February 28, 2017.

(e) Capital Account Reclassification — For the year ended February 28, 2009, the Fund's accumulated net investment loss was decreased by \$1,336,452 and the accumulated net realized loss was increased by \$1,336,452. These differences were primarily due to the result of the reclassification of foreign currency gains and the tax treatment of passive foreign investment companies.

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

(g) Concentration of Risk — A significant portion of the Fund's net assets consists of Japanese securities which involve certain considerations and risks not typically associated with investments in the United States. In addition to the smaller size, and greater volatility, there is often substantially less publicly available information about Japanese issuers than there is about U.S. issuers. Future economic and political developments in Japan could adversely affect the value of securities 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 organizational documents, its officers and directors are indemnified against certain liabilities arising from the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts that contain a variety of representations which provide general indemnifications. The Fund's maximum exposure under these agreements is unknown as this would involve future claims 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. (the "Manager") acts as the manager of the Fund pursuant to a management agreement. Under the agreement, the Manager provides all office space, facilities and personnel necessary to perform its duties. Pursuant to such management agreement, the Manager has retained its parent company, Nomura Asset Management Co., Ltd. (the "Investment Adviser"), to act as investment adviser

for the Fund.

As compensation for its services to the Fund, the Manager receives a monthly fee at the annual rate of 1.10% of the value of the Fund's average weekly net assets not in excess of \$50 million, 1.00% of the Fund's average weekly net assets in excess of \$50 million but not exceeding \$100 million, .90% of the Fund's average weekly net assets in excess of \$100 million but not exceeding \$175 million, .80% of the Fund's average weekly net assets in excess of \$175 million but not exceeding \$250 million, .70% of the Fund's average weekly net assets in excess of \$250 million but not exceeding \$325 million, .60% of the Fund's average weekly net assets in excess of \$325 million, but not exceeding \$425 million and .50% of the Fund's average weekly net assets in excess of \$425 million. Under the Management Agreement, the Fund accrued fees to the Manager of \$1,712,734 for the year ended February 28, 2009. Under the Investment Advisory Agreement, the Manager informed the Fund that the Investment Adviser earned fees of \$789,096 for the year ended February 28, 2009. At February 28, 2009, the fee payable to the Manager, by the Fund, was \$119,266.

Certain officers and/or directors of the Fund are officers and/or directors of the Manager. Affiliates of Nomura Holdings, Inc. (the Manager's indirect parent) earned \$4,983 in commissions on the execution of portfolio security transactions for the year ended February 28, 2009. The Fund pays each Director not affiliated with the Manager an annual fee of \$10,000 plus \$1,000 per meeting attended, together with such Director's actual expenses related to attendance at meetings. Mr. Barker, who has been designated by the Directors not affiliated with the Manager to serve as Lead Director, is paid an additional annual fee of \$5,000. Such fees and expenses for unaffiliated Directors aggregated \$90,230 for the year ended February 28, 2009.

3. Purchases and Sales of Investments

Purchases and sales of investments, exclusive of investments in foreign currencies and short-term securities, for the year ended February 28, 2009 were \$132,176,820 and \$132,429,966, respectively.

As of February 28, 2009, net unrealized depreciation on investments, exclusive of investments in foreign currency, for Federal income tax purposes was \$55,277,712, of which \$1,636,618 related to appreciated securities and \$56,914,330 related to depreciated securities. The aggregate cost of investments, exclusive of investments in foreign currencies of \$712,721, at February 28, 2009 for Federal income tax purposes was \$192,659,531.

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

4. Rights Offering

The Fund issued to its shareholders of record as of the close of business on November 21, 2005 transferable Rights to subscribe for up to an aggregate of 5,282,128 shares of Common Stock of the Fund at a rate of one share of Common Stock for three Rights held (“Primary Subscription”). During December 2005, the Fund issued a total of 5,282,128 shares of Common Stock on exercise of such Rights at the subscription price of \$13.98 per share, compared to a net asset value per share of \$15.09 and a market value per share of \$15.51. A sales load of 3.75% was included in the subscription price. Offering costs of approximately \$650,000 and the sales load were charged directly against the proceeds of the Rights Offering.

5. Fair Value Measurements

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“FAS 157”), effective December 1, 2007. In accordance with FAS 157, fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a framework for measuring fair value, and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund’s own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Each investment is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below.

- Level 1—quoted prices in active markets for identical investments
- Level 2—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3—significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments)

The following table summarizes the valuation of the Fund’s investments by the above fair value hierarchy levels as of February 28, 2009.

