

**THE PROSPECT JAPAN FUND LIMITED**

**INTERIM REPORT AND UNAUDITED CONDENSED  
FINANCIAL STATEMENTS**

**For the period from 1 January, 2016 to 30 June, 2016**

# THE PROSPECT JAPAN FUND LIMITED

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# THE PROSPECT JAPAN FUND LIMITED

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## MANAGEMENT AND ADVISORS

### Directors

John A. Hawkins (Chairman)  
Richard J. Battey  
Rupert A. R. Evans

### Registered Office

PO Box 255  
Trafalgar Court,  
Les Banques,  
St Peter Port,  
Guernsey, GY1 3QL  
Channel Islands

### Manager

Prospect Asset Management (Channel Islands)  
Limited,  
PO Box 255  
Trafalgar Court,  
Les Banques,  
St Peter Port,  
Guernsey, GY1 3QL  
Channel Islands

### Investment Advisor

Prospect Asset Management, Inc.,  
410 Atkinson Drive,  
Suite 434,  
Honolulu,  
Hawaii 96814  
United States of America

### Legal Advisors

*England*  
Herbert Smith Freehills LLP,  
Exchange House,  
Primrose Street,  
London, EC2A 2EG

### *Guernsey*

Mourant Ozannes,  
1 Le Marchant Street,  
St Peter Port,  
Guernsey, GY1 4HP  
Channel Islands

### Independent Auditor

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

### Custodian

Northern Trust (Guernsey) Limited,  
Trafalgar Court,  
Les Banques,  
St Peter Port,  
Guernsey, GY1 3DA  
Channel Islands

### Secretary, Registrar and Administrator

Northern Trust International Fund Administration  
Services (Guernsey) Limited,  
Trafalgar Court,  
Les Banques,  
St Peter Port,  
Guernsey, GY1 3QL  
Channel Islands

### Financial Advisor and Broker <sup>1</sup>

Stockdale Securities Limited,  
Beaufort House,  
15 St Botolph Street,  
London, EC3A 7BB  
United Kingdom

### CREST Agent

Computershare Investor Services (Jersey) Limited,  
(resigned 7 January, 2015)  
Queensway House,  
Hilgrove Street,  
St Helier,  
Jersey, JE4 9XY  
Channel Islands

Computershare Investor Services (Guernsey) Limited,  
(appointed 7 January, 2015)  
1<sup>st</sup> Floor Tudor House,  
Le Bordage  
St Peter Port,  
Guernsey, GY1 1DB  
Channel Islands

<sup>1</sup>“Westhouse Securities Limited” changed its name to “Stockdale Securities Limited” with effect from 5 January, 2016.

# THE PROSPECT JAPAN FUND LIMITED

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## CHAIRMAN'S REPORT

for the period from 1 January, 2016 to 30 June, 2016

### Financial Results

The Prospect Japan Fund Limited (the "Company") results for the first half of 2016 show total comprehensive income of US\$1.9 million compared with a loss of US\$15.9 million for the comparable period in 2015. There has been a slight increase in NAV per share from US cents 135.53 at 31 December 2015 to US cents 137.64 at 30 June, 2016.

### Investment Performance

Your Company underperformed over the period with a gain of 0.7% (based on published NAV) as against the MSCI Japan Small Cap Index (Total Return) for the six months of 2.1%

After the strong performance of the stock market in 2015, this year has so far been disappointing. The Tokyo First Section has fallen 19.5% to the end of June in local currency terms. Two significant sectors, banks and autos, have both performed very poorly due to the introduction of negative interest rates and the strength of the yen.

The Bank of Japan surprised markets with a move to a Negative Interest Rate Policy ("NIRP") at the end of January and it was applied from 16 February. It has had a number of consequences including the poor performance of bank shares and yields on 10-year government bonds have turned negative.

The labour market remains tight although wages and wage increases generally remain on the low side particularly in the auto and banking sectors where the unions held back partly because of NIRP.

The numbers of foreign visitors continue to rise at a pace easily achieving the Government targets which will be significant for the Tokyo Olympics in 2020.

A further factor which is positive for Japan is the continued improvement in corporate governance.

The strengthening yen is taking its toll on the Japanese Economy. Prime Minister Abe has postponed the scheduled rise in the consumption tax from April 2017 to October 2019. Given the slowdown in the world economies and the need for growth, a further US\$45 billion fiscal stimulus package has recently been announced.

