

THE PROSPECT JAPAN FUND LIMITED

**INTERIM REPORT AND UNAUDITED CONDENSED
FINANCIAL STATEMENTS**

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

THE PROSPECT JAPAN FUND LIMITED

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THE PROSPECT JAPAN FUND LIMITED

MANAGEMENT AND ADVISORS

Directors

John A. Hawkins (Chairman)
Richard J. Battey
Rupert A. R. Evans
Christopher W. Sherwell (retired 27 August, 2014)

Registered Office

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Channel Islands

Custodian

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Secretary, Registrar and Administrator

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Services (Guernsey) Limited,
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CREST Agent

Computershare Investor Services
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Independent Auditor

Ernst & Young LLP,
Royal Chambers,
St Julian's Avenue,
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Guernsey, GY1 4AF
Channel Islands

THE PROSPECT JAPAN FUND LIMITED

CHAIRMAN'S REPORT

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

The fund performed relatively strongly in the six months to the 30 June 2014 and rose 7.8% compared to MSCI Japan Small Cap Index which rose 6.3%.

Prime Minister Abe's economic reform policy (the "three arrows" of Abenomics) is well under way. The Bank of Japan remains committed to attaining the target of 2% annual inflation at the earliest possible time. The CPI has picked up, and stripping out the impact of the consumption tax increase, is now above 1% per annum, although this has been helped by the weakness of the yen. Fiscal policy was stimulated, in part to rebuild post the Tohoku earthquake. The consumption tax was raised from 5% to 8% on 1 April 2014. There was significant spending ahead of the rise, but an inevitable fall back in the second quarter.

There has been much slower progress on the third arrow of "growth strategies". Negotiations are continuing on the Trans Pacific Partnership ("TPP"). Corporation tax was reduced and cuts to below 30% are being positively reviewed. The reopening of nuclear power stations has yet to occur and as a result Japan is running a trade deficit.

Domestic investors are being encouraged to invest in equities. For individuals Nippon Individual Savings Accounts ("NISA"s) were introduced on 1 January. These provided tax incentives for individuals investing up to ¥1m annually into equities and investment trusts. The Government Pension Investment Fund, the largest pension fund in the world, and similar funds, recommended a higher weighting in domestic equities and a much reduced position in bonds, in anticipation of inflation reaching 2%. It is worth remembering that Japanese individuals, companies and pension funds remain significantly underweight their own equity market.

The corporate sector remains buoyant as evident by earnings per share for the fiscal year just ended reaching a record. Nomura are forecasting a further 10% growth for the fiscal year ended March 2014. With this increased confidence dividends are rising and there has been a pick up in share buybacks. The property market continues its recovery with price rises occurring in the major cities which will help asset values.

Risks and uncertainties remain. In particular it is too early to judge whether Abenomics will succeed and relations with China have at times been strained.

In accordance with the Company's Articles of Incorporation a Special Resolution to wind up the Company is required to be put to the Shareholders at the end of the first 12 years of the Company's life and every 3 years thereafter. The last such vote was at the AGM on 27 August of this year when the resolution was not passed. Due to this and the Company's ability to meet its obligations as they fall due over the next year the Board has decided that it remains appropriate for these Unaudited Condensed Financial Statements to be prepared on a going concern basis.

The Directors have reviewed the prospects for your Company with the Investment Advisor and believe that the outlook for Japan will continue to offer an encouraging environment for shareholders.

Christopher Sherwell retires as a Director on 27 August. The Board and I would like to take this opportunity to thank him for his substantial contribution over ten years since his appointment in 2004.

John Hawkins

Chairman

27 August, 2014

THE PROSPECT JAPAN FUND LIMITED

INVESTMENT ADVISOR'S REPORT

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

Market Performance (%), US\$ NAV

| | YTD 01.01.14 to 30.06.14 | 1 Year | 3 Year | 5 Year |
|--|-----------------------------|-------------|-------------|-------------|
| THE PROSPECT JAPAN FUND LIMITED | 7.8 | 19.0 | 50.0 | 97.1 |
| MSCI Japan Small Cap Index | 6.3 | 18.5 | 33.5 | 59.7 |

The Prospect Japan Fund Limited 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. (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)

The Fund performed strongly during H1 2014, gaining 7.8% during the period ending 30 June 2014 vs the MSCI Japan Small Cap Index's 6.3% total return. The broader Japan market performed poorly during most of the half, leading major world market declines as the impact of domestic issues such as a higher import bill, disappointing export numbers and an impending consumption tax hike, were compounded by external shocks from emerging market volatility and the Russian incursion into Crimea. The market rebounded in May and June, as the market reaction to April's consumption tax increase has been muted, and corporate profits were strong. News was positive for corporate profits for fiscal year 2014, with Japanese companies boosting dividends by an aggregate 20% to an all-time high, following 56% year-on-year rise in average net profits.

The Abe administration committed to corporate tax reform during the half, calling for a reduction in rates to the 20% to 29% range, with incremental cuts starting as soon as Fiscal Year 2016. The fall in tax rates would be compensated for by widening the tax base.

