Prospect Japan Fund Ld - PJF Half Yearly Report
Released 07:00 11-Aug-2015

RNS Number : 6333V
Prospect Japan Fund Ld
11 August 2015

THE PROSPECT JAPAN FUND LIMITED
HALF YEARLY FINANCIAL REPORT

The financial information set out in this announcement does not constitute the Company's statutory financial statements for the period ended 30 June 2015. All figures are based on the 30 June 2015 unaudited condensed financial statements, approved by the Board of Directors on 10 August 2015.

The Company's unaudited condensed financial statements will shortly be available on the UK Listing Authority's National Storage Mechanism, which is located at http://www.morningstar.co.uk/uk/NSM.

CHAIRMAN'S REPORT

for the period from 1 January, 2015 to 30 June, 2015

The Prospect Japan Fund (the "Company") underperformed the MSCI Japan Small Cap Index (Total Return) by 26.7% in the six months to 30 June, 2015. This large underperformance was due to the fact that the NAV had been uplifted by $23.9 million to the published NAV at year end by an IFRS adjustment to the fair value of two unlisted investments. The actual underperformance based on published NAV excluding IFRS adjustments was still a disappointing 7.1%.

The Japanese stock market was buoyant during the first half of the year, with TOPIX hitting an 8 year high. Corporate results for the fiscal year ended March 2015 showed companies had achieved record profits and have forecast further growth for the year to March 2016. From 1 June one of Prime Minister Abe's initiatives, the new Corporate Governance Code, was introduced which has encouraged more companies to focus on raising their shareholder returns and return on equity. The market has been supported by domestic investors including the Government Pension Investment Fund (GPIF), which in October last year announced an increased allocation to domestic equities, and companies buying back their own shares. On the economic front, first quarter GDP grew at an annualised rate of 3.9% and the labour market remains tight. The property market continues to be strong with office vacancy rates in Tokyo falling to the lowest level since 2009, while the prices of condominiums in Tokyo continue to rise. Confidence is steadily recovering in Japan and the strong labour market has started to translate into some growth in wages. The trend to an improving economy and better shareholder returns and profits remains a positive backdrop for the market.

The Company's investment policy was significantly changed as approved by shareholders in early 2014. The Company portfolio reflects this change of mandate as the top five holdings were over 50 percent of gross assets, and remain as such. Consequently the Company's performance will have little correlation to index performance, but will reflect the mandate for absolute returns. This mandate sets the Company apart from other listed Japan focussed investment companies.

The Prospect Co., ¥3,000 million Convertible Bond (CB) was the first investment made under the new investment policy. The CB was approximately 24 percent of gross assets at the time that the investment was made. One hundred percent of the CB has been converted into shares and over eighty percent of which were subsequently sold in the market to realise a gain of thirty five percent within nine months.

Tri-Stage management reacted positively to the Company's shareholder resolutions by committing to a 100% pay-out ratio for earnings over the next three years and appointing two additional outside directors.

The Board of the Company has high expectations of engaged activism from the Manager, in accordance with the mandate, to deliver continued absolute performance for shareholders, which will take time. Whilst international risks and uncertainties remain, the Directors have the reviewed the outlook for your Company and conclude that Japan continues to offer value and opportunity. We continue to have confidence in the strategy and ability of your manager.

John Hawkins

Chairman
10 August, 2015

INVESTMENT ADVISOR'S REPORT

for the period from 1 January, 2015 to 30 June, 2015

Market Performance (%), US$ NAV

	YTD 01.01.14 to 30.06.15	1 Year	3 Year	5 Year
THE PROSPECT JAPAN FUND LIMITED	**(12.3)/7.3***	**(10.8)**	**27.6**	**50.9**
MSCI Japan Small Cap Index	14.4	7.5	47.9	66.6

The Prospect Japan Fund Limited inception date is 20 December 1994. The above performance of the Fund is net of fees and expenses and includes reinvestment of dividends and capital gains. (Source: Prospect Asset Management, Inc.) Although the Company is not managed to a benchmark, it measures its performance against the MSCI Japan Small Cap Index (Total Return) for comparison purposes only. The MSCI Developed Markets Small Cap Indices offer an exhaustive representation of this size segment by targeting companies that are in the Investable Market Index but not in the Standard Index in a particular developed market. The indices include Value and Growth style indices and industry indices based on the Global Industry Classification Standard (GICS®). (Source: Bloomberg)
**Refers to performance based on published NAV*

Summary

The Prospect Japan Fund Limited (the "Company") underperformed during H1 2015, losing 12.3% during the period ending 30 June, 2015 vs the MSCI Japan Small Cap Index's 14.4% total return. The broader Japanese market performed strongly during the half, with the Nikkei 225 index reaching highs last seen in 1996.

Corporate governance was a key theme during the half, in no small part due to the surprising announcement by robotics marker Fanuc (6954) that it will pursue efforts to become more shareholder-friendly. The Company credited the move to the final draft of the Tokyo Stock Exchange's (TSE) new corporate governance code, though the vocal criticism by activist Third Point likely helped bring the kettle to boil. The Financial Times reports that Hong Kong-based Oasis Management has taken a position in cash-rich Kyocera Corp (6971), with an eye on increasing shareholder value through restructuring of the company's solar business and reducing investments in other listed companies. Oasis head Seth Fisher cites Japan's stated push for improved governance as a key factor in realizing these objectives.