Apart from global risks, the outlook remains uncertain and questions remain with the Bank of Japan needing to boost growth and lift inflation towards its 2 per cent target or indeed raise inflation expectations. The move to negative interest rates has done nothing to arrest the decline in consumer prices.

However, your Board supports the strategy of the Manager with its objective of capital growth and a wide ranging investment policy seeking to discover undervalued and special situations.

**John Hawkins**  
**Chairman**  
**18 August, 2016**

# THE PROSPECT JAPAN FUND LIMITED

## INVESTMENT ADVISOR'S REPORT

for the period from 1 January, 2016 to 30 June, 2016

### Market Performance (%), US\$ NAV

	YTD 2016 30.06.16	1 Year	3 Year	5 Year
<b>THE PROSPECT JAPAN FUND LIMITED</b>	<b>1.6%/0.7%*</b>	<b>12.2%</b>	<b>20.0%</b>	<b>50.0%</b>
MSCI Japan Small Cap Index	2.6%	3.6%	32.0%	48.7%

*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*

### Investment Manager's Summary

The Prospect Japan Fund Limited's (the "Company") published NAV underperformed during H1 2016, gaining 0.7% during the period ending 30 June, 2016 vs the MSCI Japan Small Cap Index's 2.6% total return (the performance based on valuations produced in accordance with International Financial Reporting Standards ("IFRS")) increased by 1.6%). The broader Japanese market performed weakly, with the Nikkei 225 index reaching lows last seen in 2013.

Global equities entered 2016 with a risk-off period, dragged down by massive selling in China. Key oil gauges dropped to 12-year lows amidst an ongoing supply glut, and the cloud of the Chinese economic slowdown drove Yen strength. Japanese markets experienced the worst start to a year on record, with six consecutive days of trading losses reversing most of the gains seen in CY 2015. Toward the end of the half, global currency and equity markets were shaken when the United Kingdom referendum on European Union membership ended with an unexpected victory for "Leave". The Yen briefly strengthened past 100 Yen/dollar following the 23 June result, and 10-year JGB yields reached a record low of -0.245%. Japanese equity markets experienced their worst one day fall since the immediate aftermath of the March 2011 earthquake.

Domestically, markets were plagued by political and monetary missteps, including the resignation of Economic Minister Akira Amari over bribery allegations and the Bank of Japan ("BoJ") surprising the market by adopting a negative interest rate policy in late January, while foregoing changes to its asset purchase program. The new paradigm, entitled "Quantitative & Qualitative Monetary Easing with a Negative Interest Rate" aims to mirror the multi-tier system in place at the Swiss National Bank, in which the negative rate is applied to a portion of a financial institution's current account balance. The reaction in the market was swift, with the Yen gaining strongly, bond yields falling to record levels, and shares of financials falling precipitously.

### Quantitative & Qualitative Monetary Easing With a Negative Interest Rate

Tier	Description	Interest Rate Applied
Basic Balance	Existing balances with Bank of Japan	+0.1%
Macro Add-on Balance	Required reserves and reserves related to BoJ Lending support programs	0.0%
Policy-Rate Balance	Reserves in excess of above tiers	-0.1%

# THE PROSPECT JAPAN FUND LIMITED

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## INVESTMENT ADVISOR'S REPORT

for the period from 1 January, 2016 to 30 June, 2016

*Continued*

Realignment of the regional bank space continued with an announcement that Fukuoka Financial Group (8354) will absorb Eighteenth Bank (8396). The consolidation is planned for completion by April 2017, after which Eighteenth Bank will merge with Fukuoka FG's subsidiary, Shinwa Bank, by April 2018. The combined entity will have about 70% share of the Nagasaki Prefecture loans market and 50% of deposits. Additionally, Chiba Bank (8331; Chiba Prefecture) and Musashino Bank (8836; Saitama Prefecture) announced their intention to enter into a comprehensive partnership. While the banks will stop short of a merger, the partnership will include integration of back office operations, increased cross-shareholdings and joint marketing of financial productions, as well as an agreement to forego opening new branches in each other's territory.

During the half, the Company received shareholder approval of the Exercise Agreement for the Prospect Co. (3528) stock acquisition rights ("SARs"), valued at cost of ¥270 million (US\$2.242 million). At the end of the half, the Company had successfully completed converting 90 of the 1,440 SARs it holds. 90 SARs is the equivalent of 9 million shares of Prospect Co.