Thus far into 2014, the Bank of Japan has refrained from adding to the easing that revitalized the market last year, and the question of Bank of Japan's expansion timing has come out of focus given signs of market resilience following the April consumption tax increase. The bank has left inflation forecasts unchanged, suggesting the likelihood of changes to its stimulus package is unlikely in the near term.

The expected Government Pension Investment Fund's ("GPIF") rebalancing of its investments remains a potential positive catalyst, with expectations being for a shift out of JGBs (currently 60% of assets) and into riskier assets, including foreign bonds, will spark a weakening of the Yen and added stimulus for Japanese corporates. Median estimates are for the Yen to depreciate to ¥107 to the dollar by year's end.

The GPIF's move into equities, in combination with other pension fund reallocation, Bank of Japan's Exchange Traded Fund ("ETF") purchases, and tax-free Nippon Individual Savings Accounts' ("NISA") buying, could add as much as ¥16 trillion in domestic demand for equities.

Fund holdings, weighted towards Retail (13.5%) and Real Estate (12.4%), are direct beneficiaries of the continued support for fiscal and monetary stimulus by the Abe administration and Bank of Japan. Support for domestic consumption can be seen through additional central government spending and promotion of wage growth. Real Estate prices are supported by expectation of stable near- to mid-term low government bond yields via Bank of Japan purchases.

The Prospect Japan Fund Limited 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 growth from a portfolio of securities primarily of smaller Japanese companies Listed or traded on Japanese Stock Markets. Past performance is no indication of future results.

THE PROSPECT JAPAN FUND LIMITED

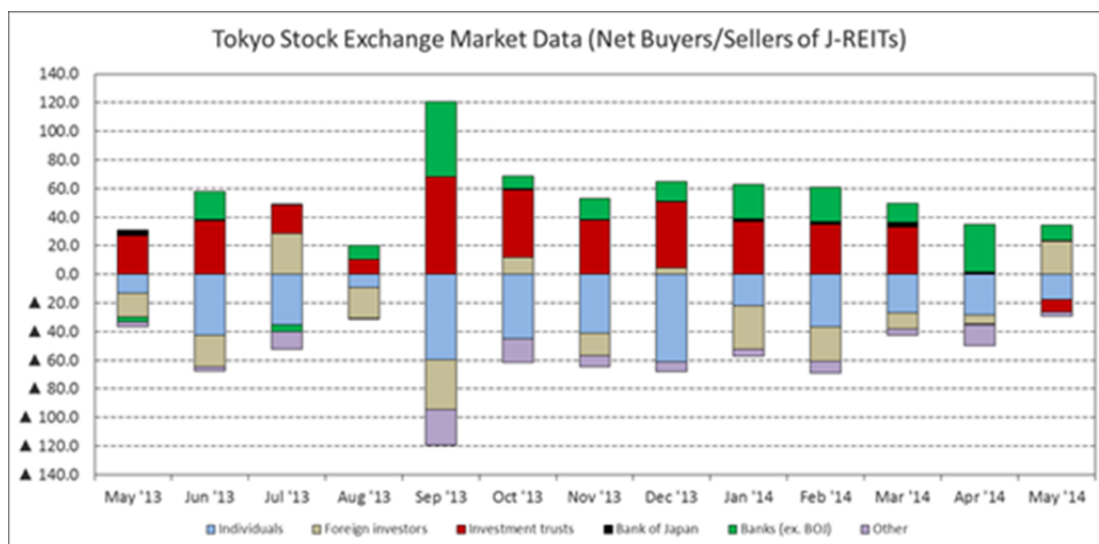
INVESTMENT ADVISOR'S REPORT

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

Continued

Holdings providing outsized contribution to positive performance during the period included Shaklee Global Group (8205), a seller of nutrition and personal care products and Katakura Industries (3001), a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts. Shaklee Global Group shares rallied after reporting triple-digit full year profit growth, beating upwardly revised forecasts and adding 4.97 percentage points to Fund performance. Katakura Industries outperformed following its full year results announcement. The company reported that the redevelopment of a large commercial facility near Tokyo proceeds on schedule, with the unrealized gains on the company's rental assets rising 12.1% year-on-year to ¥87.1 billion lowering the company's adjusted price to book ratio to 0.32x vs a stated 0.82x. Katakura contributed 1.29 percentage points of Fund performance.

Weakness came from Akatsuki Financial Group (8737), a commodity futures trader, and Tomoe Corp (1921), a steel frame construction company. Akatsuki Financial Group declined from six-year highs at the end of 2013, along with the broader securities and commodities traders market (-0.76 percentage points Fund contribution). Tomoe Corp, fell in line with the real estate index, following strong outperformance during 2013 (-0.49 percentage points Fund contribution).



Source: Tokyo Stock Exchange, Prospect Asset Management, Inc.

J-REITs gained 11.4% in USD during the first half of 2014, strongly outperforming the Nikkei 225's 2.6% decline, on attractive dividend yields, lower debt financing rates, and recovering office occupancy and rents.

