

Prospect Japan Fund

| Bloomberg | PJF LN | NAV Performance (USD) % | | | | |
|---------------------|---------|-------------------------|-------|--------|--------|-------|
| | | July | YTD | 1 Year | 3 Year | |
| Yen / USD | 78.29 | | | | | |
| NAV (USD) | 0.95 | Prospect Japan Fund | -1.04 | 13.10 | -1.04 | 37.68 |
| Price (USD) | 0.80 | Topix Small Index | -1.69 | 3.35 | -3.40 | 16.51 |
| Premium/ Discount % | -16.72% | | | | | |

Prospect Japan Fund inception date is 20 December 1994. Above performance of the Fund is net of fees and expenses and includes reinvestment of dividends and capital gains. Topix Small Cap Index (TPXSM) performance cited above is the total return including the reinvestment of net dividends into the index denominated in US Dollars (Source: Bloomberg). One cannot invest directly in an index. TPXSM is a capitalization - weighted index designed to measure the performance of the stocks listed on the First Section of the Tokyo Stock Exchange, excluding the TOPIX 500 stocks and non-eligible stocks.

The NAV is published in the 'Other Offshore Funds' column of the Financial Times. The NAV and Price are located on Bloomberg page PJF LN. The NAV and Indicated Prices are also listed on Bloomberg page LCFR and Reuters page LCFR07.

The Fund was down 1.04% for the month of July, outperforming the Topix Small Index' 1.69% loss. Although the Fund retreated month-on-month, it is still strongly outperforming the benchmark, gaining 13.10% for the year versus the Topix Small Index' 3.35% gain. The Fund is well positioned to take advantage of extremely low prices with a cash position of 24%.

Lacking a strong domestic catalyst, Japanese performance was influenced primarily by external factors. Ongoing sovereign debt concerns in the Euro zone and a sluggish US recovery resulted in a 2.1% month-on-month strengthening of the Yen vs. USD and weighed on equity performance for most of July. Comments by European Central Bank president Mario Draghi, that the ECB would do "whatever it takes" to preserve the Euro sparked an uplift in prices through the end of the month.

Positive performance came from Shaklee Global (8205) and Oenon Holdings (2533). Shaklee Global, a producer and seller of nutritional and personal care products, saw its share price rise ahead of expected strong Q1 results to be announced in early August. Oenon Holdings, a producer of rice wine, liquor and seasoning, has to date purchased 1.3 million shares at an average JPY 193 per share during the first two months of its six-month share buy-back program. Oenon will buy back up to 3.8% of outstanding shares for as much as JPY 550 million.

Weakness in the Fund came from Katakura Industries (3001) and Shibusawa Warehouse (9304). Katakura Industries, engaged in the manufacture and sale of textiles, pharmaceuticals, and auto parts, fell month-on-month on no news. Shibusawa Warehouse, a logistics and real estate company, saw downward pressure in anticipation of a weak Q1 results announcement in August.

The Bank of Japan announced an expansion of the JGB purchasing operation of its Asset Purchase Program to JPY 45 trillion from JPY 40 trillion. However, the move should be regarded as a technical adjustment as opposed to a true monetary expansion. The additional JPY 5 trillion was allocated away from the chronically undersubscribed fixed rate funds supplying operation against pooled collateral, which will now have a JPY 25 trillion capacity.

Miki Shoji reported that office vacancy in Tokyo's Central Business District rose 3 bps to 9.43% in June. While reaching a historic high, the vacancy rate increase was not surprising, as large new buildings were added to the office supply. The consensus view is for vacancies to peak at current levels, before declining in H2 on low new supply and steady demand.

REIT

The TSEREIT index gained 1.01% month-on-month, outperforming the Nikkei 225's 1.49% loss month-on-month performance. Performance was boosted by yen appreciation versus the dollar.