Holdings providing outsized contribution to positive performance during the period included Fukushima Bank (8562), Shaklee Global Group (8205) and Maruhachi Warehouse (9313). Fukushima Bank, a regional bank in Fukushima prefecture, fell sharply in February along with other financial shares due to the implementation of the BoJ's negative interest rate policy, but rallied strongly in April and June following technical adjustments by the BoJ that increased the proportion of current account funds that will be considered part of the "macro add-on balance" not subject to the negative policy rate. Shaklee Global Group, a seller of nutrition and personal care products, gained on low volume towards period end, despite weak FY results. The Company reported lower revenue and profits due to reduced sales and profits in Asia and a move to operating loss in the United States. Maruhachi Warehouse, a warehousing and logistics company, gained strongly towards period end, following efforts to improve liquidity via a 2-for-1 reverse stock split and lowering of trading lots to 100 from 1,000 shares.

Weakness during the period came from holdings in Tri-Stage Inc (2178) and Yasuda Logistics Corporation (9324). Tri-Stage (2178), a marketing consultant service provider has retreated from its six-year highs last seen in December 2015. Shares have started to recover towards the end of the period, following strong FY 2016 results and better than expected Q1 2016 results. Yasuda Logistics, a logistics and real estate leasing company, underperformed following YoY declines in profits owing to increased operating and personnel expenses and lower real estate leasing revenue due to a redevelopment project. The Company maintains ¥15.6 billion in unrealized gains on its rental real estate holdings, more than 80% of its period end market cap.

The Company raised its holding in Fukushima Bank (8562) during the period from 4.4% of assets to 19.3%. The bank is similar in size and valuation to Daito Bank (8563), with no large institutional shareholders and is seen as a potential beneficiary of ongoing regional bank consolidation. Fukushima prefecture is particularly attractive, in light of the positive impact of recovery efforts and victim compensation. Residential land price increases led the nation in 2015, and employment growth has been stronger than the national average. Fukushima prefecture manufactured goods output growth strongly outpaced the national rate over the last few years, nearly regaining the share of total national output seen in 2010, despite a nearly 6% population decline.

In March 2016, the Tokyo High Court announced its decision on the appeal involving the Toho (9602) TOB of Toho Real Estate. The High Court ruled that the tender offer price amounted to fair value and has therefore eliminated the award of ¥100 per share decided by The Tokyo District Court. The Company summarily submitted an appeal of the High court decision to the Supreme Court, which accepted the request for appeal in June 2016 (please refer to note 14 for further information).

The Company is currently engaged in an appraisal rights petition, challenging the fairness of the JPY 245 per share squeeze out price of Yukiguni Maitake (1378), a manufacturer and seller of fresh mushrooms and bean sprouts, by Bain Capital. A decision is expected around mid-October 2016.

The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) published its 2016 land price data, reporting a 0.1% YoY gain in land prices nationwide (all types), marking the first gain since 2008.

### **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.

# THE PROSPECT JAPAN FUND LIMITED

## INVESTMENT ADVISOR'S REPORT

for the period from 1 January, 2016 to 30 June, 2016

*Continued*

While the Abe administration and BoJ remain poised to provide additional stimulus as needed, inflation expectations remain muted, and CPI turned negative with the largest monthly decline since 2013 recorded during the period. While the delay of the consumption tax increase is positive, the Abe administration's success rollout of stimulus spending and regulatory reform remain necessary catalysts for long-term economic growth. Fundamentals on the corporate level remain strong, and while tangible effects of corporate governance reforms are negligible, a widespread and ingrained refocusing on investor return should be a long-term positive.

The principal risks facing the Company which include market and financial risk and portfolio management and performance risk are considered in detail, along with the risks relating to a vote to wind up the Company, on pages 12 and 13 of the Company's Annual Report and Audited Financial Statements for the year ended 31 December 2015 which is available on the Company's website [www.prospectjapanfund.com](http://www.prospectjapanfund.com). The Directors do not consider that these risks and uncertainties have materially changed during the period ended 30 June, 2016 nor will they materially change for the remaining six months of the financial period.