The Bank of Japan purchased a total of ¥10.2 billion in J-REIT units during the half, 34% of the ¥30 billion target for direct purchases in 2014. The total amount of units purchased to date now stands at ¥151.2 billion.

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THE PROSPECT JAPAN FUND LIMITED

INVESTMENT ADVISOR'S REPORT

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

Continued

To date, 2014 has seen three J-REIT Initial Public Offering (“IPO”) announcements, along with 15 public issuances of new investment units, raising over ¥412 billion. J-REITs have announced over ¥827 billion in property acquisitions to date during the year, along with ¥40 billion in sales. Post-period, Fund holding Kenedix Residential REIT (3278) issued new units valued at ¥8.6 billion. The proceeds were used to acquire ¥14 billion in new property, resulting in a forecast 4.7% period-on-period increase in dividend yield.

The cost of debt continues to fall for J-REITs, supporting dividend growth. J-REITs have issued ¥80 billion in new bonds during the half, with an average maturity of 7.5 years at 0.774% interest rate.

Principal Risks and Uncertainties

Japan remains vulnerable to slowdown in the global economy and geopolitical turmoil, particularly in major trading partners.

While the Bank of Japan remains poised to provide additional stimulus as needed, with inflation having taken firm root, 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 domestic demand is poised to support the market in 2H 2014.

The Prospect Japan Fund Limited

Top 10 Holdings

30 June, 2014

| Symbol | Security | % of total assets |
|----------|------------------------------------|-------------------|
| 8205 | SHAKLEE GLOBAL GROUP INC | 13.2 |
| 2178 | TRI-STAGE INC | 8.8 |
| 3001 | KATAKURA INDUSTRIES CO LTD | 8.3 |
| 1921 | TOMOE CORP | 7.2 |
| 7404 | SHOWA AIRCRAFT INDUSTRY CO LTD | 5.8 |
| 8737 | AKATSUKI FINANCIAL GROUP INC | 5.2 |
| gktaihei | GODO KAISHA TAIHEIYO JISHO #1 BOND | 5.0 |
| 8563 | DAITO BANK LTD/THE | 4.8 |
| 9324 | YASUDA LOGISTICS CORPORATION | 4.6 |
| 9308 | INUI WAREHOUSE CO LTD | 2.3 |

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THE PROSPECT JAPAN FUND LIMITED

INVESTMENT ADVISOR'S REPORT

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

Continued

The Prospect Japan Fund Limited

Sector Weighting

30 June, 2014

| Security | % of total assets |
|--------------------------------|--------------------------|
| Retail | 13.5 |
| Real Estate | 12.4 |
| Diversified Financial Services | 11.5 |
| Advertising | 8.8 |
| Storage/Warehousing | 8.5 |
| Engineering & Construction | 7.2 |
| Machinery-Diversified | 6.2 |
| Banks | 4.8 |
| Transportation | 2.7 |
| Building Materials | 1.4 |
| Distribution/Wholesale | 0.8 |

Percentage weightings are Prospect Asset Management, Inc.'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.

Prospect Asset Management, Inc.

27 August, 2014

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THE PROSPECT JAPAN FUND LIMITED

PORTFOLIO OF INVESTMENTS

as at 30 June, 2014

| Number of Securities | Investments | Fair Value in U.S. Dollars | Percentage of Net Asset Value |
|----------------------|---------------------------------------|----------------------------|-------------------------------|
| | <i>Listed investments</i> | | |
| | Advertising | | |
| 933,400 | Tri-stage Inc | 11,296,363 | 8.78 |
| | | <hr/> | <hr/> |
| | | 11,296,363 | 8.78 |
| | Banks | | |
| 5,114,000 | The Daito Bank | 6,204,291 | 4.82 |
| | | <hr/> | <hr/> |
| | | 6,204,291 | 4.82 |
| | Building Materials | | |
| 116,400 | Endo Lighting Corp | 1,750,851 | 1.36 |
| | | <hr/> | <hr/> |
| | | 1,750,851 | 1.36 |
| | Distribution/Wholesale | | |
| 130,500 | Kamei Corp | 998,846 | 0.78 |
| | | <hr/> | <hr/> |
| | | 998,846 | 0.78 |
| | Diversified Financial Services | | |
| 1,168,260 | Akatsuki Financial Group | 6,671,821 | 5.19 |
| 519,000 | Yutaka Shoji Co Ltd | 1,571,564 | 1.22 |
| | | <hr/> | <hr/> |
| | | 8,243,385 | 6.41 |
| | Engineering and Construction | | |
| 2,201,300 | Tomoe Corp | 9,314,570 | 7.25 |
| | | <hr/> | <hr/> |
| | | 9,314,570 | 7.25 |
| | Machinery | | |
| 55,000 | Nikki Co Ltd | 171,968 | 0.13 |
| 676,600 | Showa Aircraft Industry Co Ltd | 7,407,664 | 5.76 |
| 495,000 | Tokyo Kikai Seisakusho Ltd | 415,002 | 0.33 |
| | | <hr/> | <hr/> |
| | | 7,994,634 | 6.22 |
| | Real Estate | | |
| 5,395,142 | Gro-Bels Co Ltd + | 2,926,793 | 2.28 |
| 829,700 | Katakura Industries Co Ltd | 10,663,304 | 8.29 |
| 428,100 | Keihanshin Building Co Ltd | 2,313,940 | 1.80 |
| | | <hr/> | <hr/> |
| | | 15,904,037 | 12.37 |
| | Retail | | |
| 72,000 | Sekichu Co Ltd | 344,430 | 0.27 |
| 348,000 | Shaklee Global Group Inc | 17,025,005 | 13.24 |
| | | <hr/> | <hr/> |
| | | 17,369,435 | 13.51 |

