

Prospect Japan Fund

Bloomberg	PJF LN	NAV Performance (USD) %				
		August	YTD	1 Year	3 Year	
Yen / USD	78.47					
NAV (USD)	0.97	Prospect Japan Fund	2.11	15.48	2.11	34.72
Price (USD)	0.80	Topix Small Index	-0.49	2.84	-1.43	9.86
Premium/ Discount %	-17.98%					

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 gained 2.11% for the month of August, outperforming the Topix Small Index' 0.49% decline. The Fund has maintained strong outperformance of the index, gaining 15.48% year-to-date versus the Topix Small Index' 2.84% increase. The Fund is well positioned to take advantage of extremely low prices with a cash position of 21%.

Positive performance came from Tri-Stage Inc (2178) and Katakura Industries (3001). Tri-Stage Inc, a marketing consultant service provider, saw its share price rise sharply towards month's end to a nearly four month high. Katakura Industries, its core business is operating shopping malls and also engaged in the manufacture and sale of textiles, pharmaceuticals, and auto parts, gained ahead of 2Q results announcements.

Weakness in the Fund came from Tomoe Corp (1921) and Shibusawa Warehouse (9304). Tomoe Corp, a steel frame construction company, fell on weak Q1 results resulting from higher than expected input costs and write-offs, and downward revision of full-year forecasts. Shibusawa Warehouse, a logistics and real estate company, saw downward pressure in anticipation of a weak Q1 results.

The Bank of Japan left its policy rate and asset purchase program unchanged after this month's meeting. In minutes release from the July 11-12 meeting, members of the BoJ board noted that the bank should refrain from dismissing in advance any policy options in responding to current environmental risks, notably the ongoing European sovereign debt crisis. The ongoing Eurozone crisis has added to the global economic uncertainty that has kept the yen near post-war highs. One potential new policy option proposed by new board member Takehiro Sato, formerly of MS MUFG Securities, was to include foreign bonds to the list of eligible assets under the bank's Asset Purchase Program.

With the BoJ's 1% inflation target seeming increasingly distant, and the yen remaining stubbornly strong, there are expectations for more Japanese politicians calling for aggressive easing, as well as further extension of eco-car subsidies and mortgage tax breaks.

The sales tax increase bill proposed by Prime Minister Yoshihiko Noda, calling for a doubling of the 5% tax by 2015, passed the upper house of the Diet during the month. This follows the contentious lower house passage in June, which opened a rift in Noda's DPJ party that resulted in over 50 members leaving the party. The law calls for consumption tax to increase from 5% up to 8% in 2014, then to 10% in 2015, though there is a clause allowing for a suspension of implementation based on economic conditions. The move is seen as a vital step in Japan's dealing with its large government debt.

Miki Shoji reported that office vacancy in Tokyo's Central Business District declined 13 bps month-on-month to 9.3% in July. The report marked the first decline in 4 months, as both existing and new buildings saw improvements and no large new buildings were added to supply.

REIT

The TSEREIT index gained 3.31% month-on-month, outpacing the Nikkei 225's +1.52% month-on-month performance. J-REITs were buoyed by improved supply-demand conditions, and a positive Tokyo office occupancy data release. Foreign investors were net buyers for the first time in four months.

The Bank of Japan refrained from J-REIT unit purchases during the month, maintaining the total amount of purchases at JPY 93.3 billion in J-REIT units (77.8% of total allotment).