### The Prospect Japan Fund Limited

#### Top 10 Holdings

30 June, 2016

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	25.45
8562	FUKUSHIMA BANK LTD/THE	19.26
8205	SHAKLEE GLOBAL GROUP INC	10.54
2178	TRI-STAGE INC	8.15
9313	MARUHACHI WAREHOUSE CO LTD	7.89
3001	KATAKURA INDUSTRIES CO LTD	5.08
8521	NAGANO BANK LTD/THE	4.85
1921	TOMOE CORP	4.34
3528	PROSPECT CO LTD	4.29
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	2.57

### The Prospect Japan Fund Limited

#### Sector Weighting\*\*

30 June, 2016

Banks	50.76
Retail	10.54
Storage/Warehousing	9.88
Real Estate	9.37
Advertising	8.15
Engineering & Construction	4.34
Machinery-Diversified	2.57
Diversified Financial Services	0.02
Transportation	0.02
REITs	0.00
Total**	95.65
No of Positions	16

*\*\*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.**

**18 August, 2016**

# THE PROSPECT JAPAN FUND LIMITED

## PORTFOLIO OF INVESTMENTS

as at 30 June, 2016

Number of Securities	Investments	Fair Value in U.S. Dollars	Percentage of Net Asset Value
	<i>Listed investments</i>		
	<b>Advertising</b>		
614,300	Tri-stage Inc	10,365,434	8.15
		<u>10,365,434</u>	<u>8.15</u>
	<b>Banks</b>		
19,428,000	The Daito Bank	32,346,895	25.45
29,234,000	Fukushima Bank Ltd	24,479,081	19.26
3,316,000	The Nagano Bank Ltd	6,166,749	4.85
1,136,000	The Tohoku Bank Ltd	1,526,391	1.20
		<u>64,519,116</u>	<u>50.76</u>
	<b>Engineering and Construction</b>		
1,763,900	Tomoe Corp	5,512,993	4.34
		<u>5,512,993</u>	<u>4.34</u>
	<b>Machinery</b>		
373,800	Showa Aircraft Industry Co Ltd	3,268,316	2.57
		<u>3,268,316</u>	<u>2.57</u>
	<b>Real Estate</b>		
589,600	Katakura Industries Co Ltd	6,458,303	5.08
6,706,000	Prospect Co Ltd+	2,807,634	2.22
		<u>9,265,937</u>	<u>7.30</u>
	<b>Retail</b>		
999,000	Shaklee Global Group Inc	13,403,651	10.54
		<u>13,403,651</u>	<u>10.54</u>
	<b>REITs</b>		
7,898,895	Prospect Epicure JORD GBP #	-	-
		<u>-</u>	<u>-</u>
	<b>Storage/warehousing</b>		
1,296,100	Maruhachi Warehouse Co Ltd	10,032,613	7.89
425,400	Yasuda Logistics	2,530,738	1.99
		<u>12,563,351</u>	<u>9.88</u>
	<b>Transportation</b>		
5,000	Daiwa Motor Transportation Co Ltd	22,394	0.02
		<u>22,394</u>	<u>0.02</u>
	<b>Total listed investments</b>	<u>118,921,192</u>	<u>93.56</u>



# THE PROSPECT JAPAN FUND LIMITED

## PORTFOLIO OF INVESTMENTS

as at 30 June, 2016

*Continued*

Number of Securities	Investments	Fair Value in U.S. Dollars	Percentage of Net Asset Value
	<i>Unlisted investments</i>		
	<b>Corporate bond</b>		
315,700,000	Takefuji Corp #	28,017	0.02
		<u>28,017</u>	<u>0.02</u>
	<b>Real Estate</b>		
1,350	Prospect Co Ltd Stock Acquisition Rights+	2,628,889	2.07
		<u>2,628,889</u>	<u>2.07</u>
	<b>Total unlisted investments</b>	<u>2,656,906</u>	<u>2.09</u>
	<b>Total investments</b>	121,578,098	95.65
	Net current as sets	<u>5,531,691</u>	<u>4.35</u>
	<b>NET ASSETS</b>	<u><u>127,109,789</u></u>	<u><u>100.00</u></u>

# Currently in liquidation.

+ Prospect Co Ltd is classed as a related party as it is the parent company of the Company's manager, PAM(CI).

# THE PROSPECT JAPAN FUND LIMITED

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## RESPONSIBILITY STATEMENT

for the period from 1 January, 2016 to 30 June, 2016

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**

18 August, 2016

# THE PROSPECT JAPAN FUND LIMITED

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## 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, 2016 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 16. 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, 2016 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  
18 August, 2016