THE PROSPECT JAPAN FUND LIMITED

PORTFOLIO OF INVESTMENTS

as at 30 June, 2014

Continued

| Number of Securities | Investments | Fair Value in U.S. Dollars | Percentage of Net Asset Value |
|-------------------------|-----------------------------------|-------------------------------|----------------------------------|
| | Storage/warehousing | | |
| 315,500 | Inui Warehouse Co Ltd | 2,962,529 | 2.30 |
| 726,000 | Maruhachi Warehouse Co Ltd | 2,055,156 | 1.60 |
| 559,395 | Yasuda Logistics | 5,881,689 | 4.56 |
| | | 10,899,374 | 8.46 |
| | Transportation | | |
| 744,000 | Daiwa Motor Transportation Co Ltd | 2,707,855 | 2.10 |
| 20,000 | Hokkaido Chuo Bus Co Ltd | 61,153 | 0.05 |
| 218,800 | Inui Steamship Co Ltd | 718,652 | 0.56 |
| | | 3,487,660 | 2.71 |
| | Total listed investments | 93,463,444 | 72.68 |
| | Unlisted investments | | |
| | Corporate bond | | |
| 5,150,000 | Godo Kaisha Taiheiyo Jisho | 6,414,115 | 4.98 |
| 315,700,000 | Takefuji Corp | 151,481 | 0.12 |
| | | 6,565,596 | 5.10 |
| | Total unlisted investments | 6,565,596 | 5.10 |
| | Total investments | 100,029,040 | 77.77 |
| | Net current assets | 28,585,126 | 22.23 |
| | NET ASSETS | 128,614,166 | 100.00 |

+ Mr. Curtis Freeze, Director of Prospect Asset Management (Channel Islands) Limited (“PAM(CI)”), the Manager of The Prospect Japan Fund Limited, is President of Gro-Bels Co Ltd (“Gro-Bels”). Gro-Bels owns the entire share capital of PAM(CI) and Prospect Asset Management Inc (“PAMI”), the Investment Advisor of The Prospect Japan Fund Limited.

THE PROSPECT JAPAN FUND LIMITED

RESPONSIBILITY STATEMENT

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

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:
 - 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
 - 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

27 August, 2014

THE PROSPECT JAPAN FUND LIMITED

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, 2014 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 ISRE 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, 2014 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
27 August, 2014

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.

THE PROSPECT JAPAN FUND LIMITED

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

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

| Notes | Revenue | Capital | Total | Revenue | Capital | Total |
|--|--------------------|------------------|--------------------|--------------------|-------------------|--------------------|
| | 01.01.2014 to | 01.01.2014 to | 01.01.2014 to | 01.01.2013 to | 01.01.2013 to | 01.01.2013 to |
| | 30.06.2014 | 30.06.2014 | 30.06.2014 | 30.06.2013 | 30.06.2013 | 30.06.2013 |
| | In U.S. Dollars | In U.S. Dollars | In U.S. Dollars | In U.S. Dollars | In U.S. Dollars | In U.S. Dollars |
| Investment income | 788,822 | - | 788,822 | 811,857 | - | 811,857 |
| Interest income | - | - | - | 202,563 | - | 202,563 |
| Foreign exchange movements | 1,779,240 | (721,417) | 1,057,823 | 488,409 | (3,116,826) | (2,628,417) |
| Gain on financial assets at fair value through profit or loss | - | 8,604,693 | 8,604,693 | - | 17,755,376 | 17,755,376 |
| Total income | 2,568,062 | 7,883,276 | 10,451,338 | 1,502,829 | 14,638,550 | 16,141,379 |
| 4 Management fee | (952,064) | - | (952,064) | (794,383) | - | (794,383) |
| 5 Other expenses | (524,933) | - | (524,933) | (351,027) | - | (351,027) |
| Transaction costs | - | (286,989) | (286,989) | - | (719,620) | (719,620) |
| Total expenses | (1,476,997) | (286,989) | (1,763,986) | (1,145,410) | (719,620) | (1,865,030) |
| Gain for the period before tax | 1,091,065 | 7,596,287 | 8,687,352 | 357,419 | 13,918,930 | 14,276,349 |
| 3 Withholding tax | (179,336) | - | (179,336) | (75,030) | - | (75,030) |
| Gain for the period after tax | 911,729 | 7,596,287 | 8,508,016 | 282,389 | 13,918,930 | 14,201,319 |
| Total comprehensive income for the period | 911,729 | 7,596,287 | 8,508,016 | 282,389 | 13,918,930 | 14,201,319 |
| 2 Gain per Ordinary Share - Basic & Diluted | 0.010 | 0.081 | 0.090 | 0.003 | 0.146 | 0.149 |

The 'Total' column of this statement represents the Company's Unaudited Condensed 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.

