

ABERDEEN JAPAN EQUITY FUND, INC.
Form N-CSR
January 09, 2017

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:	811-06142
Exact name of registrant as specified in charter:	Aberdeen Japan Equity Fund, Inc.
Address of principal executive offices:	1735 Market Street, 32nd Floor Philadelphia, PA 19103
Name and address of agent for service:	Ms. Andrea Melia Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103
Registrant's telephone number, including area code:	800-522-5465
Date of fiscal year end:	October 31
Date of reporting period:	October 31, 2016

Item 1 Report to Stockholders

The Report to Shareholders is attached herewith.

Stockholder Letter (unaudited)

Dear Stockholder,

We present this Annual Report which covers the activities of Aberdeen Japan Equity Fund, Inc. (the Fund) for the fiscal year ended October 31, 2016. The Fund's investment objective is to outperform over the long term, on a total return basis (including appreciation and dividends), the Tokyo Stock Price Index (TOPIX).

NAV Total Return Performance

For the fiscal year ended October 31, 2016, the total return to stockholders of the Fund based on the net asset value (NAV) of the Fund was 14.2%, assuming reinvestment of dividends and distributions, versus a return of 5.0% for the Fund's benchmark, TOPIX, on a U.S. dollar basis.¹

Share Price Total Return Performance & Discount

For the fiscal year ended October 31, 2016, based on market price, the Fund's total return was 14.1% assuming reinvestment of dividends and distributions. The Fund's share price increased 9.4% over the twelve months ended, from \$7.48 on October 31, 2015 to \$8.18 on October 31, 2016. The Fund's share price on October 31, 2016 represented a discount of 14.0% to the NAV per share of \$9.51 on that date, compared with a discount of 13.9% to the NAV per share of \$8.69 on October 31, 2015.

Discount Management Program

Effective December 12, 2014, the Fund's Board of Directors approved revisions to the Fund's Discount Management Program to authorize management to make open market purchases, from time to time, in a maximum aggregate amount during each twelve month period ended October 31 of up to 10% of the Fund's shares of stock outstanding as of October 31 of the prior year. Such purchases may be made opportunistically at certain discounts to net asset value per share when, in the reasonable judgment of management based on historical discount levels and current market conditions, such repurchases may enhance stockholder value. During the fiscal year ended October 31, 2016, the Fund repurchased 221,753 shares.

Portfolio Holdings Disclosure

The Fund's complete schedule of portfolio holdings for the second and fourth quarter of each fiscal year are included in the Fund's Semi-Annual and Annual reports to stockholders. 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 Form N-Q filings are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information

about the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The information on Form N-Q is also available to stockholders on the Fund's website or upon request and without charge by calling Investor Relations toll-free at 1-800-522-5465.

Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve months ended June 30 is available by August 31 of the relevant year: (i) upon request and without charge by calling Investor Relations toll-free at 1-800-522-5465; and (ii) on the SEC's website at <http://www.sec.gov>.

Unclaimed Share Accounts

Please be advised that abandoned or unclaimed property laws for certain states require financial organizations to transfer (escheat) unclaimed property (including Fund shares) to the state. Each state has its own definition of unclaimed property, and Fund shares could be considered unclaimed property due to account inactivity (e.g., no owner-generated activity for a certain period), returned mail (e.g., when mail sent to a shareholder is returned to the Fund's transfer agent as undeliverable), or a combination of both. If your Fund shares are categorized as unclaimed, your financial advisor or the Fund's transfer agent will follow the applicable state's statutory requirements to contact you, but if unsuccessful, laws may require that the shares be escheated to the appropriate state. If this happens, you will have to contact the state to recover your property, which may involve time and expense. For more information on unclaimed property and how to maintain an active account, please contact your financial advisor or the Fund's transfer agent.

Investor Relations Information

As part of Aberdeen's commitment to stockholders, we invite you to visit the Fund on the web at www.aberdeenjeq.com. Here, you can view monthly fact sheets, quarterly commentary, distribution and performance information, updated daily data courtesy of Morningstar®, portfolio charting and other Fund literature.

Enroll in Aberdeen's email services today and be among the first to receive the latest closed-end fund news, announcements, videos and information. In addition, you can receive electronic versions of important Fund documents including annual reports, semi-annual reports, prospectuses, and proxy statements. Sign-up today at www.aberdeen-asset.us/aam.nsf/usclosed/email.

1 The Tokyo Stock Price Index (TOPIX) is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section. The TOPIX Index shows the measure of current market capitalization assuming that market capitalization as of the base date (January 4, 1968) is 100 points. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

Aberdeen Japan Equity Fund, Inc. 1

Stockholder Letter (unaudited) (concluded)

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For your convenience, included within this report is a reply card with a postage paid envelope. Please take a minute to complete this card if you would like to be added to our enhanced email services from Aberdeen.

Contact Us:

Visit: www.cef.aberdeen-asset.us;

Watch: www.aberdeen-asset.us/aam.nsf/usclosed/aberdeentv;

Email: InvestorRelations@aberdeen-asset.com; or

Call: 1-800-522-5465 (toll-free in the U.S.)

Yours sincerely,

Alan Goodson

President

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Report of the Investment Manager (unaudited)

Market/economic review

Japanese equities rose during the reporting period, buoyed by a weaker yen, as well as upbeat economic data both in the U.S. and domestically. The market weathered apprehension ahead of the U.S. presidential election, the Federal Reserve's likely rate hike in December, and UK Prime Minister Theresa May's resolve to start formal Brexit¹ negotiations in March 2017, which had sent the British sterling to a 31-year low. In late June 2016, Britain's unexpected Brexit vote had roiled global financial markets. Investor sentiment was also dampened by the sell-off in Chinese equities and worries over the health of the global economy. Mitigating these negative factors were the European Central Bank's package of monetary stimulus, the Bank of Japan's (BoJ's) move to impose negative interest rates and hopes that it would unleash substantial stimulus.

In economic news, in October 2016, leading indicators in Japan rose to their highest levels in nearly a year, led by the manufacturing sector. Bank lending rose in September 2016, while the jobless rate eased. Lower energy prices accounted for not only a positive trade balance as a slump in imports outweighed the decline in exports, they also compelled inflation to retreat. Meanwhile, household spending decreased by more than the market had anticipated and economic sentiment slipped unexpectedly in September 2016, according to the Japanese government's Economy Watchers' Survey.

Fund performance review

Strong overall stock selection helped the Fund to outperform its benchmark, the Tokyo Stock Price Index (TOPIX), over the reporting period. In particular, the Fund's holdings in the industrials (such as Nabtesco and Keyence), basic materials (including Kansai Paint and Nippon Paint) and financials sectors (such as Daito Trust Construction Co. and Suruga Bank) were the largest contributors to the Fund's relative performance.