*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, 2016 to 30 June, 2016

Notes	Revenue	Capital	Total	Revenue	Capital	Total
	01.01.2016 to	01.01.2016 to	01.01.2016 to	01.01.2015 to	01.01.2015 to	01.01.2015 to
	30.06.2016	30.06.2016	30.06.2016	30.06.2015	30.06.2015	30.06.2015
	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	1,731,104	-	1,731,104	1,274,158	-	1,274,158
Interest income	-	-	-	299	-	299
Foreign exchange movements	(204,576)	1,071,626	867,050	378,772	(335,379)	43,393
Gain/(loss) on financial assets at fair value through profit or loss	-	1,341,225	1,341,225	-	(15,398,127)	(15,398,127)
<b>Total income/(loss)</b>	<b>1,526,528</b>	<b>2,412,851</b>	<b>3,939,379</b>	<b>1,653,229</b>	<b>(15,733,506)</b>	<b>(14,080,277)</b>
4 Management fee	(915,258)	-	(915,258)	(851,576)	-	(851,576)
5 Other expenses	(702,409)	-	(702,409)	(445,308)	-	(445,308)
Transaction costs	-	(146,087)	(146,087)	-	(135,870)	(135,870)
<b>Total expenses</b>	<b>(1,617,667)</b>	<b>(146,087)</b>	<b>(1,763,754)</b>	<b>(1,296,884)</b>	<b>(135,870)</b>	<b>(1,432,754)</b>
Gain/(loss) for the period before tax	(91,139)	2,266,764	2,175,625	356,345	(15,869,376)	(15,513,031)
3 Withholding tax	(265,119)	-	(265,119)	(434,415)	-	(434,415)
Gain/(loss) for the period after tax	(356,258)	2,266,764	1,910,506	(78,070)	(15,869,376)	(15,947,446)
Total comprehensive income/(loss) for the period	(356,258)	2,266,764	1,910,506	(78,070)	(15,869,376)	(15,947,446)
<b>2 Gain/(loss) per Ordinary Share - Basic &amp; Diluted (in cents)</b>	<b>(0.39)</b>	<b>2.45</b>	<b>2.06</b>	<b>(0.08)</b>	<b>(17.16)</b>	<b>(17.24)</b>

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 gain/(loss) for the period.

All items in the above statement derive from continuing operations.

The notes on pages 15 to 24 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, 2016

Notes	30.06.2016 In U.S. Dollars (Unaudited)	31.12.2015 In U.S. Dollars (Audited)
<b>Non-current assets</b>		
6	121,578,098	106,417,543
<b>Current assets</b>		
8	95,707	399,051
	6,229,913	19,009,538
	<b>6,325,620</b>	<b>19,408,589</b>
<b>Current liabilities</b>		
9	793,929	529,153
	<b>5,531,691</b>	<b>18,879,436</b>
	<b>127,109,789</b>	<b>125,296,979</b>
<b>Equity</b>		
10	92,352	92,452
10	85,435,381	85,533,077
10	323,157	323,057
	41,258,899	39,348,393
	<b>127,109,789</b>	<b>125,296,979</b>
	<b>92,352,602</b>	<b>92,452,602</b>
2	137.64	135.53

The Financial Statements on pages 11 to 23 were approved by the Board of Directors on 18 August, 2016 and signed on its behalf by:

John Hawkins  
Director

Richard Battey  
Director

The notes on pages 15 to 24 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, 2016 to 30 June, 2016

	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
<b>Balances at 1 January, 2016</b>	92,452	323,057	85,533,077	(16,365,019)	67,395,805	(6,825,610)	(4,856,783)	125,296,979
<b>Total comprehensive income/(expense) for the period</b>								
(Loss)/gain for the period after tax	-	-	-	(356,258)	(3,025,661)	4,220,799	1,071,626	1,910,506
<b>Capital activities</b>								
Repurchase of shares	(100)	100	(97,696)	-	-	-	-	(97,696)
<b>Balances at 30 June, 2016</b>	<u>92,352</u>	<u>323,157</u>	<u>85,435,381</u>	<u>(16,721,277)</u>	<u>64,370,144</u>	<u>(2,604,811)</u>	<u>(3,785,157)</u>	<u>127,109,789</u>

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
<b>Balances at 1 January, 2015</b>	92,452	323,057	85,533,077	(14,905,590)	53,873,130	9,116,533	(4,609,222)	129,423,437
<b>Total comprehensive income/(expense) for the period</b>								
(Loss)/gain for the period after tax	-	-	-	(78,070)	8,140,362	(23,674,359)	(335,379)	(15,947,446)
<b>Balances at 30 June, 2015</b>	<u>92,452</u>	<u>323,057</u>	<u>85,533,077</u>	<u>(14,983,660)</u>	<u>62,013,492</u>	<u>(14,557,826)</u>	<u>(4,944,601)</u>	<u>113,475,991</u>

The notes on pages 15 to 24 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, 2016 to 30 June, 2016

