

Prospect Japan Fund

Bloomberg Yen / USD	PJF LN 97.89	NAV Performance (USD) %				
			September	YTD	1 Year	3 Year
NAV (USD)	1.34	Prospect Japan Fund	13.56	32.67	32.67	59.52
Price (USD)	1.12	Topix Small Index	11.22	21.91	26.30	46.67
Premium/ Discount %	-16.86%					

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 13.56% during the month, versus the Topix Small Index' 11.22% rise. Year-to-date the Fund has outperformed, gaining 32.67% versus the Topix Small Index' 21.91% increase.

Strong performance came from Showa Aircraft (7404) and Tri-Stage (2178). Showa Aircraft, a specialty equipment and vehicle manufacturer, neared 6-year highs as companies with heavy real estate holdings gained following the Tokyo Olympics announcement early in the month. Showa Aircraft has unrealized gains on rental assets valued at JPY 64.0 billion. Tri-Stage, a marketing consultant service provider, gained strongly after a large upward revision to 2H forecasts due to contributions from newly acquired businesses and improved margins.

In other holdings news, September saw the first court hearing in the appraisal rights process for Toho Real Estate. Appraisal rights are the binding arbitration procedure undertaken by the Tokyo courts to determine a fair valuation of the Fund's holding in Toho Real Estate. While the Fund has already received the full cash value of the original tender price (JPY 735 per share), that price is believed to have been well below fair value. The Fund is confident that arbitration will result in significantly higher price, based upon Toho Real Estate's own disclosed appraisal valuations of rental real estate assets which were valued at unadjusted book value in the tender offer. Accordingly, holdings in Toho Real Estate are now being carried by the Fund at a conservative 10% above the tender offer price.

The market was strong for much of the month, reflecting positive economic releases and enthusiasm at the selection of Tokyo to host the 2020 Summer Olympic Games. The economic impact of the games is expected to be as much as JPY 3 trillion through 2020, at a forecast cost of JPY 300 billion.

National CPI excluding fresh food rose 0.8% yoy in August, the highest increase since 2008, driven by higher energy import costs. The official April ~ June quarter GDP announcement showed annualized 3.8% growth, aided by a long awaited increase in capital spending. The GDP performance, along with a strong Tankan business sentiment survey provided the leeway for Prime Minister Abe's offi-

cial announcement that the consumption tax increase to 8% will go ahead as scheduled next April.

The Abe administration is preparing a stimulus package of infrastructure investment and corporate tax incentives aimed at lessening the economic impact of next year's consumption tax increase and triggering higher wages. The cabinet approved JPY 5 trillion package (including JPY 1 trillion in tax incentives) will see final details determined in December.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District declined 0.13 ppt to 8.16% in August, the lowest reading since the end of 2009.

REIT

In USD, the TSEREIT index saw a total return of +16.49% month-on-month, outperforming the Nikkei 225's 8.48% month-on-month rise. J-REITs gained strongly following the Tokyo Olympics announcement. The TSEREIT index has gained 21.98% year-to-date, versus the Nikkei 225's +23.70% performance.

The Bank of Japan purchased JPY 100 million in J-REIT units during the month, the first purchase since the end of July. The total amount of units purchased to date stands at JPY 139.1 billion (99.4% of the JPY 140 billion allotted through 2013 end).

Simplex Investment Advisors announced the planned IPO of SIA REIT (3290), a diversified J-REIT with planned AUM of JPY 74.7 billion at listing. The IPO is expected to raise JPY 39.2 billion. This marks the fifth J-REIT IPO of the year.

GLP J-REIT (3281) announced a secondary issuance of new shares during the month. The J-REIT will issue 260,000 (14.1% dilution), for a total of JPY 23.1 billion. The proceeds will be used to purchase nine properties at a total cost of JPY 56.0 billion.