At the stock level, Fund performance benefited from the holding in Nabtesco, as the industrial machinery manufacturer's shares rose on the back of second-quarter 2016 results which generally met the market's expectations. Nabtesco's earnings were bolstered by growth in sales of industrial-robot components amid brisk demand for factory automation. This offset weakness in its transportation and precision equipment segments. Fund performance for the reporting period benefited from the holding in Daito Trust Construction Co. The real estate company reported better-than-expected profits, bolstered by effective cost controls and increased demand for rental housing construction on the back of a low interest rate environment, in addition to the need for a reduction in inheritance tax payments (which would provide prospective homebuyers with more funds for

down payments). Manufacturing company Keyence reported better-than-expected full-year 2016 results, with strong sales across all regions on the back of brisk demand for factory automation.

In contrast, the Fund's position in Aeon Financial Services detracted from performance over the reporting period. In an effort to repay debt, the company will raise funds via a public offering, third-party allocation,² and a convertible bond issue. This may potentially result in the significant dilution³ of existing stakeholdings of minority shareholders. We are disappointed by Aeon's decision and have engaged with management in an effort to understand and discuss the move. The position in diversified financial services company Concordia Financial Group also weighed on Fund performance, as its shares declined following the BoJ's decision to maintain its negative interest-rate policy. We believe that this is likely to continue to hurt the banking sector via lower net-interest margins. Finally, shares of Fund holding Asics, a retailer of sporting goods, slumped as its North American business faced a double whammy of shifting consumer tastes away from high-performance shoes, while the distribution network continued to suffer from financial difficulties afflicting other sporting goods retailers. However, Asics's recently released second-quarter 2016 results largely exceeded the market's expectations, as improved profitability from the restructuring of its domestic business helped to offset weaker results in the Americas.

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In portfolio activity over the reporting period, we initiated a holding in systems integrator SCSK Corp., which has a significant presence in the financial, manufacturing and distribution sectors. We believe that the company's mid- to long-term growth potential appears promising, as it shifts towards a larger proportion of fee-generating projects, and given its vigilance in keeping its projects profitable. The business is also backed by a robust balance sheet and stable cash flow-generation, in our opinion. We also established a new position in snack-food maker Calbee, as we think that its experienced management has been gaining market share through product innovation, underpinning the solid domestic growth. The company is also expanding overseas, particularly to the U.S., UK and Asia through joint ventures. Backed by a sturdy balance sheet, clear operational targets and a good track record, we believe that the company should continue to perform well over the longer term. In contrast, we participated in Kansai Paint's share repurchase, taking partial profits in the stock after a period of strong stock price performance.

Outlook

Republican Donald Trump won the U.S. presidential election in early November 2016. Looking ahead, we believe that Trump's presidency may mean greater uncertainty for Japan. His campaign stance against

Aberdeen Japan Equity Fund, Inc. 3

Report of the Investment Manager (unaudited) (concluded)

global trade, as well as his stance on the U.S.'s traditional security alliances across northeast Asia, rattled Japanese politicians and businesses. Nevertheless, the president-elect met with Prime Minister Shinzo Abe shortly after the election, which we believe is an indication that Trump may opt for a pragmatic policy approach. We think that the medium-term outlook appears mixed, however. While the implications of a stronger U.S. dollar and, consequently, the weaker yen, may improve the competitiveness of Japanese exporters, potentially rising trade barriers and withdrawals from or weakening of trade agreements may undo such potential benefits, in our view. In comparison, Japanese companies with existing operations in the U.S. may potentially benefit from Trump's commitment to spend more on domestic infrastructure.

Within the Fund, there is a modest portion of holdings with segments of their operations based in the U.S.; these companies are likely to escape largely unscathed from the anticipated adverse trade policies of the Trump administration, in our opinion. We believe that the remainder of the Fund's holdings are well-placed despite this uncertain backdrop, even with their geographic exposure divided equally between Japan and the rest of the world. In our view, this is attributable to their global operations, solid balance sheets and agility in adapting to changing economic conditions that should help insulate them from the impact of these challenges.

Aberdeen Asset Management Asia Limited

¹ Brexit is an abbreviation of British exit, which refers to the June 23, 2016 referendum by British voters to exit the European Union.

² Under a third-party allocation, a company issues shares of stock directly to designated investors or shareholders.

³ Dilution is a reduction in the ownership percentage of a share of stock caused by the issuance of new shares.

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Total Investment Return (unaudited)

The following table summarizes average annual Fund performance compared to the TOPIX, the Fund's benchmark, for the 1-year, 3-year, 5-year and 10-year periods as of October 31, 2016.

	1 Year	3 Years	5 Years	10 Years
Net Asset Value (NAV)	14.2%	10.7%	11.7%	2.4%
Market Value	14.1%	8.9%	11.0%	1.4%
TOPIX Index	5.0%	5.0%	8.5%	1.6%

Aberdeen Asset Management Inc. (AAMI), the Fund's administrator, has entered into an agreement with the Fund to limit investor relations services fees, without which total return performance would be lower. See Note 3 in the Notes to Financial Statements. Returns represent past performance. Total investment return at NAV is based on changes in the NAV of Fund shares and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the dividend reinvestment program sponsored by the Fund's transfer agent. All return data includes fees charged to the Fund, which are listed in the Fund's Statement of Operations under Expenses. The Fund's total return is based on the reported NAV on each financial reporting period end. Total investment return at market value is based on changes in the market price at which the Fund's shares traded on the NYSE during the period and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the dividend reinvestment program. Because the Fund's shares trade in the stock market based on investor demand, the Fund may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on both market price and NAV. **Past performance is no guarantee of future results.** The performance information provided does not reflect the deduction of taxes that a stockholder would pay on distributions received from the Fund. The current performance of the Fund may be lower or higher than the figures shown. The Fund's yield, return, market price and NAV will fluctuate. Performance information current to the most recent month-end is available at www.aberdeenjeq.com or by calling 800-522-5465.

The net operating expense ratio excluding fee waivers based on the fiscal year ended October 31, 2016 was 0.92%. The net operating expense ratio net of fee waivers based on the fiscal year ended October 31, 2016 was 0.92%.

Portfolio Composition (unaudited)

The following table summarizes the composition of the Fund's portfolio, in Standard & Poor's Global Industry Classification Standard (GICS) sectors, expressed as a percentage of net assets. The GICS structure consists of 11 sectors, 24 industry groups, 68 industries and 157 sub-industries. As of October 31, 2016, the Fund did not have more than 25% of its assets invested in any industry. The sectors, as classified by GICS Sectors, are comprised of several industries. As of October 31, 2016, the Fund held 99.1% of its net assets in equities, 0.4% in a short-term investment and 0.5% in other assets in excess of liabilities.