All items in the above statement derive from continuing operations.

The notes on pages 16 to 25 form an integral part of the Unaudited Condensed Financial Statements.

THE PROSPECT JAPAN FUND LIMITED

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 June, 2014

| Notes | 30.06.2014 In U.S. Dollars (Unaudited) | 31.12.2013 In U.S. Dollars (Audited) | 30.06.2013 In U.S. Dollars (Unaudited) |
|----------------------------|--|--|--|
| Non-current assets | | | |
| 6 | 100,029,040 | 99,187,758 | 106,078,142 |
| Current assets | | | |
| 8 | 435,054 | 3,162,181 | 232,186 |
| | 34,507,330 | 21,309,724 | 9,147,417 |
| | 34,942,384 | 24,471,905 | 9,379,603 |
| Current liabilities | | | |
| 9 | 6,357,258 | 2,047,594 | 5,696,537 |
| | 28,585,126 | 22,424,311 | 3,683,066 |
| | 128,614,166 | 121,612,069 | 109,761,208 |
| Equity | | | |
| 10 | 93,483 | 94,878 | 95,023 |
| 10 | 86,691,284 | 88,197,203 | 88,341,819 |
| 10 | 322,026 | 320,631 | 320,486 |
| | 41,507,373 | 32,999,357 | 21,003,880 |
| | 128,614,166 | 121,612,069 | 109,761,208 |
| | 93,483,602 | 94,878,602 | 95,023,602 |
| 2 | 1.38 | 1.28 | 1.16 |

The Unaudited Condensed Financial Statements on pages 12 to 25 were approved by the Board of Directors on 27 August, 2014 and signed on its behalf by:

John Hawkins
Director

Richard Battey
Director

The notes on pages 16 to 25 form an integral part of the Unaudited Condensed Financial Statements.

THE PROSPECT JAPAN FUND LIMITED

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

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 | <u>93,483</u> | <u>322,026</u> | <u>86,691,284</u> | <u>(13,194,367)</u> | <u>56,080,510</u> | <u>(413,115)</u> | <u>(965,655)</u> | <u>128,614,166</u> |

for the period from 1 January, 2013 to 30 June, 2013

| | 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, 2013 | 95,278 | 320,231 | 88,581,476 | (12,292,130) | 26,903,132 | (11,862,827) | 4,054,386 | 95,799,546 |
| Total comprehensive income/(expense) for the period | | | | | | | | |
| Gain/(loss) for the period after tax | - | - | - | 282,389 | 7,276,651 | 9,759,105 | (3,116,826) | 14,201,319 |
| Capital activities | | | | | | | | |
| Repurchase of shares | (255) | 255 | (239,657) | - | - | - | - | (239,657) |
| Balances at 30 June, 2013 | <u>95,023</u> | <u>320,486</u> | <u>88,341,819</u> | <u>(12,009,741)</u> | <u>34,179,783</u> | <u>(2,103,722)</u> | <u>937,560</u> | <u>109,761,208</u> |

The notes on pages 16 to 25 form an integral part of the Unaudited Condensed Financial Statements.

THE PROSPECT JAPAN FUND LIMITED

UNAUDITED CONDENSED STATEMENT OF CASH FLOWS

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

| Notes | 01.01.2014 to 30.06.2014 In U.S. Dollars | 01.01.2013 to 30.06.2013 In U.S. Dollars |
|---|--|--|
| Cash flows from operating activities | | |
| 11 Net cash inflow/(outflow) from operating activities | 1,527,763 | (2,934,778) |
| Cash flows from investing activities | | |
| Purchase of investments | (52,746,406) | (158,676,772) |
| Sale of investments | 64,104,483 | 153,359,433 |
| Net cash inflow/(outflow) from investing activities | 11,358,077 | (5,317,339) |
| Net cash inflow/(outflow) before financing activities | 12,885,840 | (8,252,117) |
| Cash flows from financing activities | | |
| Repurchase of shares | (1,505,919) | (239,657) |
| Net cash outflow from financing activities | (1,505,919) | (239,657) |
| Increase/(decrease) in cash and cash equivalents | 11,379,921 | (8,491,774) |
| Reconciliation of net cash flow to movement in net funds | | |
| Net cash inflow/(outflow) | 11,379,921 | (8,491,774) |
| Effects of foreign exchange rate changes | 1,817,685 | 693,706 |
| Cash and cash equivalents at beginning of the period | 21,309,724 | 16,945,485 |
| Cash and cash equivalents at end of the period | 34,507,330 | 9,147,417 |

The notes on pages 16 to 25 form an integral part of the Unaudited Condensed Financial Statements.