Japan Retail Fund (8953) announced a secondary issuance of new shares during the month. The J-REIT will issue 229,000 (11.0% dilution), for a total of JPY 43.5

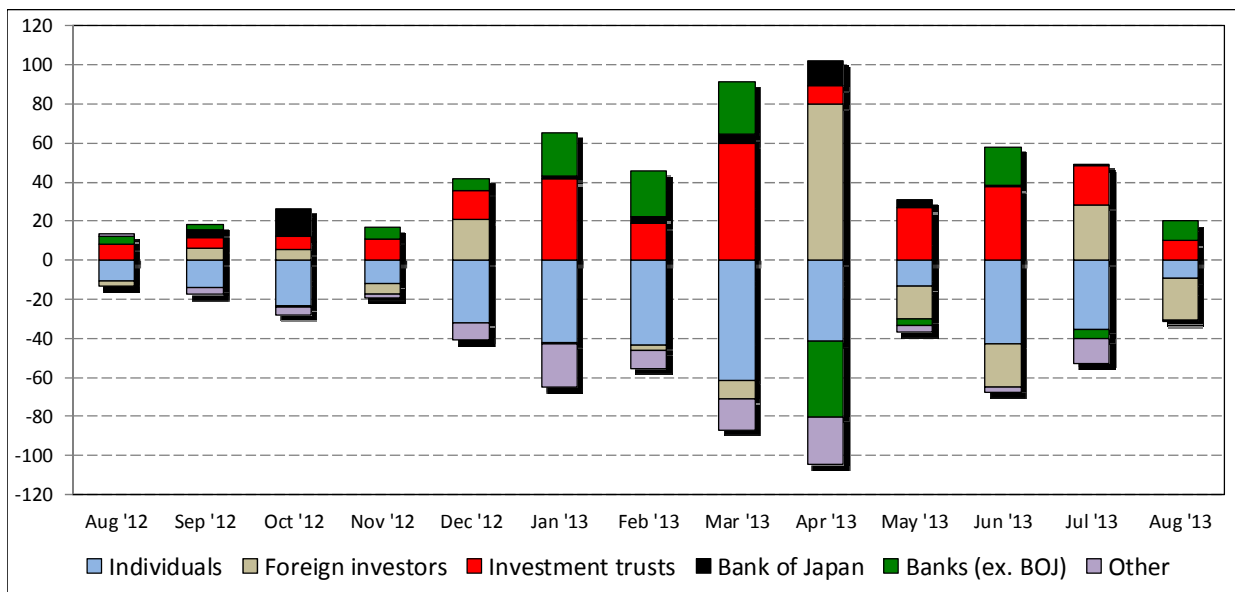
billion. The proceeds will be used to purchase eight properties at a total cost of JPY 73.7 billion.

Japan Logistics Fund (8967) announced a secondary issuance of new shares during the month. The J-REIT will issue 18,000 (12.2% dilution), for an expected total of JPY 16.5 billion. The proceeds will be used to purchase eight properties at a total cost of JPY 19.2 billion.

There was a total JPY 281.4 billion in property acquisitions announced during the month, and dispositions of JPY 10.7 billion.

Note: As of 30th September, of the Fund, Tri-Stage (2178) is 7.05% and Showa Aircraft (7404) is 2.58%. GLP J-REIT (3281), SIA REIT (3290), Japan Retail Fund (8953), and Japan Logistics Fund (8967) are not holdings of the Fund.

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



(JPY billion)

Sector Weightings

Advertising	7.0
Auto Manufacturers	2.6
Building Materials	2.7
Distribution/Wholesale	1.2
Diversified Financial Services	6.7
Engineering & Construction	4.4
Machinery-Diversified	0.9
Real Estate	18.5
REITs	12.4
Retail	14.3
Storage/Warehousing	2.2
Textiles	1.0
Transportation	1.8
Total**	75.8
No of Positions	34

Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	13.2
2178	TRI-STAGE INC	7.0
3001	KATAKURA INDUSTRIES CO LTD	6.6
3227	MID (REIT)	6.4
3528CB01	GRO-BELS #1 cb 2% 2018	4.9
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.0
1921	TOMOE CORP	3.9
3278	KENEDIX RESIDENTIAL INV CORP (REIT)	3.9
8818	KEIHANSHIN BUILDING CO LTD	3.2
3528	GRO-BELS CO LTD	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.