Notes	01.01.2016 to 30.06.2016 In U.S. Dollars	01.01.2015 to 30.06.2015 In U.S. Dollars
<b>Cash flows from operating activities</b>		
11 Net cash outflow from operating activities	(2,104,435)	(1,124,576)
Interest received	-	299
Dividends received	1,930,373	1,417,438
Net cash (outflow)/inflow from operating activities	<u>(174,062)</u>	<u>293,161</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(57,792,527)	(31,721,650)
Sale of investments	44,213,034	34,296,774
Net cash (outflow)/inflow from investing activities	<u>(13,579,493)</u>	<u>2,575,124</u>
<b>Net cash (outflow)/inflow before financing activities</b>	<b>(13,753,555)</b>	<b>2,868,285</b>
<b>Cash flows from financing activities</b>		
Repurchase of shares	(97,696)	-
Net cash outflow from financing activities	<u>(97,696)</u>	<u>-</u>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b><u>(13,851,251)</u></b>	<b><u>2,868,285</u></b>
<b>Reconciliation of net cash flow to movement in net funds</b>		
Net cash (outflow)/inflow	(13,851,251)	2,868,285
Effects of foreign exchange rate changes	1,071,626	(335,379)
Cash and cash equivalents at beginning of the period	19,009,538	5,404,636
<b>Cash and cash equivalents at end of the period</b>	<b><u>6,229,913</u></b>	<b><u>7,937,542</u></b>

The notes on pages 15 to 24 form an integral part of the Unaudited Condensed Financial Statements.

# THE PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

for the period from 1 January, 2016 to 30 June, 2016

### Note 1 Principal Accounting Policies

The Unaudited Condensed Interim Financial Statements for the six months ended 30 June, 2016 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, 2015.

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, 2015 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 (“AGM”) 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.

The last such resolution was tabled at the eighteenth Annual General Meeting held in 2014. The Shareholders voted against the resolution, and in favour of the continuation of the Company. Based on this vote and the fact that the assets of the Company consist mainly of securities that are readily realisable, whilst the Directors acknowledge that the liquidity of these assets needs to be managed, the Directors believe that the Company has adequate financial resources to meet its liabilities as they fall due in the foreseeable future and at least twelve months from the date of this report, and that it is appropriate for the Financial Statements to be prepared on a going concern basis. The Directors have no reason to believe that the Shareholders will not vote against the resolution at the 2017 AGM to wind up the Company.



# THE PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

*Continued*

### **Note 1 Principal Accounting Policies**

*Continued*

#### **Standards, amendments and interpretations effective during the period**

The following amendments were applicable for the first time this period but had no impact on the financial position or performance of the Company.

- IFRS 10 (Amendments) - Consolidated Financial Statements (effective 1 January, 2016)
- IFRS 12 (Amendments) - Disclosure of Interests in Other Entities (effective 1 January, 2016)
- IAS 1 (Amendments) – Disclosure Initiative (effective 1 January, 2016)
- IAS 27 (Amendments) - Separate Financial Statements (effective 1 January, 2016)
- IAS 28 (Amendments) – Investments in Associates and Joint Ventures (effective 1 January, 2016)

#### **Standards, amendments and interpretations issued but not yet effective**

- IFRS 9 Financial Instruments – (effective 1 January, 2018)
- IAS 34 – Interim Financial Reporting (Disclosure of information elsewhere in the interim accounts) (Annual improvements process)

### **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 92,432,930 and a net gain of US\$1,910,506 (30 June, 2015: 92,452,602 Ordinary Shares and a net loss of US\$15,947,446).

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 92,352,602 (31 December, 2015: 92,452,602) and shareholders' funds attributable to equity interests of US\$127,109,789 (31 December, 2015: US\$125,296,979).

### **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 (2015: £1,200).

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\$915,258 (30 June, 2015: US\$851,576) of which US\$156,517 (30 June, 2015: US\$150,262) 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.

# THE PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

*Continued*

### Note 5 Other Expenses

	01.01.2016 to 30.06.2016 In U.S. Dollars	01.01.2015 to 30.06.2015 In U.S. Dollars
Administration and secretarial fees*	152,543	141,929
Custodian's fees and charges**	69,274	53,626
General expenses	183,224	119,782
Directors' remuneration	61,972	61,093
Legal fees	195,294	41,253
Auditors' fees	21,167	13,875
Non-audit fees	18,935	13,750
	<u>702,409</u>	<u>445,308</u>

\*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\$152,543 (30 June, 2015: US\$141,929) of which US\$26,086 (30 June, 2015: US\$25,044) 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\$69,274 (30 June, 2015: US\$53,626) of which US\$11,856 (30 June, 2015: US\$8,538) is due and payable at the period end.