The shift in focus could be seen in the example of Fund holding Tri-Stage Inc. (2178), with the announcement that it will expand its board by increasing the number of outside directors by 2 (5 internal, 3 outside). Tri-Stage also announced a new mid-term business plan, featuring a policy of 100% dividend payout ratio for the next 3 years. The changes at Tri-Stage are a direct response to long-term engagement between the Fund and management, including proposals put forth regarding increased dividend payout and outside director board membership.

Thus far into 2015, the Bank of Japan (BoJ) has kept its monetary easing policy largely unchanged, lowering the FY 2015 inflation forecast to 1% from the previous 1.7% due to the decline in energy prices. While asset purchase targets were left constant, the BoJ decided to extend by one year its bank lending facility, while increasing the provision from ¥7 trillion to ¥10 trillion, and increase the maximum amount provided to financial institutions from ¥1 trillion to ¥2 trillion.

The regional banking sector saw another shakeup during the half, with ShinGinko Tokyo (unlisted) to join the Tokyo TY Financial Group (7173) via share exchange. ShinGinko is currently 80% held by the Tokyo Metropolitan government. Tokyo TY Financial Group was established in October 2014 via the merger of Tokyo Tomin Bank and Yachiyo Bank. The merger is expected to be completed 1 April, 2016, with terms finalized in September 2015.

Holdings providing outsized contribution to positive performance during the period included Prospect Co. Ltd (3528) and Daito Bank (8563). Prospect Co. Ltd saw strong share performance following the ¥3.0 billion convertible bond issuance to the Company in Nov 2014 and an announcement of a TOB for control of Yutaka Shoji (8747), a commodity futures trader. The Company held the Prospect Co. convertible bonds, which had a par value of ¥60 per share. The conversion of the bond and subsequent sale of the shares was the top contributor to H1 performance. Daito Bank, a regional bank in Fukushima prefecture, rose to eight-year highs, following full year results well ahead of company forecasts. Outstanding loans increased 1.4% to ¥472.7 billion. Dividends were increased by 25.0%.

Weakness came from Shaklee Global Group (8205), a seller of nutrition and personal care products. Shaklee Global retreated following FY results showing deep YoY declines in profits on increases in input costs and increased selling, general and administrative expenses (+12.0% YoY). Capital expenditures rose 2.5x YoY to ¥1.2 billion, by far the largest amount of capital expenditure done in any FY within the last 10 years. The Company announced estimates for further profit declines on continuation of elevated investment costs.

The Tokyo District Court announced the results of the case involving the Toho (9602) TOB of Toho Real Estate at March end, with the court ordering the price raised 13.6% to ¥835. While an improvement, the price is still significantly discounted to book value of Toho Real Estate when adjusted for unrealized gains on its real estate holdings. The Company is currently appealing the ruling.

The Company is also currently engaged in an appraisal rights petition, challenging the fairness of the ¥245 per share squeeze out price of Yukiguni Maitake (1378), a manufacturer and seller of fresh mushrooms and bean sprouts, by Bain Capital.

Official land prices released by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) showed that in Greater Tokyo both commercial and residential land prices made YoY gains. Commercial land prices gained 2.0% (+1.7% previously) and residential land price rose 0.5% (+0.7% previously).

Principal Risks and Uncertainties
Japan remains vulnerable to slowdown in the global economy and geopolitical turmoil, particularly in major trading partners, as well as by volatile swings in currency exchange rates and interest environment due to domestic and overseas monetary policy.

While the Bank of Japan remains posed to provide additional stimulus as needed, inflation expectations remain muted, the Abe administration's successful rollout of regulatory and tax reform remains a necessary catalyst for long-term economic growth. Fundamentals on the corporate level remain strong, and while corporate governance reforms are nascent, a widespread and ingrained refocusing on investor return would be a long-term positive.

The Prospect Japan Fund Limited
Top 10 Holdings
30-June-15

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	16.1
2178	TRI-STAGE INC	11.5
3001	KATAKURA INDUSTRIES CO LTD	9.0
LN022178	LINKUP LOAN 4% 07/01/15	8.3
8205	SHAKLEE GLOBAL GROUP INC	6.5
1921	TOMOE CORP	5.8
9313	MARUHACHI WAREHOUSE CO LTD	5.4
3528	PROSPECT CO LTD	4.9
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	4.5
9324	YASUDA LOGISTICS CORPORATION	3.4

The Prospect Japan Fund Limited
Sector Weighting
30-June-15

Advertising	19.9
Banks	16.1
Real Estate	13.9
Storage/Warehousing	8.8
Retail	6.5
Engineering & Construction	5.8
Machinery-Diversified	4.5
Transportation	3.3
Diversified Financial Services	0.2
REITs	0.0
Total**	79.0
No of Positions	14

***Percentage weightings are Prospect Asset Management, Inc.'s internal calculations. Results of calculations as presented may not be exact due to rounding and precision of stored values.*

Prospect Asset Management, Inc.
10 August, 2015

PORTFOLIO OF INVESTMENTS
as at 30 June, 2015

Number of Securities	Investments	Fair Value in U.S. Dollars	Percentage of Net Asset Value
	Listed investments		
	Advertising		
996,000	Tri-stage Inc	13,089,401	11.53
		13,089,401	11.53
	Banks		
12,641,000	The Daito Bank	18,297,816	16.13
		18,297,816	16.13