The Bank of Japan executed one purchase for JPY 1.6 billion in J-REIT units during the month. The BoJ has now purchased a total of JPY 93.3 billion in J-REIT units (77.8% of total allotment).

Business newspaper Nikkei Shimbun reports that property developer Hulic Co. (3003) intends to list a diversified J-REIT as soon as the end of 2013. This brings the number of expected upcoming J-REIT IPO's to four, including retailer Aeon Co. (8267), developer Daiwa House Industry (1925) and Global Logistics Properties of Singapore.

Japan Prime Realty (JPM, 8955), a diversified REIT sponsors by Tokyo Tatemono, announced a public

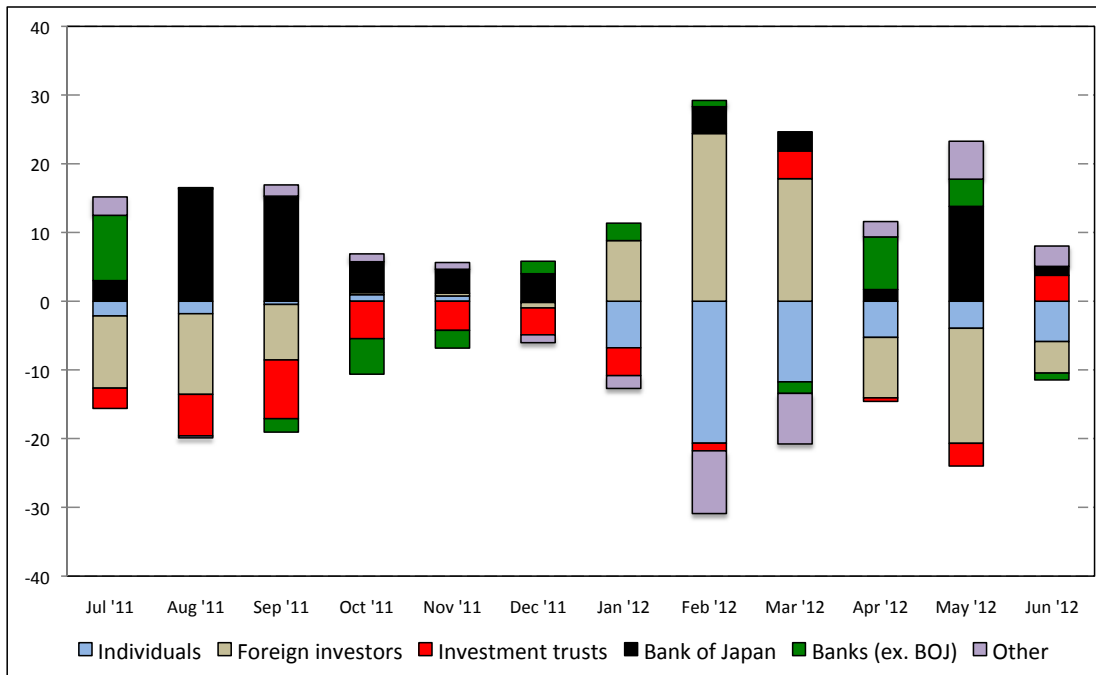
offering of new units during the month. JPM expects to raise approximately JPY 20.7 billion, with proceeds used towards the purchase of a new property and debt repayment.

There was a total JPY 20.0 billion in property acquisitions announced during the month, along with JPY 4.2 billion in announced dispositions.

The TSREIT index is up 14.93% year-to-date, versus the Nikkei 225 index's 2.30% gain.

Note: As of 31st July, 2012, of the Fund, Tomoe Corporation (1921) is 10.43%, Oenon Holdings (2533) is 8.38%, Kata-kura Industries (3001) is 8.58%, Gro-Bels (3528) is 3.35%, Shaklee Global (8205) is 6.25%, and Shibusawa Warehouse (9304) is 9.30%. Daiwa House Industry (1925), Hulic Co. (3003), Aeon Co. (8267), and Japan Prime Realty (8955) are not holdings of the Fund.