Top Sectors	As a Percentage of Net Assets
Industrials	19.8%
Consumer Staples	19.5%
Consumer Discretionary	13.4%
Materials	10.4%
Health Care	9.4%
Information Technology	8.8%
Real Estate	6.7%
Financials	6.8%
Telecommunication Services	4.3%
Short-Term Investment	0.4%
Other Assets in excess of Liabilities	0.5%
	100.0%

Top Ten Equity Holdings (unaudited)

The following were the Fund's top ten holdings as of October 31, 2016:

Name of Security	As a Percentage of Net Assets
Shin-Etsu Chemical Co. Ltd.	6.1%
Japan Tobacco, Inc.	4.8%
Keyence Corp.	4.6%
Nabtesco Corp.	4.4%
KDDI Corp.	4.3%
Seven & i Holdings Co. Ltd.	4.2%
Amada Holdings Co. Ltd.	4.2%
Chugai Pharmaceutical Co. Ltd.	3.6%
FANUC Corp.	3.5%
Daito Trust Construction Co. Ltd.	3.4%

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Portfolio of Investments

As of October 31, 2016

Shares	Description	Industry	Value (US\$)
LONG-TERM INVESTMENTS 99.1%(a)			
COMMON STOCKS 99.1%			
JAPAN 99.1%			
116,900	AEON Financial Service Co. Ltd.	Consumer Finance 1.6%	\$ 2,057,941
13,500	Aisin Seiki Co. Ltd.	Auto Components 0.5%	593,022
465,600	Amada Holdings Co. Ltd.	Machinery 4.2%	5,303,696
26,900	Asahi Intecc Co. Ltd.	Health Care Equipment and Supplies 0.9%	1,164,999
71,200	Asics Corp.	Textiles, Apparel & Luxury Goods 1.2%	1,519,358
260,800	Astellas Pharma, Inc.	Pharmaceuticals 3.0%	3,870,756
51,900	Calbee, Inc.	Food Products 1.5%	1,883,016
52,200	Canon, Inc.	Technology Hardware, Storage & Peripherals 1.2%	1,499,602
133,400	Chugai Pharmaceutical Co. Ltd.	Pharmaceuticals 3.6%	4,545,992
373,000	Concordia Financial Group Ltd.	Banks 1.4%	1,729,490
241,000	Daibiru Corp.	Real Estate Management & Development 1.6%	2,093,515
35,400	Daikin Industries Ltd.	Building Products 2.7%	3,392,371
26,200	Daito Trust Construction Co. Ltd.	Real Estate Management & Development 3.4%	4,390,563
35,200	Denso Corp.	Auto Components 1.2%	1,531,727
45,500	East Japan Railway Co.	Road & Rail 3.1%	4,005,294
24,600	FANUC Corp.	Machinery 3.5%	4,503,951
92,200	Honda Motor Co. Ltd.	Automobiles 2.2%	2,758,772
87,000	Japan Exchange Group, Inc.	Capital Markets 1.0%	1,291,759
162,000	Japan Tobacco, Inc.	Tobacco 4.8%	6,159,260
132,400	Kansai Paint Co. Ltd.	Chemicals 2.2%	2,845,287
181,200	KDDI Corp.	Wireless Telecommunication Services 4.3%	5,507,240
8,000	Keyence Corp.	Electronic Equipment Instruments & Components 4.6%	5,864,731
35,100	Makita Corp.	Machinery 1.9%	2,426,824
56,900	Mandom Corp.	Personal Products 2.1%	2,653,850
110,000	Mitsubishi Estate Co. Ltd.	Real Estate Management & Development 1.7%	2,186,230
189,300	Nabtesco Corp.	Machinery 4.4%	5,653,745
80,400	Nippon Paint Holdings Co. Ltd.	Chemicals 2.1%	2,733,759
111,300	Pigeon Corp.	Household Products 2.5%	3,131,267
116,400	Resorttrust, Inc.	Hotels, Restaurants & Leisure 1.8%	2,326,632
51,000	San-A Co. Ltd.	Food & Staples Retailing 2.2%	2,776,203
30,300	SCSK Corp.	Information Technology Services 0.9%	1,130,277
129,700	Seven & i Holdings Co. Ltd.	Food & Staples Retailing 4.2%	5,413,588
13,000	Shimano, Inc.	Leisure Products 1.7%	2,222,735
103,400		Chemicals 6.1%	7,839,926

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	Shin-Etsu Chemical Co. Ltd.		
145,400	Suruga Bank Ltd.	Banks 2.8%	3,549,635
35,600	Sysmex Corp.	Health Care Equipment and Supplies 1.9%	2,467,154
72,700	Toyota Motor Corp.	Automobiles 3.3%	4,217,088
119,300	Unicharm Corp.	Household Products 2.2%	2,836,859
111,500	USS Co. Ltd.	Specialty Retail 1.5%	1,885,730
705,900	Yahoo Japan Corp.	Internet Software & Services 2.1%	2,707,825
			126,671,669
	Total Common Stocks		126,671,669
	Total Long-Term Investments	99.1% (cost \$103,796,432)	126,671,669

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Portfolio of Investments (concluded)

As of October 31, 2016

Shares	Description	Value (US\$)
SHORT-TERM INVESTMENT 0.4%		
UNITED STATES 0.4%		
570,502	State Street Institutional U.S. Government Money Market Fund(b)	\$ 570,502
	Total Short-Term Investment 0.4% (cost \$570,502)	570,502
	Total Investments 99.5% (cost \$104,366,934)(c)	127,242,171
	Other Assets in Excess of Liabilities 0.5%	622,271
	Net Assets 100.0%	\$127,864,442

- (a) Fair Values are determined pursuant to procedures approved by the Fund's Board of Directors. Unless otherwise noted, securities are valued by applying valuation factors to the exchange traded price. See Note 2(a) of the accompanying Notes to Financial Statements.
- (b) Registered investment company advised by State Street Global Advisors.
- (c) See Note 9 of the accompanying Notes to Financial Statements for tax unrealized appreciation/(depreciation) of securities.

See Notes to Financial Statements.

Statement of Assets and Liabilities

As of October 31, 2016

Assets

Investments, at value (cost \$103,796,432)	\$126,671,669
Short-term investments, at value (cost \$570,502)	570,502
Interest and dividends receivable	741,248
Tax reclaim receivable	529
Other receivables	6,956
Prepaid expenses and other assets	48,162
Total assets	128,039,066

Liabilities

Audit and tax services	70,355
Investment management fees payable (Note 3)	33,367
Administration fee payable (Note 3)	8,604
Investor relations fees payable (Note 3)	5,960
Accrued expenses	56,338
Total liabilities	174,624

Net Assets

\$127,864,442

Composition of Net Assets:

Common stock (par value \$0.01 per share) (Note 5)	\$ 134,490
Paid-in capital in excess of par	100,648,841
Accumulated net investment income	1,192,075
Accumulated net realized gain from investments and foreign currency transactions	3,043,675
Net unrealized appreciation on investments and translation of assets and liabilities denominated in foreign currencies	22,845,361
Net Assets	\$127,864,442
Net asset value per share based on 13,449,022 shares issued and outstanding	\$ 9.51

See Notes to Financial Statements.