	Diversified Financial Services		
71,000	Maruhachi Securities Ltd	117,869	0.10
		117,869	0.10
	Engineering and Construction		
1,935,400	Tomoe Corp	6,631,768	5.84
		6,631,768	5.84
	Machinery		
507,300	Showa Aircraft Industry Co Ltd	5,102,871	4.50
		5,102,871	4.50
	Real Estate		
940,200	Katakura Industries Co Ltd	10,187,807	8.98
10,000,000	Prospect Co. Ltd +	5,561,008	4.90
		15,748,815	13.88
	Retail		
569,000	Shaklee Global Group Inc	7,375,409	6.50
		7,375,409	6.50
	REITs		
7,898,895	Prospect Epicure JORD GBP *#	-	-
		-	-
	Storage/warehousing		
1,814,000	Maruhachi Warehouse Co Ltd	6,126,775	5.40
470,295	Yasuda Logistics	3,865,280	3.41
		9,992,055	8.81
	Transportation		
993,000	Daiwa Motor Transportation Co Ltd	3,792,370	3.34
		3,792,370	3.34
	Total listed investments	80,148,374	70.63
	Unlisted investments		
	Corporate bond		
315,700,000	Takefuji Corp	125,597	0.11
		125,597	0.11
	Loan		

1,137,784,320	Link Up KK Second Loan	9,445,464	8.32
		9,445,464	8.32
	Total unlisted investments	9,571,061	8.43
	Total investments	89,719,435	79.06
	Net current assets	23,756,556	20.94
	NET ASSETS	113,475,991	100.00

* Prospect Epicure J-REIT Value Fund is classed as a related party as the fund shares the same Investment Advisor as the Company
# Currently in liquidation.
+ Mr. Curtis Freeze, Director of Prospect Asset Management (Channel Islands) Limited ("PAM(CI)"), the Manager of The Prospect Japan Fund Limited is President of Prospect Co. Ltd which owns the majority share capital of PAM(CI) and Prospect Asset Management Inc ("PAMI"), the Investment Advisor of The Prospect Japan Fund Limited.

RESPONSIBILITY STATEMENT

for the period from 1 January, 2015 to 30 June, 2015

We confirm that to the best of our knowledge:

(a) the Interim Unaudited Condensed Financial Statements have been prepared in accordance with IAS 34 - Interim Financial Reporting as adopted in the European Union;

(b) the Chairman's Report, Investment Advisor's Report and Notes to the Unaudited Condensed Financial Statements include:

- ³ a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- ³ a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board,

John Hawkins
Director

Richard Battey
Director

10 August, 2015

INDEPENDENT INTERIM REVIEW REPORT TO THE PROSPECT JAPAN FUND LIMITED

Introduction

We have been engaged by the Company to review the Unaudited Condensed Financial Statements in the half-yearly Financial Report for the six months ended 30 June, 2015 which comprise the Unaudited Condensed Statement of Comprehensive Income, the Unaudited Condensed Statement of Financial Position, the Unaudited Condensed Statement of Changes in Equity, the Unaudited Condensed Statement of Cash Flows and the related notes 1 to 15. We have read the other information contained in the half-yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Unaudited Condensed Financial Statements.

This report is made solely to the Company in accordance with guidance contained in International Standards on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the Annual Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Unaudited Condensed Financial Statements included in this half-yearly Financial Report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the Unaudited Condensed Financial Statements in the half-yearly Financial Report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of Interim Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Unaudited Condensed Financial Statements in the half-yearly Financial Report for the six months ended 30 June, 2015 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Guernsey
10 August, 2015

The Financial Statements are published on websites maintained by the Investment Advisor.

The maintenance and integrity of these websites are the responsibility of the Investment Advisor; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January, 2015 to 30 June, 2015

Notes		Revenue 01.01.2015 to 30.06.2015 In U.S. Dollars	Capital 01.01.2015 to 30.06.2015 In U.S. Dollars	Total 01.01.2015 to 30.06.2015 In U.S. Dollars	Revenue 01.01.2014 to 30.06.2014 In U.S. Dollars	Capital 01.01.2014 to 30.06.2014 In U.S. Dollars	Total 01.01.2014 to 30.06.2014 In U.S. Dollars
	Investment income	1,274,158	-	1,274,158	788,822	-	788,822
	Interest income	299	-	299	-	-	-
	Foreign exchange movements	378,772	(335,379)	43,393	1,779,240	(721,417)	1,057,823
	(Loss)/gain on financial assets at fair value through profit or loss	-	(15,398,127)	(15,398,127)	-	8,604,693	8,604,693
					-		
	Total income	1,653,229	(15,733,506)	(14,080,277)	2,568,062	7,883,276	10,451,338
4	Management fee	(851,576)	-	(851,576)	(952,064)	-	(952,064)
5	Other expenses	(445,308)	-	(445,308)	(524,933)	-	(524,933)
	Transaction costs	-	(135,870)	(135,870)	-	(286,989)	(286,989)
	Total expenses	(1,296,884)	(135,870)	(1,432,754)	(1,476,997)	(286,989)	(1,763,986)
	(Loss)/gain for the period before tax	356,345	(15,869,376)	(15,513,031)	1,091,065	7,596,287	8,687,352
3	Withholding tax	(434,415)	-	(434,415)	(179,336)	-	(179,336)
	(Loss)/gain for the period after tax	(78,070)	(15,869,376)	(15,947,446)	911,729	7,596,287	8,508,016
	Total comprehensive (loss)/income for the period	(78,070)	(15,869,376)	(15,947,446)	911,729	7,596,287	8,508,016

2	**(Loss)/gain per Ordinary Share - Basic & Diluted (in cents)**	(0.08)	(17.16)	(17.25)	0.97	8.06	9.02

The "Total" column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary 'Revenue' and 'Capital' columns are both prepared under guidance published by the Association of Investment Companies. There was no comprehensive income other than the (loss)/gain for the period.