THE PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Note 1 Principal Accounting Policies

The Unaudited Condensed Interim Financial Statements for the six months ended 30 June, 2014 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, 2013.

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, 2013 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, except for the adoption of the new standards and interpretations effective as of 1 January, 2014 as listed below, which had no impact on the financial position or performance of the Company.

- IAS 32 - Financial Instruments: Presentation - (effective 1 January, 2014)
- IFRS 10 – Consolidated Financial Statements – (effective 1 January, 2014)
- IFRS 12 - Disclosure of Interests in Other Entities – (effective 1 January, 2014)
- IAS 27 - Separate Financial Statements – (effective 1 January, 2014)
- IAS 36 - Impairment of Assets – (effective 1 January, 2014)
- IAS 39 - Financial Instruments: Recognition and Measurement – (effective 1 January, 2014)

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.

IFRS 10 (Amendments) includes an exception from consolidation for entities which meet the definition of an investment entity, and requires such entities to recognise all investments at fair value through profit or loss. The Company meets the definition of an investment entity but does not control any entities as defined under IFRS 10.

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 needs to be managed, the Company has adequate financial resources to meet its liabilities as they fall due.

THE PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

Note 1 Principal Accounting Policies

Continued

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 last such vote was at the AGM on 27 August of this year when the resolution was not 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 & Diluted and Net Asset Value per Ordinary Share - Basic & Diluted

The gain per Ordinary Share - Basic and Diluted has been calculated based on the weighted average number of Ordinary Shares of 94,284,810 and a net gain of US\$8,508,016 (31 December, 2013: 95,073,601 Ordinary Shares and a net gain of US\$26,196,796; 30 June, 2013: 95,226,926 Ordinary Shares and a net gain of US\$14,201,319).

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 93,483,602 (31 December, 2013: 94,878,602; 30 June, 2013: 95,023,602) and shareholders' funds attributable to equity interests of US\$128,614,166 (31 December, 2013: US\$121,612,069; 30 June, 2013: US\$109,761,208).

The Company announces its Net Asset Value per Share to the London Stock Exchange ("LSE") at each weekly and month end valuation point.

Below is the Net Asset Value per Ordinary Share announced to the LSE and as presented in these Interim Condensed Financial Statements.

| | 30.06.2014 | 31.12.2013 | 30.06.2013 |
|--|-----------------|-----------------|-----------------|
| | In U.S. Dollars | In U.S. Dollars | In U.S. Dollars |
| Net Asset Value per Ordinary Share - Basic and Diluted | 1.38 | 1.28 | 1.16 |

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 £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.

THE PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

Note 4 Management Fees

The management fee is payable to the Manager, 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\$952,064 (30 June, 2013: US\$794,383) of which US\$165,307 (30 June, 2013: US\$125,374) 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

| | 01.01.2014 to 30.06.2014 In U.S. Dollars | 01.01.2013 to 30.06.2013 In U.S. Dollars |
|--------------------------------------|--|--|
| Administration and secretarial fees* | 158,677 | 132,397 |
| Custodian's fees and charges** | 64,992 | 65,096 |
| General expenses | 188,043 | 60,717 |
| Directors' remuneration | 77,183 | 65,120 |
| Auditors' fees | 17,720 | 17,863 |
| Non-audit fees | 18,318 | 9,834 |
| | 524,933 | 351,027 |

*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 year amounted to US\$158,667 (30 June, 2013: US\$132,397) of which US\$27,551 (30 June, 2013: US\$20,896) 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 year amounted to US\$64,992 (30 June, 2013: US\$65,096) of which US\$6,700 (30 June, 2013: US\$5,814) is due and payable at the period end.

Note 6 Financial Assets at Fair Value through Profit or Loss

| | 01.01.2014 to 30.06.2014 In U.S. Dollars | 01.01.2013 to 31.12.2013 In U.S. Dollars | 01.01.2013 to 30.06.2013 In U.S. Dollars |
|-----------------------|--|--|--|
| Opening book cost | 101,576,898 | 89,404,049 | 89,404,049 |
| Purchases at cost | 56,929,895 | 241,863,287 | 163,591,704 |
| Proceeds on sale | (64,693,306) | (253,604,885) | (152,810,159) |
| Realised gain on sale | 6,628,668 | 23,914,447 | 7,996,270 |
| | 100,442,155 | 101,576,898 | 108,181,864 |
| Closing book cost | | | |
| Unrealised loss | (413,115) | (2,389,140) | (2,103,722) |
| | 100,029,040 | 99,187,758 | 106,078,142 |
| Fair value | | | |

THE PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

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 categorisation, 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 PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

Note 7 Fair Value Hierarchy

Continued

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 2014.

| | 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 | 93,463,444 | - | - | 93,463,444 |
| -Debt Securities | | | | |
| Corporate bonds | - | - | 6,565,596 | 6,565,596 |
| Total as at 30 June, 2014 | 93,463,444 | - | 6,565,596 | 100,029,040 |

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 2013.