<u>Level</u>	<u>Investments in Securities</u>	<u>Other Financial Instruments</u>
Level 1	\$137,381,819	\$ -0-
Level 2	-0-	-0-
Level 3	-0-	-0-
Total	<u>\$137,381,819</u>	<u>\$ 0</u>

6. Recent Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board (“FASB”) released FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” (“FIN 48”). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing a fund’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded in the current period. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. The Fund implemented FIN 48 which supplements FASB 109, “Accounting for Income Taxes”.

Management has analyzed the Fund’s tax positions taken on federal income tax returns for all open tax years (tax years ended February 28, 2005-2008) for purposes of implementing FIN 48, and has concluded that no provision for income tax is required in the Fund’s financial statements. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. During the year, the Fund did not incur any interest or penalties.

In March 2008, the FASB released Statement of Financial Accounting Standards No. 161 “Disclosures about Derivative Instruments and Hedging Activities” (“FAS 161”). FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The application of FAS 161 is required for fiscal years and interim periods beginning after November 15, 2008. At this time, management is evaluating the implications of FAS 161 and its impact on the financial statements and the accompanying notes has not yet been determined.

JAPAN SMALLER CAPITALIZATION FUND, INC.

FINANCIAL HIGHLIGHTS

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

	For the Year Ended				
	February 28,	February 29,	February 28,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net asset value, beginning of year	\$9.46	\$11.80	\$15.24	\$11.59	\$9.40
Net investment income (loss)@	0.04	(0.01)	(0.03)	(0.05)	(0.06)
Net realized and unrealized gain (loss) on investments and foreign currency . . .	(2.90)	(2.33)	(1.75)	4.14	2.25
Total from investment operations	(2.86)	(2.34)	(1.78)	4.09	2.19
Distributions from net investment income	(0.11)	0.00	0.00	0.00	0.00
Distributions from net capital gains	0.00	0.00	(1.66)	0.00	0.00
Fund Share Transactions:					
Dilutive effect of Rights Offering*	—	—	—	(0.22)	—
Offering costs charged to paid-in capital in excess of par	—	—	—	(0.22)	—
Total Fund share transactions	—	—	—	(0.44)	—
Net asset value, end of year	<u>\$6.49</u>	<u>\$9.46</u>	<u>\$11.80</u>	<u>\$15.24</u>	<u>\$11.59</u>
Market value, end of year	\$5.79	\$8.97	\$12.98	\$15.75	\$12.20
Total investment return†	(34.4%)	(30.9%)	(6.4%)	29.1%	13.1%
Ratio to average net assets/supplemental data:					
Net assets, end of year (in 000)	\$137,860	\$200,924	\$250,604	\$322,025	\$183,717
Operating expenses	1.42%	1.31%	1.32%	1.32%	1.54%
Net investment income	0.52%	(0.08%)	(0.19%)	(0.37%)	(0.57%)
Portfolio turnover	76%	51%	86%	81%	86%

†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.

@ Based on average shares outstanding.

*Decrease is due to the Rights Offering (see note 4).

JAPAN SMALLER CAPITALIZATION FUND, INC.

SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)

The 2008 Annual Meeting of the Shareholders of the Fund was held at the offices of Nomura Securities International, Inc. at Two World Financial Center, Building B, New York, New York on November 13, 2008. The purpose of the meeting was (1) to elect two Class II Directors to serve for a term to expire in 2011 and (2) to transact such other business as may properly come before the Meeting or any adjournment thereof.

At the meeting, Shigeru Shinohara and Chor Weng Tan received a majority of the votes cast for the election of a director. Accordingly, they were elected to serve until 2011 and until their successors are elected and qualified. The results of the voting at the Annual Meeting were as follows:

1. To elect the Fund's Class II Directors:

	Shares Voted For	% of Outstanding Shares	Shares Voted Withhold Authority	% of Outstanding Shares
Chor Weng Tan	15,637,190	78.2	973,038	4.6
Shigeru Shinohara	15,636,189	78.2	974,040	4.6

INTERESTED DIRECTOR

Set out below is biographical and other information relating to a Director who is an "interested person," as that term is defined in the Investment Company Act of 1940 ("1940 Act"), of the Fund.