All items in the above statement derive from continuing operations.

The notes form an integral part of the Unaudited Condensed Financial Statements.

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 June, 2015

Notes		30.06.2015 In U.S. Dollars (Unaudited)	31.12.2014 In U.S. Dollars (Audited)
	Non-current assets		
6	Financial assets at fair value through profit or loss	89,719,435	124,002,050
	Current assets		
8	Receivables	16,853,010	749,055
	Cash and cash equivalents	7,937,542	5,404,636
	Total current assets	24,790,552	6,153,691
	Current liabilities		
9	Payables	1,033,996	732,304
	Net current assets	23,756,556	5,421,387
	Net assets	113,475,991	129,423,437
	Equity		
10	Share capital account	92,452	92,452
10	Redemption reserve	85,533,077	85,533,077
10	Capital redemption reserve	323,057	323,057
	Other reserves	27,527,405	43,474,851
	Total equity	113,475,991	129,423,437
	Ordinary Shares in issue	92,452,602	92,452,602
2	Net Asset Value per Ordinary Share (in cents)	122.74	139.99

The Financial Statements were approved by the Board of Directors on 10 August, 2015 and signed on its behalf by:

John Hawkins
Director

Richard Battey
Director

The notes form an integral part of the Unaudited Condensed Financial Statements.

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January, 2015 to 30 June, 2015

	Share Capital Account In U.S. Dollars	Capital Redemption Reserve In U.S. Dollars	Redemption Reserve In U.S. Dollars	Revenue Reserve In U.S. Dollars	Capital Reserve/ Realised In U.S. Dollars	Capital Reserve/ Unrealised In U.S. Dollars	Capital Reserve/ Exchange Differences In U.S. Dollars	Total In U.S. Dollars
Balances at 1 January, 2015	92,452	323,057	85,533,077	(14,905,590)	53,873,130	9,116,533	(4,609,222)	129,423,437
Total comprehensive income/(expense) for the period								
Gain/(loss) for the period after tax	-	-	-	(78,070)	8,140,362	(23,674,359)	(335,379)	(15,947,446)
Balances at 30 June, 2015	92,452	323,057	85,533,077	(14,983,660)	62,013,492	(14,557,826)	(4,944,601)	113,475,991

for the period from 1 January, 2014 to 30 June, 2014

	Share Capital Account In U.S. Dollars	Capital Redemption Reserve In U.S. Dollars	Redemption Reserve In U.S. Dollars	Revenue Reserve In U.S. Dollars	Capital Reserve/ Realised In U.S. Dollars	Capital Reserve/ Unrealised In U.S. Dollars	Capital Reserve/ Exchange Differences In U.S. Dollars	Total In U.S. Dollars
Balances at 1 January, 2014	94,878	320,631	88,197,203	(14,106,096)	49,738,831	(2,389,140)	(244,238)	121,612,069
Total comprehensive income/(expense) for the period								
Gain/(loss) for the period after tax	-	-	-	911,729	6,341,679	1,976,025	(721,417)	8,508,016
Capital activities								
Repurchase of shares	(1,395)	1,395	(1,505,919)	-	-	-	-	(1,505,919)
Balances at 30 June, 2014	93,483	322,026	86,691,284	(13,194,367)	56,080,510	(413,115)	(965,655)	128,614,166

The notes form an integral part of the Unaudited Condensed Financial Statements.

UNAUDITED CONDENSED STATEMENT OF CASH FLOWS

for the period from 1 January, 2015 to 30 June, 2015

Notes		01.01.2015 to 30.06.2015 In U.S. Dollars	01.01.2014 to 30.06.2014 In U.S. Dollars
	Cash flows from operating activities		
11	Net cash inflow from operating activities	293,161	4,066,865
	Cash flows from investing activities		
	Purchase of investments	(31,721,650)	(52,746,406)
	Sale of investments	34,296,774	64,104,483
	Net cash inflow from investing activities	2,575,124	11,358,077
	Net cash inflow before financing activities	2,868,285	15,424,942
	Cash flows from financing activities		

Repurchase of shares	-	(1,505,919)
Net cash outflow from financing activities	-	(1,505,919)
Increase in cash and cash equivalents	2,868,285	13,919,023
Reconciliation of net cash flow to movement in net funds		
Net cash inflow	2,868,285	13,919,023
Effects of foreign exchange rate changes	(335,379)	(721,417)
Cash and cash equivalents at beginning of the period	5,404,636	21,309,724
Cash and cash equivalents at end of the period	7,937,542	34,507,330

Foreign exchange translation amounts arising in 2014 have been presented in the comparative column on the face of the statement of cash flows, and not as a reconciling item in Note 11, to align with the current period presentation, with no net impact on the net cash inflow.