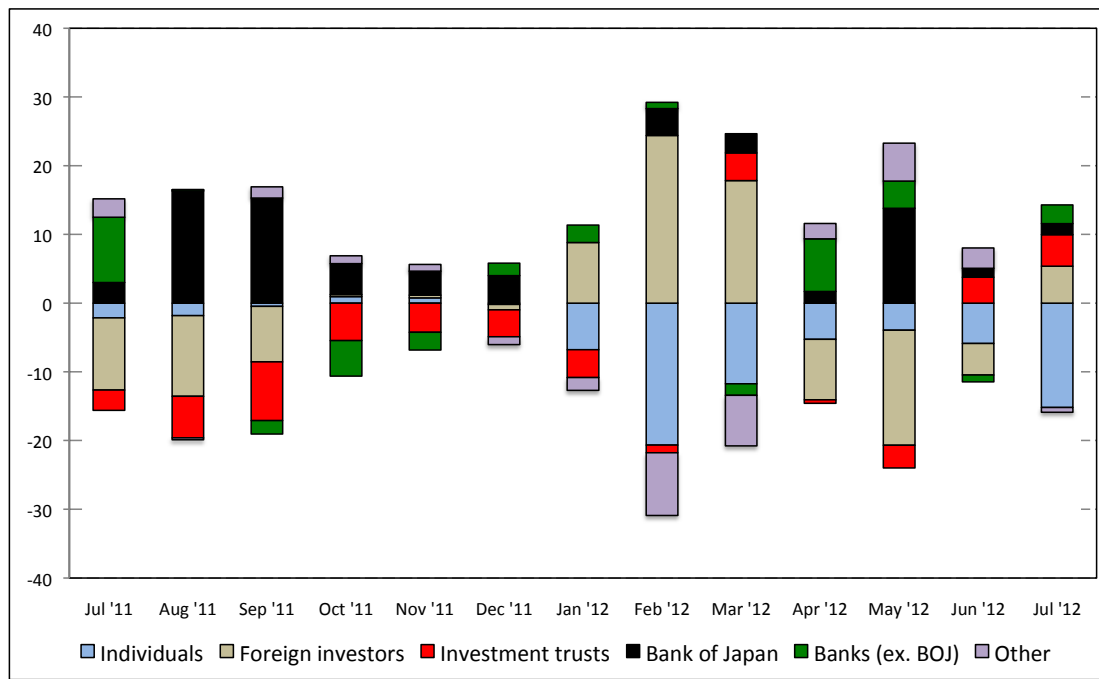
Japan Hotel Fund (JHF, 8985), a geographically diverse hotel REIT sponsored by Real Estate Capital Asia Partners Group, announced a public offering of up to 252,000 new units (13.6% dilution) towards the end of the month. JHF expects to raise approximately JPY 5 billion, with proceeds used towards the purchase of 2 new properties.

There was a total JPY 30.8 billion in property acquisitions announced during the month, along with JPY 2.0 billion in announced dispositions.

The TSREIT index is up 18.83% year-to-date, versus the Nikkei 225 index's 3.97% gain.

Note: As of 31st August, 2012, of the Fund, Tomoe Corporation (1921) is 10.36%, Tri-Stage (2178) is 8.03%, Katakura Industries (3001) is 9.53 %, and Shibusawa Warehouse (9304) is 8.98%. Japan Hotel Fund (8985) is not holdings of the Fund.

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



Sector Weightings

Advertising	8.0
Apparel	9.5
Beverages	8.1
Diversified Financial Services	5.5
Engineering & Construction	10.4
Investment Companies	3.2
Machinery-Diversified	1.3
Real Estate	0.8
REITs	11.9
Retail	11.2
Storage/Warehousing	9.0
Total**	78.9
No of Positions	16

Top 10 Holdings

Symbol	Security	% of Total Assets
1921	TOMOE CORP	10.4
8963	INVINCIBLE INVESTMENT CORP (REIT)	9.9
3001	KATAKURA INDUSTRIES CO LTD	9.5
9304	SHIBUSAWA WAREHOUSE CO LTD/THE	9.0
2533	OENON HOLDINGS INC	8.1
2178	TRI-STAGE INC	8.0
8205	SHAKLEE GLOBAL GROUP INC	7.1
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	5.5
3528	GRO-BELS CO LTD	3.2
8184	SHIMACHU CO LTD	2.5

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.