| | 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 | 84,074,716 | - | - | 84,074,716 |
| -Debt Securities | | | | |
| Corporate bonds | - | - | 15,113,042 | 15,113,042 |
| Total as at 31 December, 2013 | 84,074,716 | - | 15,113,042 | 99,187,758 |

THE PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

Note 7 Fair Value Hierarchy

Continued

The following table presents the movement in level 3 instruments for the period ended 30 June, 2014 by class of financial instrument.

| | Debt | |
|--|---------------|---------------|
| | Securities | Total |
| | In US Dollars | In US Dollars |
| Opening balance | 15,113,042 | 15,113,042 |
| Sales | (2,925,117) | (2,925,117) |
| Conversion of unlisted bond to listed security during the period | (6,241,755) | - |
| Realised losses during the period | (494,679) | (494,679) |
| Unrealised gains during the period | 1,114,105 | 1,114,105 |
| Closing balance | 6,565,596 | 12,807,351 |
| Net unrealised gain for the period included in the Statement of Comprehensive Income for level 3 Investments held at 30 June, 2014 | 1,114,105 | 1,114,105 |

During the period, the holding in Gro-Bels Co Ltd was converted from an unlisted bond into listed shares.

The following table presents the movement in level 3 instruments for the period ended 31 December, 2013 by class of financial instrument.

| | Debt | |
|--|---------------|---------------|
| | Securities | Total |
| | In US Dollars | In US Dollars |
| Opening balance | 7,067,416 | 7,067,416 |
| Purchases | 20,324,858 | 20,324,858 |
| Sales | (11,245,782) | (11,245,782) |
| Realised losses during the year | (1,297,697) | (1,297,697) |
| Unrealised gains during the year | 264,247 | 264,247 |
| Closing balance | 15,113,042 | 15,113,042 |
| Net unrealised gain for the year included in the Statement of Comprehensive Income for level 3 Investments held at 31 December, 2013 | 624,230 | 624,230 |

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.

THE PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

Note 7 Financial risk management objectives and policies

Continued

Fair Value

Continued

Valuation techniques

Continued

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 described below.

The Company holds a bond in Taiheyo Jisho (GK) a Japanese partnership set up to invest in real estate ventures at a fixed interest rate of 10%. Taiheyo Jisho currently invests in SCD ML II, LLC, which is developing a project on the island of Hawaii. The assessed value of the land was over \$7 million at the time of the bond issuance, there is also a title insurance policy issued for \$5 million. Projections show that equity in the project, after liabilities and interest payments which include the bond, to be almost \$12 million which is in line with expectations. Projections are carried out based on weekly performance reports of the construction project and regular review of the financial statements. The bond was issued to fund the development project which is developing as expected. The Company bought the entire issuance of the bond which it still holds and there have been no further issues, therefore a secondary market does not exist. The issuer does not have a credit rating to monitor and the credit rating of the insurer remains unchanged.

Based on the above and the means by which management monitors the valuation of the investments, there is little likelihood of a change in the fair value of the bonds.

Note 8 Receivables

| | 30.06.2014 | 31.12.2013 |
|--------------------------|------------------------|------------------------|
| | In U.S. Dollars | In U.S. Dollars |
| Amounts due from brokers | 435,054 | - |
| Dividends receivable | - | 319,454 |
| Other receivables* | - | 2,842,727 |
| | <u>435,054</u> | <u>3,162,181</u> |

*Other receivables were amounts due from the custodian caused by duplicate trades.

Note 9 Payables

| | 30.06.2014 | 31.12.2013 |
|------------------------|------------------------|------------------------|
| | In U.S. Dollars | In U.S. Dollars |
| Amounts due to brokers | 6,065,168 | 1,748,459 |
| Other creditors | 292,090 | 299,135 |
| | <u>6,357,258</u> | <u>2,047,594</u> |

THE PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

Note 10 Share Capital, Redemption Reserve & Capital Redemption Reserve

| Authorised Share Capital | | 30.06.2014 | 31.12.2013 |
|--------------------------|--------------------------------------|-----------------|-----------------|
| Number of shares | | In U.S. Dollars | 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 21 June, 2013, the Company may purchase a maximum of 14,275,516 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 | | Share Capital | Redemption Reserve | Capital Redemption Reserve |
|------------------|--|-----------------|--------------------|----------------------------|
| Number of shares | | In U.S. Dollars | In U.S. Dollars | In U.S. Dollars |
| 94,878,602 | Balance at 1 January, 2014 | 94,878 | 88,197,203 | 320,631 |
| (1,395,000) | Shares repurchased and cancelled during the period | (1,395) | (1,505,919) | 1,395 |
| 93,483,602 | Balance at 30 June, 2014 | 93,483 | 86,691,284 | 322,026 |

For purchases following the year end, details are provided in note 15 of the Unaudited Condensed Financial Statements.

| Ordinary Shares | | Share Capital | Redemption Reserve | Capital Redemption Reserve |
|------------------|--|-----------------|--------------------|----------------------------|
| Number of shares | | In U.S. Dollars | In U.S. Dollars | In U.S. Dollars |
| 95,278,602 | Balance at 1 January, 2013 | 95,278 | 88,581,476 | 320,231 |
| (400,000) | Shares repurchased and cancelled during the year | (400) | (384,273) | 400 |
| 94,878,602 | Balance at 31 December, 2013 | 94,878 | 88,197,203 | 320,631 |

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 buy back.