The notes form an integral part of the Unaudited Condensed Financial Statements.

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

for the period from 1 January, 2015 to 30 June, 2015

Note 1 Principal Accounting Policies

The Unaudited Condensed Interim Financial Statements for the six months ended 30 June, 2015 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union, the Listing Rules of the London Stock Exchange ("LSE") and applicable legal and regulatory requirements of the Companies (Guernsey) Law, 2008.

The Unaudited Condensed Interim Financial Statements do not include all the information and disclosures required in the Annual Financial Statements and should be read in conjunction with the Company's Annual Report and Audited Financial Statements for the year ended 31 December, 2014.

The accounting policies and methods of computation followed in this Interim Unaudited Condensed set of Financial Statements are consistent with those of the latest Annual Audited Financial Statements for the year ended 31 December, 2014 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The preparation of the Interim Unaudited Condensed Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the date of the Interim Unaudited Condensed Financial Statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Presentation of information

The Interim Unaudited Condensed Financial Statements have been prepared on a going concern basis under the historical cost convention adjusted to take account of the revaluation of the Company's investments at fair value.

In order to better reflect the activities of an investment Company and in accordance with the guidance issued by the Association of Investment Companies, supplementary information which analyses the Statement of Comprehensive Income between items of a capital and revenue nature has been presented within the Statement of Comprehensive Income.

Going concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Financial Statements because the assets of the Company consist mainly of securities that are readily realisable and, whilst the liquidity of these assets needs to be managed, the Company has adequate financial resources to meet its liabilities as they fall due.

In accordance with the Company's Articles, the Board is required every three years to include in the business to be considered by shareholders at the Annual General Meeting a Special Resolution that the Company should be wound up.

This resolution requires 75% of votes in favour for it to be passed. The next such resolution will be tabled at the Annual General Meeting to be held in 2017.

Note 2 Gain/(loss) per Ordinary Share - Basic and Diluted and Net Asset Value per Ordinary Share - Basic and Diluted

The gain/(loss) per Ordinary Share - Basic and Diluted has been calculated based on the weighted average number of Ordinary Shares of 92,452,602 and a net loss of US$15,947,448 (30 June, 2014: 94,284,810 Ordinary Shares and a net gain of US$8,508,016).

There were no dilutive elements to shares issued or repurchased during the period.

The Net Asset Value per Ordinary Share - Basic and Diluted has been calculated based on the number of shares in existence at the period end date of 92,452,602 (31 December, 2014: 92,452,602) and shareholders' funds attributable to equity interests of US$113,475,991 (31 December, 2014: US$129,423,437).

Note 3 Taxation

The Company has been granted Exempt Status under the terms of The Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 to income tax in Guernsey. Its liability is an annual fee of £1,200 (2014: £600).

The amount disclosed as withholding tax in the Statement of Comprehensive Income relates solely to withholding tax suffered at source, on income in the investing country, Japan.

Note 4 Management Fees

The management fee is payable to the Manager, Prospect Asset Management (Channel Islands) ("PAM(CI)"), monthly in arrears at a rate of 1.5% per annum of the Net Asset Value, which is calculated as of the last business day of each month. Total management fees for the period amounted to US$851,576 (30 June, 2014: US$952,064) of which US$150,262 (30 June, 2014: US$165,307) is due and payable at the period end. The Management Agreement dated 1 December, 1994 remains in force until determined by the Company or by the Manager giving the other party not less than three months' notice in writing, subject to additional provisions included in the agreement regarding a breach by either party.

Note 5 Other Expenses

	01.01.2015 to 30.06.2015 In U.S. Dollars	01.01.2014 to 30.06.2014 In U.S. Dollars
Administration and secretarial fees*	141,929	158,677
Custodian's fees and charges**	53,626	64,992
General expenses	161,035	188,043
Directors' remuneration	61,093	77,183
Auditors' fees	13,875	17,720
Non-audit fees	13,750	18,318
	445,308	524,933

*The administration and secretarial fees are payable to Northern Trust International Fund Administration Services (Guernsey) Limited monthly in arrears at a rate of 0.25% of the Net Asset Value of the Company as at the last business day of the month. Total administration and secretarial fees for the period amounted to US$141,929 (30 June, 2014: US$158,677) of which US$25,044 (30 June, 2014: US$27,551) is due and payable at the period end.

** The custodian's fees and charges are payable to Northern Trust (Guernsey) Limited monthly in arrears at a rate of 0.08% of the value of the portfolio of the Company as at the last business day of the month. Total custodian's fees and charges for the period amounted to US$53,626 (30 June, 2014: US$64,992) of which US$6,228 (30 June, 2014: US$6,700) is due and payable at the period end.

Note 6 Financial Assets at Fair Value through Profit or Loss

	01.01.2015 to 30.06.2015 In U.S. Dollars	01.01.2014 to 31.12.2014 In U.S. Dollars	01.01.2014 to 30.06.2014 In U.S. Dollars
Opening book cost	114,885,517	101,576,898	101,576,898
Purchases at cost	31,746,128	103,729,025	56,929,895
Proceeds on sale	(50,630,616)	(94,952,422)	(64,693,306)
Realised gain on sale	8,276,232	4,532,016	6,628,668
Closing book cost	104,277,261	114,885,517	100,442,155
Unrealised (loss)/gain	(14,557,826)	9,116,533	(413,115)
Fair value	89,719,435	124,002,050	100,029,040

Note 7 Fair Value Hierarchy

Financial assets at fair value through profit or loss are carried at fair value. The valuation techniques for valuing unlisted corporate bonds are described below. Other assets and liabilities are carried at amortised cost which approximate fair value.

