

The Prospect Japan Fund Limited

Bloomberg Yen / USD	PJF LN 102.86	NAV Performance (USD) %				
			July	YTD	1 Year	3 Year
NAV (USD)	1.38	The Prospect Japan Fund Limited	-0.72	6.98	17.95	43.75
Price (USD)	1.16	Topix Small Index	0.41	7.68	16.99	32.73
Premium/ Discount %	-16.23%					

The Prospect Japan Fund Limited's 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 retreated 0.72% on the month, underperforming the TOPIX Small index' 0.41% month-on-month gain. Year to date, the Fund has underperformed, up 6.98% vs. the index' 7.68% gain.

Strong monthly performance came from Showa Aircraft Industry (7404) and Maruhachi Warehouse (9313). Showa Aircraft Industry, a specialty equipment and vehicle manufacturer, finished the month near the top of its 3 month range, ahead of the company's month-end announcement of Q1 results. Maruhachi Warehouse, a logistics and real estate company, rallied to an 8-year high after reporting stronger than expected H1 results, and the profitable sale of a Tokyo warehouse to Nomura Real Estate Holdings (3231).

Weakness came from Endo Lighting (6932) and Gro-Bels (3528). Endo Lighting, a maker of LED light fixtures, declined after SMBC Nikko reduced the company's rating from 'Outperform' to 'Neutral' ahead of disappointing Q1 results at month end. A delay in corporate investment and the rise in consumption tax rate weighted on performance. Gro-Bels, a condominium developer, declined during the month with share prices ranging near the implied buyback price of JPY 50 yen/share. While the company has yet to execute, it has until 31 December 2014 to buy back up to JPY 300 million in shares.

Equities rose for a third consecutive month, heading into the first quarter results season. Economic indicators were mixed with machine orders, a key gauge of corporate investment, falling by 19.5% month-on-month in May, the most on record. However, there seems to be pent-up demand remaining, with corporate investment plans up 12.7% on the year according to the results of the Bank of Japan's quarterly survey. Japanese companies hold an estimated JPY 242 trillion yen in cash reserves.

A recent Nikkei newspaper survey shows wage increases continue, with summer bonuses rising an average 8.5% year-on-year, led by double-digit bonus growth at manufactures. Year-on-year increases were reported in all 17 sectors surveyed. Improved total wages may be feeding into improved consumer confidence, which came in at 41.1 in June, above consensus expectation. Core wage

growth (excluding bonuses), however, continue to lag inflation, threatening to sour consumption appetite.

The ruling Liberal Democratic Party has plans to make room in next year's budget for up to JPY 4 trillion in fiscal stimulus measures, with priority given to agriculture, health care and population growth efforts.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District declined for the twelfth consecutive month, falling 0.07 ppt to 6.45% in June from the June 2013 peak of 8.46%. Average rents in the CBD rose year-on-year for the second consecutive month, up 1.4% year-on-year. Rents rose year-on-year for both new and existing office buildings.

REIT

In USD, the TSEREIT index saw a total return of -0.13% month-on-month, underperforming the Nikkei 225's 1.47% gain. Year-to-date, J-REITs continue to outperform, +11.21% vs the Nikkei's -1.15% performance.

