

Prospect Japan Fund

Bloomberg Yen / USD	PJF LN 98.06	NAV Performance (USD) %				
			August	YTD	1 Year	3 Year
NAV (USD)	1.18	Prospect Japan Fund	0.85	16.83	21.65	38.82
Price (USD)	0.96	Topix Small Index	-1.67	9.61	15.93	37.70
Premium/ Discount %	-18.43%					

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 0.85% during the month, outperforming the Topix Small Index' 1.67% decline. Year-to-date the Fund continues to outperform, up 16.83% versus the Topix Small Index' 9.61% gain.

Positive performance came from Shaklee Global (8205) and Inui Warehouse (9308). Shaklee Global, a seller of nutrition and personal care products, continued its outperformance, reaching a 15-year high following strong Q1 earnings results. Inui Warehouse, which operates in logistics and real estate leasing, traded at 5-year high during the month.

Weakness in the Fund came from Kenedix Residential Investment (3278) and Gro-Bels (3528). Kenedix Residential Investment, a residential J-REIT, fell on the announcement of a large secondary issuance of investment units. Gro-Bels, a property developer, continued to retreat from near recent highs, following the release of disappointing Q1 results.

Trading volumes dropped during the month due to Japanese Obon holiday and a lack of compelling policy announcements. Attention turned to external factors such as emerging market risk, geo-political crises, and the timing of the Fed's scale back of QE3.

TOPIX companies saw reported net profits for the April-June quarter surge 94% yoy, beating analyst expectations. Capital expenditures fell 0.4% annually during Q1, and increased earnings could add fuel to an Abenomics inspired recovery through higher wages, investments and dividends.

The Abe administration concluded deliberations with sixty economists, business leaders and representatives regarding whether to go forward with planned tax increases, looking for input into the likely consequences of raising rates during Japan's still nascent economic recovery. The majority of the group is reported to be in support of going ahead with the increase as planned. There have been reports that Prime Minister Abe is considering corporate tax cuts as a counter balance to a consumption tax hike. The administration will make a final decision in early October. For its part, the International Monetary Fund weighed in to urge Japan to move ahead with the tax

increase as scheduled, stating that it was a crucial first step towards fiscal stability.

The Bank of Japan left policy unchanged following its policy meeting in early August.

The Federation of National Public Service Personnel Mutual Aid Associations, an entity that covers 1.24 million public servants, may shift its investment allocations away from government bonds (currently 78.8% allocation) and towards securities. The move would closely follow similar action taken by Japan's Government Pension Investment Fund in June, amid rising equity values and aggressive JGB buying by the Bank of Japan as part of the Abe administration's efforts to rekindle inflation.

Miki Shoji reported that vacancy in the Tokyo Central Business District increased 0.17 ppt to 8.29% in July, the lowest reading since January 2010. Quarterly land price survey results were released by the Ministry of Land, Infrastructure and Transport during the month for the April ~ June period, with broad improvement nationwide, led by Tokyo.

REIT

In USD, the TSEREIT index saw a total return of -0.46% month-on-month, outperforming the Nikkei 225's 1.87% month-on-month decline. J-REITs prices slipped amidst general market malaise, and broader uncertainty in global markets. The TSEREIT index has gained 4.74% year-to-date, versus the Nikkei 225's +14.03% performance.

The Bank of Japan withheld from purchasing J-REIT units during the month. The total amount of J-REIT units purchased remained at JPY 137.8 billion (98.4% of the JPY 140 billion allotted through 2013 end).

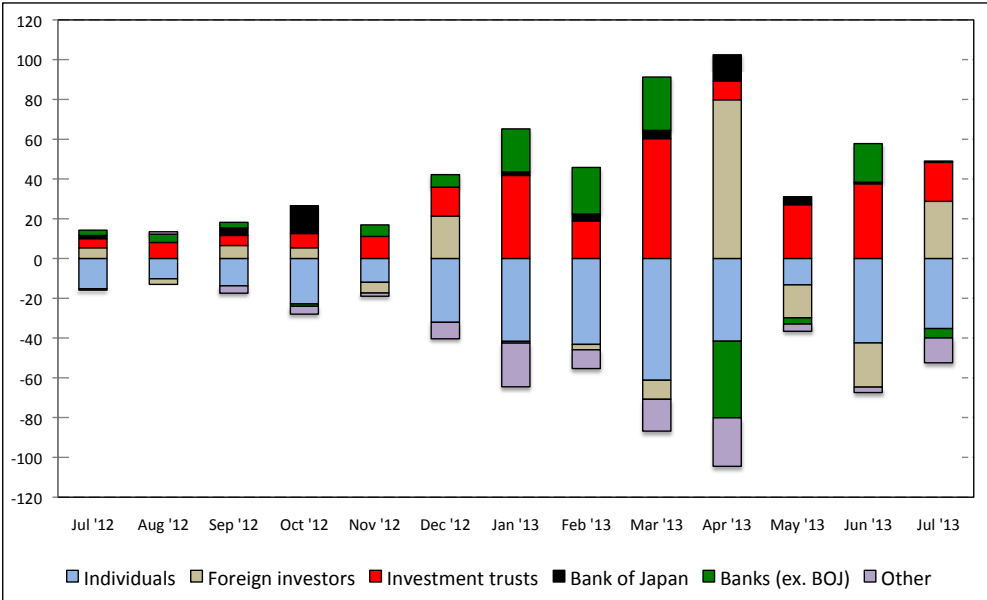
Nomura Real Estate Residential Fund (3240) announced a secondary issuance of new shares during the month. The J-REIT will issue 9,864 (6.5% dilution) for an expected total of JPY 4.3 billion. The proceeds will be used to purchase seven residential properties at a total cost of JPY 12.3 billion.

Mori Hills REIT (3234) announced its second new share issuance of the year during the month. The J-REIT will issue a total of 22,365 new shares (8.8% dilution), raising an expected JPY 11.4 billion to be used for the purchase of an additional portion of *Roppongi Hills Mori Tower* office property for JPY 21.9 billion.

There was a total JPY 56.0 billion in property acquisitions announced during the month, and dispositions of JPY17.4 million.

Note: As of 31st August, of the Fund, Mori Hills REIT (3234) is 0.40%, Kenedix Residential Investment (3278) is 7.75%, Gro-Bels (3528) is 2.88%, Shaklee Global (8205) is 15.57%, and Inui Warehouse (9308) is 0.59%. Nomura Real Estate Residential Fund (3240) is not a holding of the Fund.

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



(JPY billion)

Sector Weightings

Advertising	6.9
Auto Manufacturers	1.4
Building Materials	2.9
Distribution/Wholesale	1.2
Diversified Financial Services	7.5
Engineering & Construction	9.1
Entertainment	0.3
Home Builders	1.2
Internet	1.1
Real Estate	18.4
REITs	21.7
Retail	16.6
Storage/Warehousing	1.3
Textiles	0.7
Transportation	1.7
Total**	92.0
No of Positions	38

Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	15.6
1921	TOMOE CORP	8.6
3278	KENEDIX RESIDENTIAL INV CORP (REIT)	7.7
3227	MID (REIT)	7.3
2178	TRI-STAGE INC	6.9
3001	KATAKURA INDUSTRIES CO LTD	5.8
3528CB01	GRO-BELS #1 cb 2% 2018	5.6
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.6
8966	HEIWA REAL ESTATE REIT (REIT)	4.0
8818	KEIHANSHIN BUILDING CO LTD	3.1

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.