Aberdeen Japan Equity Fund, Inc.

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Statement of Operations

For the Year Ended October 31, 2016

Net investment income:

Income

Dividends and other income (net of foreign withholding taxes of \$233,865)	\$ 2,111,512
	2,111,512

Expenses:

Investment management fee (Note 3)	376,832
Directors' fees and expenses	171,499
Administration fee (Note 3)	94,733
Insurance expense	74,259
Independent auditors' fees and expenses	65,570
Investor relations fees and expenses (Note 3)	63,444
Legal fees and expenses	48,063
Reports to stockholders and proxy solicitation	44,975
Transfer agent's fees and expenses	24,752
NYSE listing fee	23,761
Custodian's fees and expenses	15,379
PA franchise tax fee	9,526
Miscellaneous	78,140
Total operating expenses before reimbursed/waived expenses	1,090,933
Less: Investor relations fee waiver (Note 3)	(3,139)
Net expenses	1,087,794

Net Investment Income	1,023,718
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Net Realized and Unrealized Gains/(Losses) on Investments and Foreign Currency Related Transactions

Net realized gain/(loss) from:

Investment transactions	3,043,827
Foreign currency transactions	205,936
	3,249,763

Net change in unrealized appreciation/(depreciation) on:

Investments	10,728,444
Foreign currency translation	(20,452)
	10,707,992
Net realized and unrealized gain from investments and foreign currency related transactions	13,957,755
Net Increase in Net Assets Resulting from Operations	\$14,981,473

See Notes to Financial Statements.

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Statements of Changes in Net Assets

	For the Year Ended October 31, 2016	For the Year Ended October 31, 2015
Increase/(decrease) in net assets from operations:		
Operations:		
Net investment income	\$ 1,023,718	\$ 689,077
Net realized gain from investment transactions	3,043,827	3,518,521
Net realized gain/(loss) from foreign currency transactions	205,936	(60,883)
Net change in unrealized appreciation/(depreciation) on investments	10,728,444	2,478,704
Net change in unrealized appreciation/(depreciation) on foreign currency translation	(20,452)	9,543
Net increase in net assets resulting from operations	14,981,473	6,634,962
Distributions to stockholders from:		
Net investment income	(1,032,886)	(421,407)
Net realized gains	(3,146,708)	(529,946)
Net decrease in net assets from distributions	(4,179,594)	(951,353)
Capital Share Transactions:		
Reinvestment of dividends resulting in the issuance of 9,741 and 20,805 shares of common stock, respectively	68,674	141,886
Repurchase of common stock under the discount management policy (221,753 and 119,854), respectively	(1,696,454)	(857,426)
Change in net assets from capital stock transactions	(1,627,780)	(715,540)
Net increase/(decrease) in net assets	9,174,099	4,968,069
Net assets:		
Beginning of year	118,690,343	113,722,274
End of year (including accumulated net investment income of \$1,192,075 and \$623,342, respectively)	\$ 127,864,442	\$118,690,343

See Notes to Financial Statements.

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Financial Highlights

	2016	For the Fiscal Years Ended October 31,			2012
	2015	2014	2013		
Per Share Operating Performance(a):					
Net asset value, beginning of year	\$8.69	\$8.26	\$7.55	\$5.67	\$6.01
Net investment income	0.08	0.05	0.04	0.07	0.05
Net realized and unrealized gains/(losses) on investments and foreign currencies	1.03	0.44	0.79	1.87	(0.34)
Total from investment operations	1.11	0.49	0.83	1.94	(0.29)
Distributions from:					
Net investment income	(0.08)	(0.03)	(0.15)	(0.06)	(0.05)
Net realized gains	(0.23)	(0.04)			
Total distributions	(0.31)	(0.07)	(0.15)	(0.06)	(0.05)
Capital Share Transactions:					
Impact due to discount management policy	0.02	0.01	0.03		
Net asset value, end of year	\$9.51	\$8.69	\$8.26	\$7.55	\$5.67
Market value, end of year	\$8.18	\$7.48	\$7.36	\$6.83	\$5.00
Total Investment Return Based on(b):					
Market value	14.10%	2.67%	10.11%	38.11%	(5.56%)
Net asset value	14.19%	6.28%	11.79%	34.63%	(4.66%)
Ratio to Average Net Assets/Supplementary Data:					
Net assets, end of year (in millions)	\$127.9	\$118.7	\$113.7	\$107.0	\$81.3
Net operating expenses, net of fee waivers	0.92%	0.96%	1.04%	1.08%	1.49%
Net operating expenses, excluding fee waivers	0.92%	0.96%	1.04%	1.08%	1.49%
Net investment income	0.86%	0.58%	0.47%	0.97%	0.88%
Portfolio turnover	8%	10%	98%	100%	110%

(a) Based on average shares outstanding.

(b) Total investment return based on market value is calculated assuming that shares of the Fund's common stock were purchased at the closing market price as of the beginning of the period, dividends, capital gains, and other distributions were reinvested as provided for in the Fund's dividend reinvestment plan and then sold at the closing market price per share on the last day of the period. The computation does not reflect any sales commission investors may incur in purchasing or selling shares of the Fund. The total investment return based on the net asset value is similarly computed except that the Fund's net asset value is substituted for the closing market value.

Amounts listed as are \$0 or round to \$0.

See Notes to Financial Statements.

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Notes to Financial Statements

October 31, 2016

1. Organization

Aberdeen Japan Equity Fund, Inc. (the Fund) was incorporated in Maryland on July 12, 1990 under its original name The Japan Emerging Equity Fund, Inc. and commenced operations on July 24, 1992. It is registered with the Securities and Exchange Commission as a closed-end, diversified management investment company. The Fund's investment objective is to outperform over the long term, on a total return basis (including appreciation and dividends), the Tokyo Stock Price Index (TOPIX).

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements. The policies conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses for the period. Actual results could differ from those estimates. The books and records of the Fund are maintained in U.S. Dollars.

a. Security Valuation:

The Fund values its securities at current market value or fair value, consistent with regulatory requirements. Fair Value is defined in the Fund's Valuation and Liquidity Procedures as the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants without a compulsion to contract at the measurement date.