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**	Other Public Directorships Held by the Director
Shigeru Shinohara (47)* c/o Nomura Asset Management U.S.A. Inc. Two World Financial Center, Building B New York, New York 10281	Class II Director	President and Director since June 2007	President of Nomura Asset Manage- ment U.S.A. Inc. since 2007; Executive Vice President of Nomura Corporate Research and Asset Man- agement Inc. from 2006 to 2007; previously Chief Fund Analyst at Nomura Funds Research and Tech- nologies Co., Ltd.	2 registered investment companies consisting of 2 portfolios	None

* Mr. Shinohara is an "interested person," as defined in the 1940 Act, of the Fund based on his positions with Nomura Asset Management Co., Ltd. ("NAM") and its affiliates. Mr. Shinohara is a director of Korea Equity Fund, Inc. for which NAM-U.S.A. acts as manager and NAM acts as investment adviser.

** In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc.

JAPAN SMALLER CAPITALIZATION FUND, INC.

INDEPENDENT DIRECTORS

Set forth below is biographical and other information concerning each of the Fund's directors who are not "interested persons" of the Fund.

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 Fund Complex* Overseen by Director	Other Directorships Held by Director
William G. Barker, Jr. (76) 111 Parsonage Road Greenwich, Connecticut 06830	Class I Director	Director since 1993	Retired.	2 registered investment companies consisting of 2 portfolios	None
Rodney A. Buck (61) 1857 West County Road Calais, VT 05648	Class III Director	Director since 2006	Owner, Buck Capital Manage- ment (private investment man- agement firm) since 2005; Execu- tive Vice President and Chief Investment Officer, National Life Group (insurance holding com- pany) from 2000 to 2005; Chief Executive Officer, Sentinel Advi- sors Company (investment advi- sor) from 1996 to 2005.	2 registered investment companies consisting of 2 portfolios	None
David B. Chemidlin (52) 67 Glen Eagle Drive Watchung, NJ 07069	Class III Director	Director since 2006	Corporate Controller, Advance Magazine Publishers, Inc. (d/b/a Conde Nast) since 1995.	2 registered investment companies consisting of 2 portfolios	None
Chor Weng Tan (73) 6245 Paseo Privado Carlsbad, California 92009	Class II Director	Director since 1990	Retired.	2 registered investment companies consisting of 2 portfolios	None

*In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc.

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 1940 Act and are "independent" as defined in the New York Stock Exchange listing standards. Currently, Messrs. Barker, Buck, Chemidlin, and Tan are members of these Committees. The Fund has no standing Compensation Committee. The non-interested Directors have retained independent legal counsel to assist them in connection with their duties.

JAPAN SMALLER CAPITALIZATION FUND, INC.

During the fiscal year ended February 28, 2009, the Board of Directors held seven meetings, the Audit Committee held four meetings and the Nominating Committee held two meetings. Each incumbent Director attended at least 75% of the aggregate number of meetings of the Board of Directors held during the period for which he served and, if a member, of the aggregate number of meetings of the Audit and Nominating Committees held during the period for which he served.

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. Certain biographical and other information relating to the officers of the Fund is set out below:

<u>Name, Address* and Age of Officers</u>	<u>Position(s) Held with the Fund</u>	<u>Term of Office** and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>
Shigeru Shinohara (47)	President and Class II Director	President since 2007	President of Nomura Asset Management U.S.A. Inc. since 2007; Executive Vice President of Nomura Corporate Research and Asset Management Inc. from 2006 to 2007; previously Chief Fund Analyst at Nomura Funds Research and Technologies Co., Ltd.
Kenneth L. Munt (62)	Vice President	Vice President since 2001	Managing Director and Secretary of NAM-U.S.A. since 1999.
Hiroyuki Nakano (39)	Vice President	Vice President since 2008	Managing Director and Chief Administrative Officer of NAM-U.S.A. since 2008; Senior Marketing Executive of NAM from 2005 to 2008; Senior Marketing Executive of Nomura Securities Co., Ltd. from 2003 to 2005.
Rita Chopra-Braithwaite (40)	Treasurer	Treasurer since 2002	Senior Vice President of NAM-U.S.A. since 2007; Vice President of NAM-U.S.A. from 2001 to 2007.
Neil Daniele (48)	Secretary and Chief Compliance Officer	Secretary since 2002; Chief Compliance Officer since 2005	Managing Director and Chief Compliance Officer of NAM-U.S.A. since 2007; Senior Vice President of NAM-USA from 2002 to 2007.

* The address of each officer listed above is Two World Financial Center, Building B, New York, New York 10281.