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.

THE PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

Note 11 Reconciliation of Return/(Deficit) on Ordinary Activities to Net Cash Inflow/(Outflow) from Operating Activities

| | 30.06.2014 | 30.06.2013 |
|--|------------------|--------------------|
| | In U.S. Dollars | In U.S. Dollars |
| Return on ordinary activities for the period | 911,729 | 282,389 |
| Decrease in dividends receivable and other receivables | 3,162,181 | 620,832 |
| Decrease in other creditors | (7,045) | (27,467) |
| Foreign exchange loss | (2,539,102) | (3,810,532) |
| | <u>1,527,763</u> | <u>(2,934,778)</u> |
| Net cash inflow/(outflow) from operating activities | <u>1,527,763</u> | <u>(2,934,778)</u> |

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) whose parent company is Prospect Co., Ltd (Kabushiki Kaisha Prospect ("KKP"), a Japanese Company) and the ultimate parent is Gro-Bels Co Ltd. ("Gro-Bels").

Mr Rupert Evans is a Director of the Manager.

Directors' fees are disclosed in Note 5. The basic fee payable to Directors in 2014 is £20,000, the Chairman of the Audit Committee £22,500 and the Chairman of the Board £25,000 per annum.

At 30 June, 2014 Christopher Sherwell held beneficial interests of 9,940 (2013: 9,940) Ordinary Shares in the Company. No other Directors holding office at 30 June 2014, 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 Gro-Bels. Gro-Bels owns the entire issued share capital of KKP, the owner of PAMI, the Investment Advisor to The Prospect Japan Fund Limited and PAM(CI), the Manager of The Prospect Japan Fund Limited.

THE PROSPECT JAPAN FUND LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

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, and entered into an arbitration process. The results of arbitration are uncertain and placing a value of future receipts was challenging however the Board estimated that the true value of Toho Real Estate to be 10 per cent. in excess of the tender offer price. As the tender offer price has now been received, this results in a contingent asset of \$933,023 (31 December, 2013: \$898,120), 10 per cent of the tender offer price of Toho Real Estate. The appreciation in value of the contingent asset at the period end is due to movements in foreign exchange. The Board has taken into account the risks and uncertainties of the arbitration process, applied discounts for the fact that the holding was delisted and therefore no longer tradable and the time value of money in reaching the estimated uplift.

Note 15 Subsequent Events

These Financial Statements were approved for issuance by the Board on 27 August 2014. Subsequent events have been evaluated until this date.

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. At the 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. This resolution was not passed.

On 27 August, 2014, Christopher Sherwell retired as a Director. A new Director will be appointed in due course.

THE PROSPECT JAPAN FUND LIMITED

GENERAL INFORMATION

General

The Company is a closed-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 93,483,602 Ordinary Shares in issue as at 30 June, 2014. 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.

Investment Objective

The following investment objective was approved on the 5 March, 2014:

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 the 5 March, 2014 and adopted by the Company:

- (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) enter into borrowings in excess of 20 per cent. of net assets at the time the borrowings are drawn down.

THE PROSPECT JAPAN FUND LIMITED

GENERAL INFORMATION

Continued

Investment Objective

Prior to 5 March, 2014, the Company's Investment Objective was as follows:

The Company was established to invest substantially all of its assets in securities issued by smaller Japanese companies. The objective of the Company is to achieve long-term capital growth from an actively managed portfolio of securities primarily of smaller Japanese companies listed or traded on Japanese Stock Markets.

Investment Restrictions

The following investment restrictions were adopted by the Company prior to the 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 10% of its assets 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) the Company may not invest more than 10% of its assets in non-corporate investments or securities not listed or quoted on any recognised stock exchange, for which purpose securities quoted on any of the Japanese Stock Markets will be treated as securities quoted on a recognised stock exchange; or
- (vii) the Company may not invest more than 5% of its assets 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.

NAV and Information

The prices of Ordinary Shares and the latest NAV are published daily in the Financial Times. Prices (in Sterling terms) of the Ordinary Shares appear 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 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 which 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.

THE PROSPECT JAPAN FUND LIMITED

GENERAL INFORMATION

Continued

Directors

Brief biographical details of the Directors are as follows:

Rupert Evans, age 76, 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 71, 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.

Christopher Sherwell, age 66, was Managing Director of Schroders (C.I.) Limited from 2000 to 2003, and was Investment Director with Schroders (C.I.) Limited from 1993 to 2000. Prior to joining Schroders (C.I.) Limited, Mr Sherwell was Far East Regional Strategist with Smith New Court Securities, and from 1977 to 1990 worked as a journalist on the Financial Times, including seven years as a foreign correspondent in the Far East and Australia from 1983 to 1990. Mr Sherwell was appointed to the Board on 27 September, 2004 and retired on 27 August, 2014.

Richard Battey, age 62, 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.