Equity securities that are traded on an exchange are valued at the last quoted sale price on the principal exchange on which the security is traded at the Valuation Time subject to application, when appropriate, of the valuation factors described in the paragraph below. Under normal circumstances, the Valuation Time is as of the close of regular trading on the New York Stock Exchange (usually 4:00 p.m. Eastern Time). In the absence of a sale price, the security is valued at the mean of the bid/ask price quoted at the close on the principal exchange on which the security is traded. Securities traded on NASDAQ are valued at the NASDAQ official closing price. Closed-end funds and exchange-traded funds (ETFs) are valued at the market price of the security at the Valuation Time. A security using any of these pricing methodologies is determined to be a Level 1 investment.

Foreign equity securities that are traded on foreign exchanges that close prior to Valuation Time are valued by applying valuation factors to the last sale price or the mean price as noted above. Valuation factors

are provided by an independent pricing service provider. These valuation factors are used when pricing the Fund's portfolio holdings to estimate market movements between the time foreign markets close and the time the Fund values such foreign securities. These valuation factors are based on inputs such as depositary receipts, indices, futures, sector indices/ETFs, exchange rates, and local exchange opening and closing prices of each security. When prices with the application of valuation factors are utilized, the value assigned to the foreign securities may not be the same as quoted or published prices of the securities on their primary markets. A security that applies a valuation factor is determined to be a Level 2 investment because the exchange-traded price has been adjusted. Valuation factors are not utilized if the independent pricing service provider is unable to provide a valuation factor or if the valuation factor falls below a predetermined threshold; in such case, the security is determined to be a Level 1 investment.

Short-term investments are comprised of cash and cash equivalents invested in short-term investment funds which are redeemable daily. The Fund sweeps available cash into the State Street Institutional U.S. Government Money Market Fund; has elected to qualify as a government money market fund pursuant to Rule 2a-7 under the 1940 Act and which has an objective to maintain a \$1.00 per share net asset value (NAV), which is not guaranteed. Generally, these investments are categorized as Level 1 investments.

In the event that a security's market quotations are not readily available or are deemed unreliable (for reasons other than because the foreign exchange on which it trades closes before the Valuation Time), the security is valued at fair value as determined by the Fund's Pricing Committee, taking into account the relevant factors and surrounding circumstances using valuation policies and procedures approved by the Fund's Board of Directors. A security that has been fair valued by the Fund's Pricing Committee may be classified as Level 2 or Level 3 depending on the nature of the inputs.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Fund discloses the fair value of its investments using a three-level hierarchy that classifies the inputs to valuation techniques used to measure the fair value. The hierarchy assigns Level 1 measurements to valuations based upon unadjusted quoted prices in active markets for identical assets, Level 2 measurements to valuations based upon other significant observable inputs, including adjusted quoted prices in active markets for similar assets, and Level 3 measurements to valuations based upon unobservable inputs that are significant to the valuation. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability, which are based on market data obtained from sources independent of the reporting entity.

Aberdeen Japan Equity Fund, Inc. 13

Notes to Financial Statements (continued)

October 31, 2016

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. The three-level 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 securities, interest rates, prepayment speeds, and credit risk); or

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

The following is a summary of the inputs used as of October 31, 2016 in valuing the Fund's investments and other financial instruments at fair value. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Please refer to the Portfolio of Investments for a detailed breakout of the security types:

Investments, at Value	Level 1	Level 2	Level 3	Total
Long-Term Investments	\$	\$126,671,669	\$	\$126,671,669
Short-Term Investment	570,502			570,502
Total	\$570,502	\$126,671,669	\$	\$127,242,171

Amounts listed as - are \$0 or round to \$0.

The Fund held no Level 3 securities at October 31, 2016.

For movements between the Levels within the fair value hierarchy, the Fund has adopted a policy of recognizing transfers at the end of each period. The utilization of valuation factors may result in transfers between Level 1 and Level 2. For the fiscal year ended October 31, 2016, there were no transfers between Level 1 and Level 2.

For the fiscal year ended October 31, 2016, there were no significant changes to the fair valuation methodologies.

b. Foreign Currency Translation:

Foreign securities, currencies, and other assets and liabilities denominated in foreign currencies are translated into U.S. Dollars at the exchange rate of said currencies against the U.S. Dollar, as of the Valuation Time, as provided by an independent pricing service approved by the Board.

Foreign currency amounts are translated into U.S. Dollars on the following basis:

(i) market value of investment securities, other assets and liabilities at the exchange rates at the current daily rates of exchange at the Valuation Time; and

(ii) purchases and sales of investment securities, income and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions.

The Fund does not isolate that portion of gains and losses on investments in equity securities which is due to changes in the foreign exchange rates from that which is due to changes in market prices of equity securities. Accordingly, realized and unrealized foreign currency gains and losses with respect to such securities are included in the

reported net realized and unrealized gains and losses on investment transactions balances.

The Fund reports certain foreign currency related transactions and foreign taxes withheld on security transactions as components of realized gains for financial reporting purposes, whereas such foreign currency related transactions are treated as ordinary income for U.S. federal income tax purposes.

Net unrealized currency gains or losses from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of net unrealized appreciation/depreciation in value of investments, and translation of other assets and liabilities denominated in foreign currencies.

Net realized foreign exchange gains or losses represent foreign exchange gains and losses from transactions in foreign currencies and forward foreign currency contracts, exchange gains or losses realized between the trade date and settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Fund's books and the U.S. Dollar equivalent of the amounts actually received.

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Notes to Financial Statements (continued)

October 31, 2016

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the U.S. Dollar. Generally, when the U.S. Dollar rises in value against foreign currency, the Fund's investments denominated in that foreign currency will lose value because the foreign currency is worth fewer U.S. Dollars; the opposite effect occurs if the U.S. Dollar falls in relative value.

c. Security Transactions, Investment Income and Expenses:

Security transactions are recorded on the trade date. Realized and unrealized gains/(losses) from security and foreign currency transactions are calculated on the identified cost basis. Dividend income and corporate actions are recorded generally on the ex-date, except for certain dividends and corporate actions which may be recorded after the ex-date, as soon as the Fund acquires information regarding such dividends or corporate actions.

Interest income and expenses are recorded on an accrual basis.

d. Distributions:

The Fund records dividends and distributions payable to its stockholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from GAAP. These book basis/tax basis (book/tax) differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for tax purposes are reported as return of capital.

e. Federal Income Taxes:

The Fund intends to continue to qualify as a regulated investment company by complying with the provisions available to certain investment companies, as defined in Subchapter M of the Internal Revenue Code of 1986, as amended, and to make distributions of net investment income and net realized capital gains sufficient to relieve the Fund from all, or substantially all, federal income taxes. Therefore, no federal income tax provision is required.

The Fund recognizes the tax benefits of uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. Management of the Fund has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements (or expected to be taken in future tax years). Since tax authorities can examine

previously filed tax returns, the Fund's U.S. federal and state tax returns for each of the four fiscal years up to the most recent fiscal year ended October 31 are subject to such review.