** Elected by and serves at the pleasure of the Board of Directors.

JAPAN SMALLER CAPITALIZATION FUND, INC.

REVIEW OF THE FUND'S MARKET PRICE COMPARED TO NET ASSET VALUE (Unaudited)

Shares of closed-end investment companies, including funds focusing on a single country, have at various times traded at both premiums and discounts to their net asset value ("NAV"). Although the shares of the Fund have traded at such a premium, they also have traded at a discount from NAV.

Since the Fund was established, the Board of Directors on a quarterly basis has reviewed the trading price of the Fund's shares. The purpose of such review has been to determine whether a discount exists and, if so, whether it would be in shareholders' overall best interests for the Fund to conduct share repurchases, make an issuer tender offer for shares or consider another means of possibly reducing the discount. For example, the Board of Directors has also considered whether it would be in the best interests of the Fund to convert to an open-end fund or to an interval fund, which is a form of investment company that makes periodic share repurchases at prices based on NAV.

To date, the Board of Directors has not authorized open-market share repurchases or a tender offer for shares of the Fund. The Board of Directors also has not felt that it would be in the best interests of the Fund or its shareholders to convert to an open-end fund or an interval fund. As a "country fund" emphasizing a smaller capitalization segment of the market, the Fund's NAV is more volatile than might be the case for a fund with a broader investment focus. The Board of Directors believes that converting the Fund to either an open-end or interval fund would subject the Fund to redemptions or repurchases at times when liquidation of portfolio securities could disadvantage remaining shareholders, and the Directors believe that the recent volatility of the financial markets in Japan supports their view. Additionally, since an open-end fund has a limited ability to invest in illiquid securities, such a conversion could hinder the Fund's ability to pursue its investment objectives. The Board of Directors intends to continue to review, on a quarterly basis, the trading market for the Fund's shares.

TAX INFORMATION (Unaudited)

The Fund intends to make an election under the Internal Revenue Code Section 853 to pass through foreign taxes paid by the Fund to its shareholders. The total amount of foreign taxes that may be passed through to the shareholders for their fiscal year ended February 28, 2009 is \$252,501. The foreign source income for information reporting purposes is \$3,607,154.

Shareholders should not use the above information to prepare their tax returns. The information necessary to complete your income tax returns will be included with your Form 1099 DIV which will be sent to you separately in January 2010.

JAPAN SMALLER CAPITALIZATION FUND, INC.

DIVIDEND REINVESTMENT PLAN

The Dividend Reinvestment Plan (the "Plan") is available automatically for any holder of Common Stock with shares registered in his/her own name who wishes to purchase additional shares with income dividends or capital gains distributions received on shares owned, unless such shareholder elects to receive all dividends and capital gain distributions in cash, paid by check and mailed to the shareholder. If a shareholder holds shares in his/her own name, communications regarding the Plan should be addressed to the Plan Agent, Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. Under the Plan, shareholders appoint the Plan Agent to reinvest dividends and distributions in shares of the Fund. Such shares will be acquired by the Plan Agent for shareholders either through open market purchases if the Fund is trading at a discount or through the issuance of authorized but unissued shares if the Fund is trading at net asset value or a premium. If the market price of a share on the payable date of a dividend or distribution is at or above the Fund's net asset value per share on such date, the number of shares to be issued by the Fund to each shareholder receiving shares in lieu of cash dividends or distributions will be determined by dividing the amount of the cash dividends or distributions to which such shareholder would be entitled by the greater of the net asset value per share on such date or 95% of the market price of a share on such date. If the market price of a share on such distribution date is below the net asset value per share, the number of shares to be issued to such shareholders will be determined by dividing such amount, less brokerage commission, by the per share market price.

Purchases will be made by the Plan Agent from time to time on the New York Stock Exchange (the "Exchange") or elsewhere to satisfy dividend and distribution investment requirements under the Plan. Purchases will be suspended on any day when the closing price (or the mean between the closing bid and ask prices if there were no sales) of the shares on the Exchange on the preceding trading day was higher than the net asset value per share. If on the dividend payable date, purchases by the Fund are insufficient to satisfy dividend or distribution investments and on the last trading day immediately preceding the dividend payable date the closing price or the mean between the closing bid and ask prices of the shares is lower than or the same as the net asset value per share, the Plan Agent will continue to purchase shares until all investments by shareholders have been completed or the closing price or the mean between the bid and ask prices of the shares becomes higher than the net asset value, in which case the Fund will issue the necessary additional shares from authorized but unissued shares. If on the last trading day immediately preceding the dividend payable date, the closing price or the mean between the bid and ask prices of the shares is higher than the net asset value per share and if the number of shares previously purchased on the Exchange or elsewhere is insufficient to satisfy dividend investments, the Fund will issue the necessary additional shares from authorized but unissued shares. There will be no brokerage charges with respect to shares issued directly by the Fund to satisfy the dividend investment requirements. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Fund's open market purchases of shares. In each case, the cost per share of shares