Tokyo Stock Exchange Market Data (Net Buyers/Sellers of J-REITs)



Sector Weightings

| | |
|--------------------------------|------|
| Advertising | 7.4 |
| Apparel | 8.6 |
| Beverages | 8.4 |
| Diversified Financial Services | 5.6 |
| Engineering & Construction | 10.4 |
| Internet | 0.9 |
| Investment Companies | 3.4 |
| Machinery-Diversified | 0.8 |
| Real Estate | 0.8 |
| REITs | 9.9 |
| Retail | 10.5 |
| Storage/Warehousing | 9.3 |
| Total** | 75.9 |
| No of Positions | 16 |

Top 10 Holdings

| Symbol | Security | % of Total Assets |
|----------|------------------------------------|-------------------|
| 1921 | TOMOE CORP | 10.4 |
| 8963 | INVINCIBLE INVESTMENT CORP (REIT) | 9.9 |
| 9304 | SHIBUSAWA WAREHOUSE CO LTD/THE | 9.3 |
| 3001 | KATAKURA INDUSTRIES CO LTD | 8.6 |
| 2533 | OENON HOLDINGS INC | 8.4 |
| 2178 | TRI-STAGE INC | 7.4 |
| 8205 | SHAKLEE GLOBAL GROUP INC | 6.2 |
| gktaihei | GODO KAISHA TAIHEIYO JISHO #1 BOND | 5.6 |
| 3528 | GRO-BELS CO LTD | 3.4 |
| 8184 | SHIMACHU CO LTD | 2.6 |

Percentage weightings are Prospect Asset Management's internal calculations and have not been reconciled by the administrator.

**Results of calculations as presented may not be exact due to rounding and precision of stored values.

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The Prospect Japan Fund "Company" is a closed-end investment company incorporated in Guernsey and listed on the London Stock Exchange. The Company's investment objective is to achieve long-term capital appreciation from a portfolio of securities primarily of smaller Japanese companies listed or traded on Japanese Stock Markets.

There are risks involved with investing, including possible loss of principal. In addition to the normal risks associated with investing, narrowly focused investments, investments in smaller companies, illiquid investments and investments in a single country typically exhibit higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Fund price and index performance calculations are obtained from Bloomberg and are as of the end of the month. NAV performance calculations are provided by PAMI and are un-audited. As of August 2003, the benchmark index changed from TSE2 to Topix Small since its characteristics with respect to average market capitalization more closely resemble the investment strategy pursued by the portfolio. The investment return and principal value of an investment will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Additional information regarding policies for calculation and reporting returns is available upon request.

The Board of the Prospect Japan Fund decided that the PJF should become a member of the AIC (The Association of Investment Companies) in 2005. The AIC only accepts valuations where the underlying assets are valued on a 'Fair' basis, which in the case of PJF, means on a bid basis (per the AIC). Upon the Prospect Japan Fund's Board approval, the Fund's administrator Northern Trust made a change to the pricing methodology in February 2006, whereby underlying assets in the Fund are valued using the 'last bid price.' Consequently, the Fund's Net Asset Value and performance from February 2006 reflects the change in this pricing methodology. In addition, in newsletters from February to September 2006, as a result of the new pricing methodology, Prospect had been calculating a performance based on an un-rounded Net Asset Value. In October 2006, Prospect made a decision to calculate performance based on a Net Asset Value rounded to the nearest hundredth. Therefore, the monthly performance from February to September was modified to reflect this change. The performance from October 2006 and going forward will incorporate this change.

Prospect Asset Management Inc. is registered as an investment adviser under the United States Investment Advisers Act of 1940, as amended, with Securities and Exchange Commission number 801-47749. The company specializes in investment in Japanese equities and real estate and seeks investments offering what PAMI considers above average earnings while trading at reasonable valuations.