The Fund is not subject to any Japanese income, capital gains or other taxes except for withholding taxes on certain income, generally imposed at a rate of 10.0% on interest and dividends paid to the Fund by Japanese corporations.

f. Rights Issues and Warrants:

Rights issues give the right, normally to existing shareholders, to buy a proportional number of additional securities at a given price (generally at a discount) within a fixed period (generally a short term period) and are offered at the company's discretion. Warrants are securities that give the holder the right to buy common stock at a specified price for a specified period of time. Rights issues and warrants are speculative and have no value if they are not exercised before the expiration date. Rights issues and warrants are valued at the last sale price on the exchange on which they are traded.

g. Foreign Withholding Tax:

Dividend and interest income from non-U.S. sources received by the Fund are generally subject to non-U.S. withholding taxes. In addition, the Fund may be subject to capital gains tax in certain countries in which it invests. The above taxes may be reduced or eliminated under the terms of applicable U.S. income tax treaties with some of these countries. The Fund accrues such taxes when the related income is earned.

h. Repurchase Agreements

The Fund may enter into a repurchase agreement under the terms of a Master Repurchase Agreement. It is the Fund's policy that its custodian/counterparty segregates the underlying collateral securities, the value of which exceeds the principal amount of the repurchase transaction, including accrued interest. The repurchase price generally equals the price paid by the Fund plus interest negotiated on the basis of current short-term rates. To the extent that any repurchase transaction exceeds one business day, the collateral is valued on a daily basis to determine its adequacy. Under the Master Repurchase Agreement, if the counterparty defaults and the value of the collateral declines, or if bankruptcy proceedings are commenced with respect to the counterparty of the security, realization of the collateral by the Fund may be delayed or limited. Repurchase agreements are subject to contractual netting arrangements with the counterparty, Fixed Income Clearing Corp. To the extent a Fund enters into repurchase agreements, additional information on individual repurchase agreements is included in the Statement of Investments.

Aberdeen Japan Equity Fund, Inc. 15

Notes to Financial Statements (continued)

October 31, 2016

3. Agreements and Transactions with Affiliates

a. Investment Manager:

Aberdeen Asset Management Asia Limited (AAMAL) serves as the Fund's investment manager with respect to all investments. Pursuant to the Management Agreement, the Manager makes investment management decisions relating to the Fund's assets. For such investment services, the Fund pays the Manager at an annual rate of 0.60% of the first \$20 million, 0.40% of the next \$30 million, and 0.20% of the excess over \$50 million of the Fund's average weekly Managed Assets. For purposes of this calculation,

Managed Assets of the Fund means total assets of the Fund, including assets attributable to investment leverage, minus all liabilities, but not excluding any liabilities or obligations attributable to leverage obtained by the Fund for investment purposes through (i) the issuance or incurrence of indebtedness of any type (including, without limitation, borrowing through a credit facility or the issuance of debt securities), (ii) the issuance of preferred stock or other similar preference securities, and/or (iii) any other means, but not including any collateral received for securities loaned by the Fund. In addition, the Fund has agreed to reimburse the Manager for all out-of-pocket expenses related to the Fund. For the fiscal year ended October 31, 2016, no such expenses were paid to the Manager.

b. Fund Administration:

Aberdeen Asset Management Inc. (AAMI), an affiliate of AAMAL, serves as the Fund's administrator, pursuant to an amended fee schedule under which AAMI receives a fee, payable quarterly by the Fund, at an annual rate of 0.08% of the value of the Fund's average weekly net assets.

c. Investor Relations:

Under the terms of the Investor Relations Services Agreement, AAMI provides and pays third parties to provide investor relations services to the Fund and certain other funds advised by AAMAL or its affiliates as part of an Investor Relations Program. Under the Investor Relations Services Agreement, the Fund owes a portion of the fees related to the Investor Relations Program (the Fund's Portion). However, investor relations services fees are limited by AAMI so that the Fund will only pay up to an annual rate of 0.05% of the Fund's average weekly net assets. Any difference between the capped rate of 0.05% of the Fund's average weekly net assets and the Fund's Portion is paid for by AAMI.

Pursuant to the terms of the Investor Relations Services Agreement, AAMI provides, among other things, objective and timely information to shareholders based on publicly-available information; provides information efficiently through the use of technology while offering shareholders immediate access to knowledgeable investor relations representatives; develops and maintains effective communications with

investment professionals from a wide variety of firms; creates and maintains investor relations communication materials such as fund manager interviews, films and webcasts, published white papers, magazine articles and other relevant materials discussing the Fund's investment results, portfolio positioning and outlook; develops and maintains effective communications with large institutional shareholders; responds to specific shareholder questions; and reports activities and results to the Board and management detailing insight into general shareholder sentiment.

During the fiscal year ended October 31, 2016, the Fund incurred investor relations fees of approximately \$62,347 of which AAMI waived \$3,139 for investor relations services. Investor relations fees and expenses in the Statement of Operations include certain out-of-pocket expenses.

4. Investment Transactions

Purchases and sales of investment securities (excluding short-term securities) for the fiscal year ended October 31, 2016 were \$9,478,934 and \$13,691,420, respectively.

5. Capital

The authorized capital of the Fund is 30 million shares of \$0.01 par value common stock. During the fiscal year ended October 31, 2016, the Fund repurchased 221,753 shares pursuant to its Discount Management Program and reinvested 9,741 shares pursuant to its Dividend Reinvestment and Cash Purchase Plan. As of October 31, 2016, there were 13,449,022 shares of common stock issued and outstanding.

6. Discount Management Program

Effective December 12, 2014, the Fund's Discount Management Program authorizes management to make open market purchases, from time to time, in a maximum aggregate amount during each twelve month period ended October 31 of up to 10% of the Fund's shares of stock outstanding as of October 31 of the prior year. Such purchases may be made opportunistically at certain discounts to net asset value per share when, in the reasonable judgment of management based on historical discount levels and current market conditions, such repurchases may enhance stockholder value. During the fiscal year ended October 31, 2016, the Fund repurchased 221,753 shares.

The Board of Directors authorized the Discount Management Program in order to potentially enhance share liquidity and increase Stockholder value through the potential accretive impact of the purchases to the Fund's NAV. There is no assurance that the Fund will purchase shares in any specific amounts.

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Notes to Financial Statements (continued)

October 31, 2016

7. Portfolio Investment Risks

a. Risks Associated with Foreign Securities and Currencies:

Investments in securities of foreign issuers carry certain risks not ordinarily associated with investments in securities of U.S. issuers. These risks include future political and economic developments, and the possible imposition of exchange controls or other foreign governmental laws and restrictions. In addition, with respect to certain countries, there is the possibility of expropriation of assets, confiscatory taxation, and political or social instability or diplomatic developments, which could adversely affect investments in those countries.