purchased for each shareholder's account will be the average cost, including brokerage commissions, of any shares purchased in the open market plus the cost of any shares issued by the Fund. For the fiscal year ended February 28, 2009, the Fund issued no new shares for dividend reinvestment purposes.

Shareholders who elect to hold their shares in the name of a broker or other nominee should contact such broker or other nominee to determine whether they may participate in the Plan. To the extent such participation is permitted, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the broker as representing the total amount registered in the shareholder's name and held for the account of beneficial owners who are participating in such Plan. Shareholders that participate in the Plan holding shares in a brokerage account may not be able to transfer the shares to another broker and continue to participate in the Plan. Shareholders who are participating in the Plan may withdraw from the Plan at any time. There will be no penalty for withdrawal from the Plan, and shareholders who have previously withdrawn from the Plan may rejoin it at any time. Changes in participation in the Plan should be made by contacting the Plan Agent if the shares are held in the shareholder's own name and must be in writing and should include the shareholder's name and address as they appear on the account registration. If the shares are held in the name of a broker or other nominee, such person should be contacted regarding changes in participation in the Plan. Upon withdrawal from the Plan, the Plan Agent will deliver to the shareholder a certificate or certificates for the appropriate number of full shares and a cash payment for any fractional shares. In lieu of receiving a certificate, the shareholder may request the Plan Agent to sell part or all of the shareholder's shares at the market price and remit the proceeds to the shareholder, net of

any brokerage commissions. A \$2.50 fee will be charged by the Plan Agent upon any cash withdrawal or termination. An election to withdraw from the Plan will, until such election is changed, be deemed to be an election by a shareholder to take all subsequent distributions in cash. An election will be effective only for a dividend or distribution if it is received by the Plan Agent not less than 10 days prior to such record date.

The Plan Agent will maintain all shareholders' accounts in the Plan, and furnish written confirmation of all transactions in such account, including information needed by shareholders for tax records. Shares in the account of each Plan participant may be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan.

The automatic reinvestment of dividends will not relieve participants of any income taxes that may be payable (or required to be withheld) on such dividends. Shareholders receiving dividends or distributions in the form of additional shares pursuant to the Plan should be treated for Federal income tax purposes as receiving a distribution in an amount equal to the amount of money that the shareholders receiving cash dividends or distributions will receive and should have a cost basis in the shares received equal to such amount.

The Fund reserves the right to amend or terminate the Plan as applied to any dividend paid subsequent to written notice of the change sent to participants in the Plan at least 90 days before the record date for such dividend. There is no service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. All correspondence concerning the Plan, including requests for additional information about the Plan, should be directed to the Plan Agent.

BOARD OF DIRECTORS

William G. Barker, Jr.
Rodney A. Buck
David B. Chemidlin
Shigeru Shinohara
Chor Weng Tan

OFFICERS

Shigeru Shinohara, *President*
Kenneth L. Munt, *Vice President*
Hiroyuki Nakano, *Vice President*
Rita Chopra-Brathwaite, *Treasurer*
Neil A. Daniele, *Secretary and Chief Compliance Officer*

MANAGER

Nomura Asset Management U.S.A. Inc.
Two World Financial Center, Building B
New York, New York 10281
Internet Address
www.nomura.com

INVESTMENT ADVISER

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

**DIVIDEND PAYING AGENT, TRANSFER AGENT
AND REGISTRAR**

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P. O. Box 43078
Providence, RI 02940-3078

CUSTODIAN

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

COUNSEL

Sidley Austin LLP
787 Seventh Avenue
New York, New York 10019

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
5 Times Square
New York, New York 10036

JAPAN SMALLER CAPITALIZATION FUND, INC.
TWO WORLD FINANCIAL CENTER, BUILDING B
NEW YORK, NEW YORK 10281

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 securities mentioned in the Report.

JAPAN

Smaller Capitalization

Fund, Inc.

ANNUAL REPORT

FEBRUARY 28, 2009