IFRS 13 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(i) In the principal market for the asset or liability, or

(ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted market prices (unadjusted) in an active market for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization, based on the lowest level input that is significant to the fair value measurement as a whole, at the end of each reporting period.

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value for the period ended 30 June, 2015.

	Quoted prices in active markets Level 1 In US Dollars	**Significant observable inputs Level 2 In US Dollars**	**Significant unobservable inputs Level 3 In US Dollars**	**Total In US Dollars**
Financial assets at fair value through profit or loss:				
-Equity Securities	80,148,374	-	-	80,148,374
-Debt Securities				
Corporate bonds	-	-	125,597	125,597
Loans	-	-	9,445,464	9,445,464
Total as at 30 June, 2015	80,148,374	-	9,571,061	89,719,435

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value for the year ended 31 December, 2014.

	Level 1 In US Dollars	**Level 2 In US Dollars**	**Level 3 In US Dollars**	**Total In US Dollars**
Financial assets at fair value through profit and loss:				
-Equity Securities	67,993,524	-	-	67,993,524
-Debt Securities				
Corporate bonds	-	-	56,008,526	56,008,526

Total as at 31 December, 2014	67,993,524	-	56,008,526	124,002,050

The following table presents the movement in level 3 instruments for the period ended 30 June, 2015 by class of financial instrument.

	Debt Securities In US Dollars	Total In US Dollars
Opening balance	56,008,526	56,008,526
Purchases	9,665,995	9,665,995
Sales	(38,109,761)	(38,109,761)
Realised gains during the period	7,503,673	7,503,673
Unrealised losses during the period	(25,497,372)	(25,497,372)
Closing balance	9,571,061	9,571,061
Net unrealised loss for the period included in the Statement of Comprehensive Income for level 3 Investments held at 30 June, 2015	(223,452)	(223,452)

The following table presents the movement in level 3 instruments for the year ended 31 December, 2014 by class of financial instrument.

	Debt Securities In US Dollars	Total In US Dollars
Opening balance	15,113,042	15,113,042
Purchases	25,456,088	25,456,088
Sales	(9,166,872)	(9,166,872)
Realised losses during the year	(494,679)	(494,679)
Unrealised gains during the year	25,100,947	25,100,947
Closing balance	56,008,526	56,008,526
Net unrealised gain for the year included in the Statement of Comprehensive Income for level 3 Investments held at 31 December, 2014	24,666,821	24,666,821

Valuation techniques
Listed investments
Securities valued based on quoted market prices, in an active market for identical assets without any adjustments, are included within Level 1 of the hierarchy and are valued at bid price.

Unlisted Investments
The Company invests in debt securities which are not quoted in an active market. Transactions in such investments do not occur on a regular basis. These positions are valued at the Directors estimate of their fair value in accordance with IFRS 13.

Level 3 valuations are monitored closely by the Investment Advisor who reports to the Board of Directors on a quarterly basis. Valuations are based on the most appropriate method for each level 3 investment as at 30 June, 2015 as discussed below.

The Company provided a loan to Link Up KK, a Japanese privately held company that specialises in telephone marketing and fulfilment. Link Up also has proven technology in data management and data mining for marketing purposes. The loan has a 4% annual rate, which is competitive in the Japanese market. It is secured by shares in Tri-Stage. Link Up paid the interest due and some principal of the loan on July 1st, at which time the loan was extended for three months until October 1, 2015 with the same terms. As the terms of the loan are similar to others issued in the Japanese market, the fact that the interest rates in Japan have not moved and the value of the collateral is sufficient to repay the principal and accrued interest on the maturity of the loan, the Directors believe that amortised cost represents fair value.

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 30 June, 2015 are as shown below:

Description	**Sensitivity used**

	Significant unobservable input		Effect on fair value In US Dollars
Loan issued to Link Up KK	Current period market rate	+1%/-1%	(35,180)/35,180

Note 8 Receivables

	30.06.2015 In U.S. Dollars	31.12.2014 In U.S. Dollars
Amounts due from brokers	16,853,010	605,775
Dividends receivable	-	143,280
	16,853,010	749,055

Note 9 Payables

	30.06.2015 In U.S. Dollars	31.12.2014 In U.S. Dollars
Amounts due to brokers	456,640	382,899
Other creditors	577,356	349,405
	1,033,996	732,304

Note 10 Share Capital, Redemption Reserve & Capital Redemption Reserve

Authorised Share Capital Number of shares		30.06.2015 In U.S. Dollars	31.12.2014 In U.S. Dollars
150,000,000	Ordinary Shares of US$0.001 each	150,000	150,000
60,000,000	"C" Ordinary Shares of US$0.01 each	600,000	600,000

As approved at the AGM on 27 August, 2014, the Company may purchase a maximum of 14,013,191 Ordinary Shares, equivalent to 14.99% of the issued share capital of the Company as at the date of the AGM.