Certain countries also may impose substantial restrictions on investments in their capital markets by foreign entities, including restrictions on investments in issuers of industries deemed sensitive to relevant national interests. These factors may limit the investment opportunities available and result in a lack of liquidity and high price volatility with respect to securities of issuers from developing countries. Foreign securities may also be harder to price than U.S. securities.

The value of foreign currencies relative to the U.S. Dollar fluctuates in response to market, economic, political, regulatory, geopolitical or other conditions. A decline in the value of a foreign currency versus the U.S. Dollar reduces the value in the U.S. Dollars of investments denominated in that foreign currency. This risk may impact the Fund more greatly to the extent the Fund does not hedge its currency risk, or hedging techniques used by the Adviser are unsuccessful.

b. Focus Risk:

The Fund may have elements of risk not typically associated with investments in the United States due to focused investments in a limited number of countries or regions subject to foreign securities or currencies risks. Such focused investments may subject the Fund to additional risks resulting from political or economic conditions in such countries or regions and the possible imposition of adverse governmental laws or currency exchange restrictions could cause the securities and their markets to be less liquid and their prices to be more volatile than those of comparable U.S. securities.

c. Sector Risk:

To the extent that the Fund has a significant portion of its assets invested in securities of companies conducting business in a broadly related group of industries within an economic sector, the Fund may be more vulnerable to unfavorable developments in that economic sector than funds that invest more broadly.

8. Contingencies

In the normal course of business, the Fund may provide general indemnifications pursuant to certain contracts and organizational documents. The Fund's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund, and therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

9. Tax Information

The U.S. federal income tax basis of the Fund's investments and the net unrealized appreciation as of October 31, 2016 were as follows:

Tax Basis of Investments	Appreciation	Depreciation	Net Unrealized Appreciation
\$104,366,934	\$27,316,390	\$(4,441,153)	\$22,875,237

Income and capital gains distributions are determined in accordance with federal income tax regulations, which may differ from GAAP.

The tax character of distributions paid during the fiscal years ended October 31, 2016 and October 31, 2015 was as follows:

	October 31, 2016	October 31, 2015
Distributions paid from:		
Ordinary Income	\$1,032,886	\$421,407
Net long-term capital gains	3,146,708	529,946
Total tax character of distributions	\$4,179,594	\$951,353

Notes to Financial Statements (concluded)

October 31, 2016

As of October 31, 2016, the components of accumulated earnings/(deficit) on a tax basis were as follows:

Undistributed ordinary income	net	\$1,192,072
Undistributed long-term capital gains	net	3,043,675
Total undistributed earnings		\$4,235,747
Capital loss carryforward		*
Other temporary differences		3
Unrealized appreciation/(depreciation)		22,845,361
Total accumulated earnings/(losses)	net	\$27,081,111

* During the fiscal year ended October 31, 2016, the Fund did not utilize a capital loss carryforward.

GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, the table below details the necessary reclassifications, which are a result of permanent differences primarily attributable to foreign currency gains and losses. These reclassifications have no effect on net assets or net asset values per share.

Accumulated Net Investment Income/(Loss)	Accumulated Net Realized Gain/(Loss)
\$577,901	\$(577,901)

10. Subsequent Events

Management has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the financial statements were issued. Based on this evaluation, no disclosures or adjustments were required to the financial statements as of October 31, 2016.

On December 21, 2016, the Fund announced that it will pay on January 11, 2017 a distribution of \$0.3161 per share to all stockholders of record as of December 31, 2016.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
the Aberdeen Japan Equity Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments in securities, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the Aberdeen Japan Equity Fund, Inc. (the Fund) as of October 31, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of October 31, 2016 by correspondence with the custodian, provide a reasonable basis for our opinion.

Philadelphia, Pennsylvania

December 27, 2016

Federal Tax Information: Dividends and Distributions (unaudited)

The following information is provided with respect to the distributions paid by Aberdeen Japan Equity Fund, Inc. during the fiscal year ended October 31, 2016:

Payable Date	Total Cash Distribution	Long-Term Capital Gain	Tax Return of Capital	Net Ordinary Dividend	Foreign Taxes Paid(1)	Gross Ordinary Dividend	Qualified Dividends(2)	Foreign Source Income
1/12/16	0.305950	0.230340		0.075610	0.014836	0.090446	0.075610	0.075610

(1) The foreign taxes paid represent taxes incurred by the Fund on interest received from foreign sources. Foreign taxes paid may be included in taxable income with an offsetting deduction from gross income or may be taken as a credit for taxes paid to foreign governments. You should consult your tax advisor regarding the appropriate treatment of foreign taxes paid.

(2) The Fund hereby designates the amount indicated above or the maximum amount allowable by law.

Supplemental Information (unaudited)

Results of Annual Meeting of Shareholders

The Annual Meeting of Stockholders was held on Wednesday, June 22, 2016 at 1735 Market Street, 32nd Floor, Philadelphia, PA. The description of the proposals and number of shares voted at the meeting are as follows:

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1. To re-elect two directors to serve as Class II directors for three year term or until their successors are duly elected and qualified:

	Votes For	Votes Against	Abstained
David Harmer	10,801,208	1,031,558	60,812
Rahn Porter	10,900,463	931,776	61,339

2. To elect one director to serve as a Class III director for a one year term or until his successor is duly elected and qualifies:

	Votes For	Votes Against	Abstained
Anthony Clark	10,899,336	932,857	61,384

Directors whose term of office continued beyond this meeting are as follows: Radhika Ajmera, Martin Gruber and Richard Herring.

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Portfolio Manager Information (unaudited)

The below changes were made to the portfolio management team during the fiscal year ended October 31, 2016. The Asian Equities Team works in a truly collaborative fashion; all team members have both portfolio management and research responsibilities.

Christina Woon, Assistant Investment Manager

Effective January 31, 2016, Ms. Woon is responsible for day-to-day management and overall supervision of the Fund's portfolio from Mr. Chou Chong. She joins Hugh Young, Adrian Lim, Ai-Mee Gan and Flavia Chong. Christina joined Aberdeen in January 2013 as a graduate. Christina holds a Bachelor of Accountancy from Singapore Management University.

Board Consideration and Approval of Investment Management Agreement (unaudited)

Nature, Extent and Quality of Services

At a meeting (the Meeting) of the Board of Directors of The Japan Equity Fund, Inc. (the Fund) held on June 14, 2016, the Board reviewed and considered the nature, quality and extent of services provided by Aberdeen Asset Management Asia Limited (the Investment Manager), under the Investment Management Agreement with the Investment Manager (the Investment Management Agreement). The Board reviewed and considered the qualifications of the portfolio management team and other key personnel of the Investment Manager who provide the investment advisory services to the Fund and determined that they are qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board also reviewed and considered the services provided to the Fund by the Investment Manager and its personnel. The Board concluded that the nature, quality and extent of advisory services provided to the Fund by the Investment Manager were necessary and appropriate for the conduct of the business and investment activities of the Fund. The Board also concluded that the overall quality of advisory services was satisfactory.

