

Prospect Japan Fund

Bloomberg	PJF LN	NAV Performance (USD) %				
		April	YTD	1 Year	3 Year	
Yen / USD	97.81					
NAV (USD)	1.17	Prospect Japan Fund	2.63	15.84	19.39	42.68
Price (USD)	1.00	Topix Small Index	7.30	19.54	19.31	37.06
Premium/ Discount %	-14.66%					

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.

Fund performance was up 2.63% during the month, versus the Topix Small Index' +7.30% performance. Year-to-date the Fund has underperformed, gaining 15.84% versus the Topix Small Index' 19.54% increase. The cash position stood at 28.3% at months end.

Positive performance came from Katakura Industries (3001) and Gro-Bels (3528). Katakura Industries, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts, rose to a four year high on investor focus on companies with strong real estate holdings. Katakura holds JPY 99.2 billion in rental real estate assets with implied unrealized capital gains of JPY 77 billion. Gro-Bels, a property developer, gained on expectations that BoJ easing will continue to benefit developers with lower borrowing costs and higher asset prices.

Weakness in the Fund came from MID REIT (3227) and Kenedix Residential Investment (3278), as J-REITs retreated from five-year highs on profit taking.

Japan reported a JPY 637.4 billion current account surplus in February, its first in four months. The amount exceeded the JPY 448.8 billion expected by economists, and reversed the JPY 364.8 billion January deficit. Expectations are for the current account figure to improve, as the effects of a weaker yen will buoy exporters, and increase the value of overseas investment returns.

Deregulation of Japan's power industry took a step forward this month, with the administration's approval of a plan to split utilities along power generation, distribution and retail sales lines. The plan also calls for elimination of all pricing restrictions by 2018. According to industry minister Toshimitsu Motegi, the scheme would allow for new competition, creating more options and, ultimately, lower prices for industrial and private consumers. The reforms must now move to the Diet for approval.

The Nikkei newspaper reports that among the 23 potential regulatory changes to be considered by the government's panel for economic revitalization and industrial competitiveness is the adoption in special economic zones in the nation's largest cities which would include 24-hour

transit service to attract business travelers and tourists. Other proposals are for lower corporate tax rates for foreign firms, and loosening visa restrictions for skilled immigrants.

The Bank of Japan, under new governor Kuroda, has terminated the Asset Purchase Program in favor of "Quantitative and Qualitative" monetary easing, aimed at lowering long-term interest rates and supporting asset prices in pursuit of reaching its 2% inflation target within the next two years. The bank will now target up to an annual JPY 60 -70 trillion expansion of the monetary base, achieved by 1) annual purchases of JPY 50 billion of JGB's with maturities up to 40 years, 2) annual purchases of ETF and J-REIT units of JPY 1 trillion and JPY 30 billion respectively. JGB purchasing operations have been consolidated under the new program, and the bank has suspended the "banknote principle" under which the BoJ was prohibited from buying more than banknotes in circulation.

The BoJ action benefits J-REITs through the direct purchases providing floor, lowering long-term interest rates, and by widening the yield-spread as JGB yields decline. Higher unit prices also provide more opportunity for J-REITs to issue new equity and grow through AUM expansion.

The announcement reassured markets of the bank's seriousness in ending persistent deflation, and the yen resumed its weakening trend, nearing JPY/USD 100, from 92.87 the day before the announcement.

Miki Shoji reported that vacancy in the Tokyo Central Business District fell by 0.01 ppts to 8.56% last month. Vacancy rates are expected to improve through the rest of the year, as 80% of scheduled 2013 new supply has been delivered.

Foreign interest in Japanese property continues, with GE Capital announcing that it will set up a fund to invest a total of JPY 110 to 120 billion yen in Tokyo mid-size office over the next two years. Singapore's Healthway Medical Development also announced a JPY 15 billion fund to invest in 13 Japanese elderly care and nursing facilities.

REIT

In USD, the TSREIT index saw a total return of -5.79% month-on-month, underperforming the Nikkei 225's 8.01% month-on-month gain. J-REITs retreated month-on-month, as investors took profits following a record setting quarterly performance of +35.83% to start the year. At month's end, the yield spread between J-REITs and 10-year government bonds was 2.45%.