During the period, shares were purchased and cancelled as follows:

Ordinary Shares Number of shares		Share Capital In U.S. Dollars	Redemption Reserve In U.S. Dollars	Capital Redemption Reserve In U.S. Dollars
92,452,602	Balance at 1 January, 2015	92,452	85,533,078	323,058
-	Shares repurchased and cancelled during the period	-	-	-
92,452,602	Balance at 30 June, 2015	92,452	85,533,078	323,058

Ordinary Shares Number of shares		Share Capital In U.S. Dollars	Redemption Reserve In U.S. Dollars	Capital Redemption Reserve In U.S. Dollars
94,878,602	Balance at 1 January, 2014	94,878	88,197,203	320,631
(2,426,000)	Shares repurchased and cancelled during the period	(2,426)	(2,664,126)	2,426
92,452,602	Balance at 31 December, 2014	92,452	85,533,077	323,057

The Redemption Reserve account is a distributable reserve account which can be used for, among other things, the payment of dividends, if any. The Directors do not recommend the payment of a dividend for the period.

The Capital Redemption Reserve is used to cancel the shares of the Company when they are redeemed or there is a share buyback.

Ordinary Shares carry the right to vote at general meetings of the Company and to receive dividends and, in a winding-up will participate in any surplus assets remaining after settlement of any outstanding liabilities of the Company.

"C" Ordinary Shares do not carry the right to attend or to vote at general meetings of the Company or to receive dividends and, in a winding up will participate in any "C" Ordinary Share surplus assets remaining after the settlement of any outstanding liabilities of the Company. There were no "C" Ordinary Shares in issue during the period (31 December, 2014: Nil).

Note 11 Reconciliation of Return on Ordinary Activities to Net Cash Inflow from Operating Activities

	30.06.2015 In U.S. Dollars	30.06.2014 In U.S. Dollars
Return on ordinary activities for the period	(78,070)	911,729
Decrease in dividends receivable and other receivables	143,280	3,162,181
Increase/(decrease) in other creditors	227,951	(7,045)
Net cash inflow from operating activities	293,161	4,066,865

Foreign exchange translation amounts arising in 2014 have been presented in the comparative column on the face of the statement of cash flows, and not as a reconciling item in the above note, to align with the current period presentation, with no net impact on the net cash inflow.

Note 12 Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Directors are responsible for the determination of the investment policy of the Company and have overall responsibility for the Company's activities. The Company's investment portfolio is managed by PAM(CI) (the "Manager") whose parent company is Prospect Co., Ltd (Kabushiki Kaisha Prospect ("KKP"), a Japanese Company).

During the prior year, the Company purchased a convertible bond issued by Prospect Co., Ltd. As Prospect Co., Ltd is the ultimate parent of the Manager and therefore a related party, the Company was required to seek Shareholder approval at an EGM held on 20 November, 2014. The resolution to purchase the investment was duly passed. During the current period, the bond was fully converted to shares in Prospect Co., Ltd.

Mr Rupert Evans is a Director of the Manager.

Directors' fees are disclosed in note 5. The basic fee payable to Directors in 2015 is £25,000, the Chairman of the Audit Committee £27,500 and the Chairman of the Board £30,000 per annum (2014: Directors £20,000, Chairman of the Audit Committee £22,500, Chairman £25,000).

No Directors holding office at 30 June, 2015, or their associates, had any beneficial interest in the Company's shares. There have been no changes in these interests between the end of the period and up to the date of this report.

Mr. Curtis Freeze is a Director of PAM(CI), the Manager of The Prospect Japan Fund Limited, and is the President of Prospect Co Ltd., the owner of PAMI, the Investment Advisor to The Prospect Japan Fund Limited and PAM(CI), the Manager of The Prospect Japan Fund Limited.

Prospect Epicure J-REIT Value Fund is classed as a related party as the fund shares the same Investment Advisor as the Company. The Company did not receive income (31 December, 2014: Nil) during the period from Prospect Epicure J-REIT Value Fund.

Note 13 Segmental Reporting

The Board is responsible for reviewing the Company's entire portfolio and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and the Company's performance is evaluated on an overall basis.

The Company invests in a diversified portfolio of Japanese investments. The total fair value of the financial instruments held by the Company, and the equivalent percentages of the total value of the Company, are reported in the Portfolio Statement.

Revenue earned is reported separately on the face of the Statement of Comprehensive Income as investment income being dividend income received from equities, and interest income being interest earned from convertible and corporate bonds.

Note 14 Contingent asset

The Company declined to tender its shares for Toho Real Estate, as the Company believed the true value to be considerably higher than that stated in the tender offer, and entered into an arbitration process.

The Company has been involved in court proceedings with Toho Real Estate arising from the tender offer. In March, 2015 the Company received notice from the court presiding over its petition that it had ruled in its favour. The court awarded the Company an aggregate amount of ¥121,600,000 ($0.99 million). Although an improvement, this is still significantly discounted to the Company's view of the fair value of Toho Real Estate and as such, on 8 April, 2015 the Company filed an appeal against the ruling which was still ongoing as at 30 June, 2015.