Performance Relative to the Fund's Benchmark

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The Board noted that the Investment Manager had been managing the Fund for less than three years. The Board reviewed and considered the Fund's performance for the last two full year periods, as well as the quarter ended March 31, 2016, as provided to the Board prior to the Meetings. For the quarter and the last two full years, the Fund had generally outperformed the Fund's benchmark, the TOPIX. The Board concluded that the Fund's overall performance was competitive with its benchmark. The Board also noted that the Fund had outperformed the only comparable closed-end fund over most periods.

Fees Relative to Other Funds Advised by the Investment Manager

The Board reviewed and considered the advisory fees paid by the Fund under the Investment Management Agreement (the Investment Manager Fee) and information showing the advisory fees paid by other U.S. registered closed-end funds managed by the Investment Manager or its affiliates (Other Aberdeen Funds) and fees charged by the Investment Manager to other clients with assets invested in Japan. The Board noted that the Investment Manager Fee was lower than the fees charged to most of the Other Aberdeen Funds and largely in the same range of fees charged to other clients with comparable investment strategies and determined that the Investment Management Fee was appropriate.

Fees and Expenses Relative to Comparable Funds Managed by Other Investment Managers

The Board reviewed and considered the advisory fees paid by other closed-end funds investing in a single country. While the fees vary widely, the majority of these fees paid in connection with these country funds were in the 1.00% and higher range. The Board concluded that the Fund's advisory fees under the Investment Management Agreement were significantly lower than these other country funds. The Board also noted that the total expense ratio of the Fund was at the low end of the range of total expense ratios of other closed-end funds investing in a single country. The Board concluded that the Fund's total expense ratio was satisfactory.

Board Consideration and Approval of Investment Management Agreement (unaudited) (concluded)

Breakpoints and Economies of Scale

The Board reviewed and considered the structure of the Fund's advisory fees under the Investment Management Agreement and noted that it does include breakpoints. The Board considered that the Fund is close-end and concluded that economies of scale for the Fund were not a factor that needed to be considered at current asset levels.

Profitability of the Investment Manager

The Board reviewed and considered a profitability report for the Investment Manager for the last year included in the materials provided to the Board. Based on its review of the information it received, the Board concluded that the profits earned by the Investment Manager were not excessive in light of the advisory services provided to the Fund.

Other Benefits to the Adviser or its Affiliates

In considering whether the Investment Manager benefits in other ways from its relationship with the Fund, the Board noted that the Fund's brokerage transactions are not effected through the Investment Manager or any of its affiliates. The Board also noted that an affiliate of the Investment Manager serves as Administrator to the Fund. The Board noted that, based on its review of the arrangements for administrative services, any benefit the Investment Manager's affiliate receives from providing those services appears to be appropriate. The Board concluded that, to the extent that the Investment Manager or its affiliates derive other benefits from their relationships with the Fund, those benefits are not such as to render the Adviser's fees excessive.

Investment Manager Financially Sound and Financially Capable of Meeting the Fund's Needs

The Board considered whether the Investment Manager was financially sound and had the resources necessary to perform its obligations under the Investment Management Agreement. The Board noted that the Investment Manager's operations remain profitable. The Board concluded that the Investment Manager has the financial resources necessary to fulfill its obligations under the Investment Management Agreement.

Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by the Investment Manager and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Investment Manager indicates a good faith effort on its part to adhere to high ethical standards.

General Conclusion

After considering and weighing all of the above factors, the Board concluded it would be in the best interests of the Fund and its stockholders to approve renewal of the Investment Management Agreement for another year.

Dividend Reinvestment and Cash Purchase Plan (unaudited)

A Dividend Reinvestment and Cash Purchase Plan (the Plan) is available to provide Stockholders with automatic reinvestment of dividends and capital gain distributions in additional Fund shares. The Plan also allows you to make optional semi-annual cash investments in Fund shares through the Plan Agent. A brochure fully describing the Plan's terms and conditions is available by calling the Plan Agent at (866) 669-9903 or by writing Aberdeen Japan Equity Fund, Inc., c/o the American Stock Transfer & Trust Company, Operations Center, 6201 15th Avenue, Brooklyn, NY 11219.

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

Who can participate in the Plan? If you wish to participate and your shares are held in your name, you may elect to become a direct participant in the Plan by completing and mailing the Enrollment Authorization form on the back cover of the Dividend Reinvestment and Cash Purchase Plan Brochure to the Plan Agent. However, if your shares are held in the name of a financial institution, you should instruct your financial institution to participate in the Plan on your behalf. If your financial institution is unable to participate in the Plan for you, you should request that your shares be registered in your name, so that you may elect to participate directly in the Plan.

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

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

What is the Cash Purchase feature? The Plan participants have the option of making semi-annual investments in Fund shares through the Plan Agent. You may invest any amount from \$100 to \$5,000

semiannually. The Plan Agent will purchase shares for you on the NYSE or otherwise on the open market on or about February 15th and August 15th of each year. Plan participants should send voluntary cash payments to be received by the Plan Agent approximately ten days before the applicable purchase date. The Plan Agent will return any cash payments received more than thirty days prior to the purchase date. You may withdraw a voluntary cash payment by written notice, if the notice is received by the Plan Agent not less than two business days before the investment date.

Is there a cost to participate? There are no Plan charges or brokerage charges for shares issued directly by the Fund. However, each participant will pay a service fee of \$2.50 for each investment and a pro rata portion of brokerage commissions for shares purchased on the NYSE or on the open market by the Plan Agent.

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

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

Management of the Fund (unaudited)

The names of the Directors and Officers of the Fund, their addresses, years of birth, and principal occupations during the past five years are provided in the tables below. Directors that are deemed interested persons (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended) of the Fund or the Fund's investment adviser are included in the table below under the heading Interested Directors. Directors who are not interested persons, as described above, are referred to in the table below under the heading Independent Directors.

As of October 31, 2016

Board of Directors Information

Name, Address and Year of Birth	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
<u>Independent Directors</u>					
Radhika Ajmera c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market St. 32nd Floor Philadelphia, PA 19103	Director, Audit Committee Member	Since 2014; current term ends at the 2018 annual Meeting	Ms. Ajmera has been an independent consultant since 2008 and provides consulting services to firms in the financial sector. Ms. Ajmera has over twenty years' experience in fund management, predominantly in emerging markets.	1	Director of Aberdeen Asia-Pacific Income Investment Company Limited
Year of Birth: 1964					