### Note 6 Financial Assets at Fair Value through Profit or Loss

	01.01.2016 to 30.06.2016 In U.S. Dollars	01.01.2015 to 31.12.2015 In U.S. Dollars	01.01.2015 to 30.06.2015 In U.S. Dollars
Opening book cost	113,243,153	114,885,517	114,885,517
Purchases at cost	57,977,630	109,096,236	31,746,128
Proceeds on sale	(44,158,300)	(124,491,720)	(50,630,616)
Realised (loss)/gain on sale	(2,879,574)	13,753,120	8,276,232
Closing book cost	124,182,909	113,243,153	104,277,261
Unrealised loss	(2,604,811)	(6,825,610)	(14,557,826)
Fair value	<u>121,578,098</u>	<u>106,417,543</u>	<u>89,719,435</u>

# THE PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

*Continued*

### **Note 7 Fair Value**

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. Listed entities are valued at bid price and 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 PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

*Continued*

### Note 7 Fair Value

*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, 2016.

	Quoted prices in active markets Level 1 In U.S. Dollars	Significant observable inputs Level 2 In U.S. Dollars	Significant unobservable inputs Level 3 In U.S. Dollars	Total In U.S. Dollars
Financial assets at fair value through profit or loss:				
-Equity Securities	118,921,192	-	-	118,921,192
-Derivative Instruments	-	-	2,628,889	2,628,889
-Debt Securities				
Corporate bonds	-	-	28,017	28,017
<b>Total as at 30 June, 2016</b>	<b>118,921,192</b>	<b>-</b>	<b>2,656,906</b>	<b>121,578,098</b>

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, 2015.

	Level 1 In U.S. Dollars	Level 2 In U.S. Dollars	Level 3 In U.S. Dollars	Total In U.S. Dollars
Financial assets at fair value through profit and loss:				
-Equity Securities	103,898,586	-	-	103,898,586
-Derivative Instruments	-	-	2,391,431	2,391,431
-Debt Securities				
Corporate bonds	-	-	127,526	127,526
<b>Total as at 31 December, 2015</b>	<b>103,898,586</b>	<b>-</b>	<b>2,518,957</b>	<b>106,417,543</b>

# THE PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

*Continued*

### Note 7 Fair Value

*Continued*

The following table presents the movement in level 3 instruments for the period ended 30 June, 2016 by class of financial instrument.

	<b>Debt</b>	<b>Derivative</b>	<b>Total</b>
	<b>Securities</b>	<b>Securities</b>	
	<b>In U.S. Dollars</b>	<b>In U.S. Dollars</b>	
Opening balance	127,526	2,391,431	2,518,957
Purchases	-	-	-
Sales - Takefuji	(121,518)	-	(121,518)
Conversions - Prospect Co Ltd (SAR)	-	(294,005)	(294,005)
Realised gains during the period	121,518	145,802	267,320
Unrealised (losses)/gains during the period	(99,509)	385,661	286,152
Closing balance	<u>28,017</u>	<u>2,628,889</u>	<u>2,656,906</u>
Net unrealised (loss)/gains for the period included in the Statement of Comprehensive Income for level 3 Investments held at 30 June, 2016	<u>(99,509)</u>	<u>385,661</u>	<u>286,152</u>

The following table presents the movement in level 3 instruments for the year ended 31 December, 2015 by class of financial instrument.

	<b>Debt</b>	<b>Derivative</b>	<b>Total</b>
	<b>Securities</b>	<b>Securities</b>	
	<b>In U.S. Dollars</b>	<b>In U.S. Dollars</b>	
Opening balance	56,008,526	-	56,008,526
Purchases	18,641,413	2,371,249	21,012,662
Sales	(52,378,965)	-	(52,378,965)
Realised gains during the year	3,131,464	-	3,131,464
Unrealised (losses)/gains during the year	(25,274,912)	20,182	(25,254,730)
Closing balance	<u>127,526</u>	<u>2,391,431</u>	<u>2,518,957</u>
Net unrealised gain for the year included in the Statement of Comprehensive Income for level 3 Investments held at 31 December, 2015	<u>127,526</u>	<u>20,182</u>	<u>147,708</u>

### 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 and share acquisition rights 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.

# THE PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

Continued

### Note 7 Fair Value

Continued

#### Valuation techniques

Continued

#### Unlisted Investments

Continued

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, 2016 as discussed below.