With regard to Yukiguni Maitake, the Company feels that a tender offer was unfair and feels that the shares were artificially depressed due to poor management, which resulted in an accounting violation around the payment of dividends. The holding bank sold into the TOB and realised the collateral at what the Company believes to be an unfair price. Alix Partners Asia LLC and Nera Economic Consulting have been engaged to provide valuations and although the results have not yet been received, the Company is convinced the premium paid by Bain was too small by far. Although at this point it would be difficult to put a per share value on it, the Company believes a premium closer to 40% vs. the 18.7% paid would be in line with the market.

Note 15 Subsequent Events

These Unaudited Condensed Financial Statements were approved for issuance by the Board on 10 August, 2015. Subsequent events have been evaluated until this date.

No subsequent events have occurred from the Statement of Financial Position date up to 10 August, 2015.

GENERAL INFORMATION

General

The Company is a close-ended investment company incorporated in Guernsey in November 1994 and was launched in December 1994 with an initial asset value of US$70 million. There are 92,452,602 Ordinary Shares in issue as at 30 June, 2015. The Company's Ordinary Shares are listed on the London Stock Exchange.

The Ordinary Shares of the Company have not been registered under the United States Securities Act of 1933 or the United States Investment Companies Act of 1940. Accordingly, none of the Ordinary Shares may be offered or sold directly or indirectly in the United States or to any United States persons (as defined in Regulation 'S' under the 1933 Act) other than in accordance with certain exemptions. Investment in the Company is suitable only for sophisticated investors and should be regarded as long-term. Past performance is no indication of future results.

The Company is a FATCA compliant organisation with FATCA entity classification FFI and GIIN L0Q9R3.99999.SL.831.

Investment Objective

The Company's investment objective is to achieve long-term capital growth from a portfolio of securities primarily of smaller Japanese companies listed or traded on Japanese Stock Markets. The aim will be to achieve a long-term capital return on the Company's portfolio and dividend income will be a secondary consideration in making investment decisions. Although the Company is not managed to a benchmark, it measures its performance against the MSCI Japan Small Cap Index (Total Return) for comparison purposes only.

Investment Restrictions

The following investment restrictions were approved on 5 March, 2014:

(i) the Company may not invest in securities carrying unlimited liability; or

(ii) the Company may not deal short in securities; or

(iii) the Company may not take legal or management control in investments in its portfolio; or

(iv) the Company may not invest in any commodities, land or interests in land; or

(v) the Company may not invest or lend more than 25 per cent of its assets at the time the investment is made in securities of any one company or single issuer (other than obligations of the Japanese Government or its agencies or of the US Government or its agencies); or

(vi) invest more than 10 per cent of its assets at the time the investment is made in closed-end investment funds which are listed on the Official List maintained by the Financial Conduct Authority (except to the extent that those investment funds have state investment policies to invest no more than 15 per cent of their total assets in other investment funds which are listed on the Official List) and the Company will not invest more than 15 per cent of its assets at the time the investment is made in such funds; or

(vii) the Company may not invest more than 5% of its assets at the time the investment is made in unit trusts, shares or other forms of participation in managed open-ended investment vehicles; or

(viii) the Company may not commit its assets in the purchase of foreign exchange contracts, financial futures contracts, put or call options or in the purchase of securities on margin other than in connection with or for the purpose of hedging transactions effected on behalf of the Company; or

(ix) the Company may not enter into borrowings in excess of 20 per cent. of net assets at the time the borrowings are drawn down.

NAV and Information

The prices of Ordinary Shares and the latest NAV are published daily in the Financial Times. The price of the Ordinary Shares appears within the section of the London Share Service entitled "Investment Companies".

Life of the Company

From inception the Directors have believed that Shareholders should be able to review the progress of the Company so that a decision can be taken as to whether Shareholders should have an opportunity of realising the Company's underlying investments. Accordingly, at the eighteenth Annual General Meeting of the Company held on 27 August, 2014, the Board included in the business to be considered by Shareholders a special resolution that the Company should be wound up. The resolution was not passed. The Board will include a similar resolution in the business to be considered at every third Annual General Meeting held. The next such resolution will be tabled at the Annual General Meeting to be held in 2017.

Directors

Brief biographical details of the Directors are as follows:

Rupert Evans, age 77, is a Guernsey advocate and former partner in the firm of the Guernsey legal advisors, Mourant Ozannes. He is now a consultant to Mourant Ozannes. He is a non-executive director of the Manager and of a number of investment companies. Mr Evans is resident in Guernsey. Mr Evans was appointed to the Board on 18 November, 1994.

John Hawkins, age 72, is a Fellow of the Institute of Chartered Accountants in England and Wales. He was formerly Executive Vice President and a member of the Corporate Office of The Bank of Bermuda Limited, with whom he spent many years in Asia. He retired from the Bank of Bermuda in 2001 after 25 years with the Group. He is a director of a range of funds which include hedge funds and equity funds investing in Japan and Asia. Mr Hawkins was appointed to the Board on 4 April, 2004.

Richard Battey, age 63, is a qualified chartered accountant. He is a non-executive director of a number of investment companies and funds. Mr Battey joined the Schroder Group in December 1977 and was a director of Schroders (C.I.) Limited from April 1994 to December 2004, where he served as Finance Director and Chief Operating Officer, and was a director of Schroder Group Guernsey companies before retiring from his last Schroder directorship in December 2008. Mr Battey was appointed to the Board on 10 February, 2010.

Taxation Status

The Company has obtained exemption from Guernsey Income Tax under The Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. There is no capital gains tax in Guernsey.

END