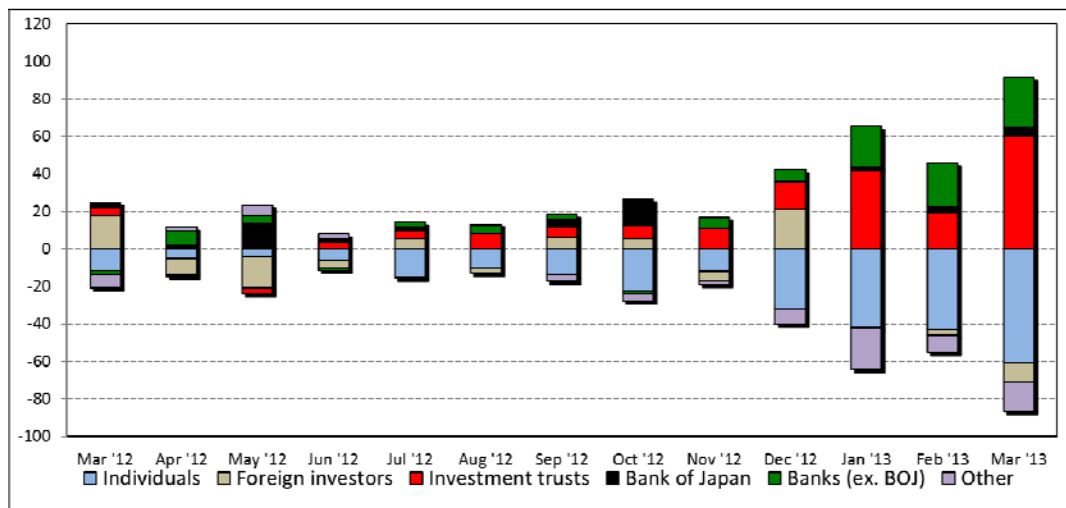
The Bank of Japan purchased J-REIT units nine times during the month, worth JPY 9.8 billion. The total amount of J-REIT units purchased is JPY 133.8 billion (95.6% of total JPY 140 billion allotment for 2013).

Japan Hotel REIT (8985), Sekisui House SI Investment (8973) and Starts Proceed Investment (8979) announced public offerings of new units during the month. The total amount raised is expected to be approximately JPY 34.5 billion, with proceeds going towards the acquisition of new property.

There was a total JPY 93.4 billion in property acquisitions announced during the month, along with JPY 3.0 billion in sales.

Note: As of 30th April, of the Fund, Katakura Industries (3001) is 5.52%, MID REIT (3227) is 3.10%, and Gro-Bels (3528) is 5.18%. Kenedix Residential Investment (3278), Japan Hotel REIT (8985), Sekisui House SI Investment (8973) and Starts Proceed Investment (8979) are not holdings of the Fund.

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



(JPY billion)

Sector Weightings

Advertising	7.6
Apparel	5.5
Building Materials	2.3
Diversified Financial Services	7.4
Engineering & Construction	11.7
Internet	8.1
Investment Companies	5.2
Real Estate	8.6
REITs	3.1
Retail	10.8
Storage/Warehousing	0.8
Transportation	0.6
Total**	71.7
No of Positions	21

Top 10 Holdings

Symbol	Security	% of Total Assets
1921	TOMOE CORP	10.4
8205	SHAKLEE GLOBAL GROUP INC	8.7
8833	TOHO REAL ESTATE CO LTD	8.6
2178	TRI-STAGE INC	7.6
3674	AUCFAN CO LTD	5.8
3001	KATAKURA INDUSTRIES CO LTD	5.5
3528	GRO-BELS CO LTD	5.2
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.6
3227	MID (REIT)	3.1
kidoheg1	KIDOH CAPITAL GROWTH #1 BOND	2.8

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.

Important Legal Information – Please Read

This information is for use by investment professionals only. Past performance is no indication of future results. This document does not constitute an offer of shares of Prospect Japan Fund nor the solicitation of an offer to buy such shares. This document is confidential and should not be forwarded or distributed to any other person except with the prior written consent of Prospect Asset Management Inc (PAMI).

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.