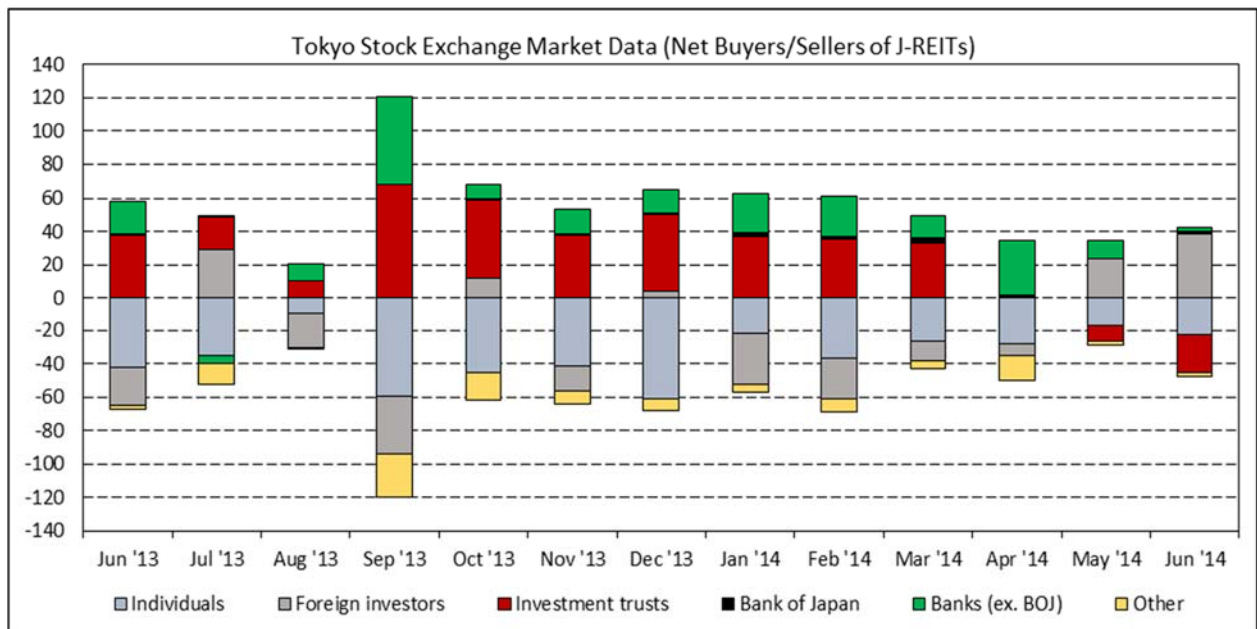
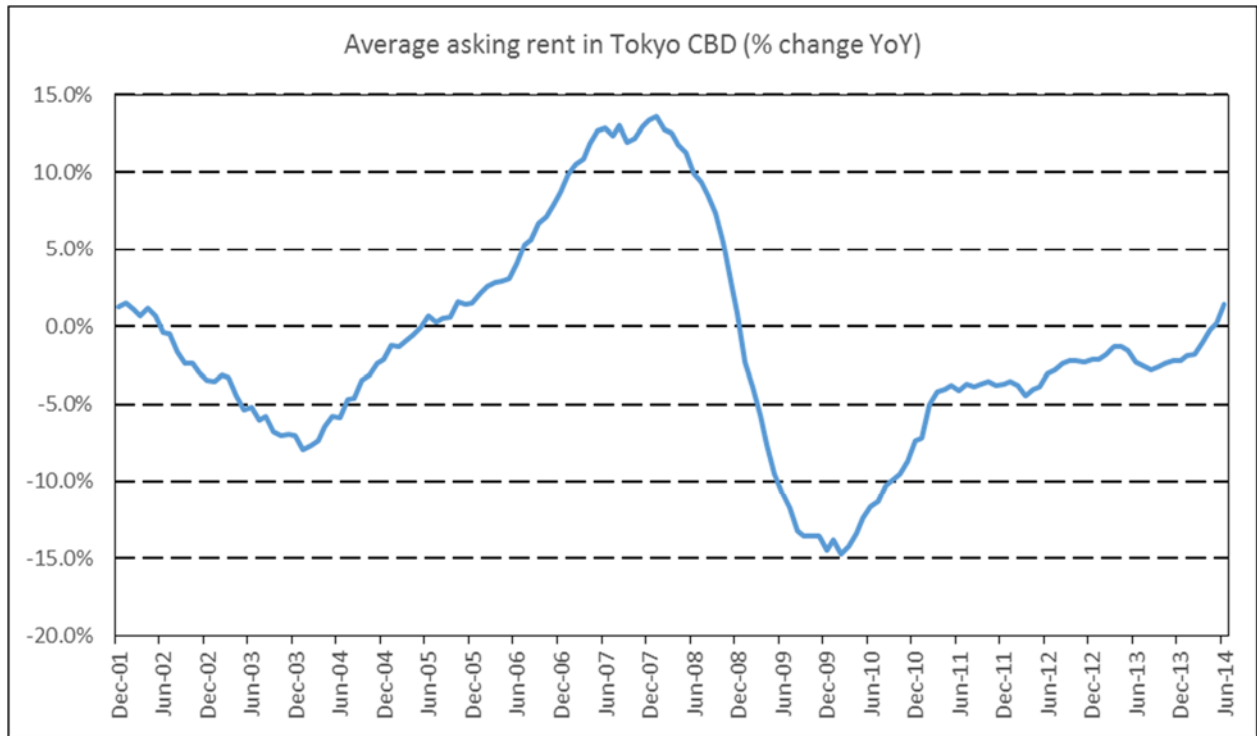
The Bank of Japan purchased a total of JPY 2.0 billion in J-REIT units during the month, bringing total purchases to JPY 12.2 billion out of the JPY 30 billion target for direct purchases in 2014. The total amount of units purchased to date now stands at JPY 153.2 billion.

Two J-REITs announced new equity issuances during the month, planning to raise a total of about JPY 35.3 billion for property acquisitions.

There was a total JPY 61.9 billion in property acquisitions announced during the month, along with JPY 3.1 billion in disposals.

Note: As of 31 July 2014, of the Fund, Gro-Bels (3528) is 2.16%, Endo Lighting (6932) is 1.19%, Showa Aircraft Industry (7404) is 5.99%, and Maruhachi Warehouse (9313) is 2.08%.

(Sources: Bloomberg, CLSA, Miki Shoji, TSE)



(JPY billion)

Sector Weightings

Retail	13.6
Real Estate	11.4
Diversified Financial Services	10.8
Advertising	8.9
Storage/Warehousing	8.7
Engineering & Construction	7.3
Machinery-Diversified	6.0
Banks	6.0
Transportation	2.9
Building Materials	1.2
REITs	0.9
Distribution/Wholesale	0.6
Total**	78.3
No of Positions	25

Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	13.5
2178	TRI-STAGE INC	8.9
1921	TOMOE CORP	7.3
3001	KATAKURA INDUSTRIES CO LTD	7.0
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	6.0
8563	DAITO BANK LTD/THE	6.0
8737	AKATSUKI FINANCIAL GROUP INC	5.4
9324	YASUDA LOGISTICS CORPORATION	4.4
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.0
9308	INUI WAREHOUSE CO LTD	2.2

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 Limited "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 Limited 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 Limited'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.