As at 30 June, 2016, the Company holds stock acquisition rights ("SARs") in Prospect Co. Ltd. In accordance with IFRS 13, the Directors have undertaken their responsibility to approximate a fair value of this level 3 investment by way of utilising the Black-Scholes-Merton model. The model uses observable, non-observable and contractual inputs. The observable inputs are the underlying price of Prospect Co. Ltd (30 June, 2016: ¥43.5, 31 December, 2015: ¥51.5) and the risk free rate (30 June, 2016: 0.00%, 31 December, 2015: 0.00%). The significant unobservable inputs are the dividend yield, which is based on historic dividend payments (30 June, 2016: 1.95%, 31 December, 2015: 1.95%) and the volatility rate used (30 June, 2016: 23.16%, 31 December, 2015: 15.7%), which was the implied rate of volatility having removed the peaks created by the previous convertible bond and adjusted for the dilution impact of the SARs issue on Prospect Co. Ltd. The contractual inputs are the shares received for each right exercised (100,000), the exercise date (21 December, 2015) the remaining exercise period (1 January 2016 to 20 December, 2020), the strike price of the SAR (¥54) and the number of SARs remaining (1,350). Using this model with the implied rate would result in a write down of US\$538,922 (31 December, 2015: US\$490,243) in the valuation of the SARs which the Directors believe to be immaterially different to the cost price of the SARs. Therefore the Directors believe the cost price of the SARs to approximate fair value and is the value used in these financial statements. The uplift in the value in these financial statements is due to foreign exchange movements.

### Note 8 Receivables

	30.06.2016	31.12.2015
	In U.S. Dollars	In U.S. Dollars
Amounts due from brokers	40,182	151,847
Dividends receivable	24,736	224,005
Other receivables	30,789	23,199
	95,707	399,051
	-	-

### Note 9 Payables

	30.06.2016	31.12.2015
	In U.S. Dollars	In U.S. Dollars
Amounts due to brokers	446,877	172,618
Other creditors	347,052	356,535
	793,929	529,153
	-	-

### Note 10 Share Capital, Redemption Reserve & Capital Redemption Reserve

Authorised Share Capital		30.06.2016	31.12.2015
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
		-	-

# THE PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

*Continued*

### Note 10 Share Capital, Redemption Reserve & Capital Redemption Reserve

*Continued*

As approved at the AGM on 10 August, 2015, the Company may purchase a maximum of 13,858,645 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:

<b>Ordinary Shares</b>		<b>Share Capital</b>	<b>Redemption</b>	<b>Capital</b>
<b>Number of shares</b>		<b>In U.S. Dollars</b>	<b>Reserve</b>	<b>Redemption</b>
		<b>In U.S. Dollars</b>	<b>In U.S. Dollars</b>	<b>Reserve</b>
				<b>In U.S. Dollars</b>
92,452,602	Balance at 1 January, 2016	92,452	85,533,077	323,057
(100,000)	Shares repurchased and cancelled during the period	(100)	(97,696)	100
<u>92,352,602</u>	<u>Balance at 30 June, 2016</u>	<u>92,352</u>	<u>85,435,381</u>	<u>323,157</u>

<b>Ordinary Shares</b>		<b>Share Capital</b>	<b>Redemption</b>	<b>Capital</b>
<b>Number of shares</b>		<b>In U.S. Dollars</b>	<b>Reserve</b>	<b>Redemption</b>
		<b>In U.S. Dollars</b>	<b>In U.S. Dollars</b>	<b>Reserve</b>
				<b>In U.S. Dollars</b>
92,452,602	Balance at 1 January, 2015	92,452	85,533,077	323,057
<u>92,452,602</u>	<u>Balance at 31 December, 2015</u>	<u>92,452</u>	<u>85,533,077</u>	<u>323,057</u>

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.

# THE PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

*Continued*

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

	30.06.2016	30.06.2015
	In U.S. Dollars	In U.S. Dollars
Revenue loss on ordinary activities for the period	(356,258)	(78,070)
Adjusted for:		
Interest received	-	(299)
Dividends received	(1,731,104)	(1,274,158)
Decrease in other receivables	(7,590)	-
(Decrease)/increase in other creditors	(9,483)	227,951
	<u>(2,104,435)</u>	<u>(1,124,576)</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) (the "Manager") whose parent company is Prospect Co Ltd (Kabushiki Kaisha Prospect ("KKP"), a Japanese Company).

Mr Rupert Evans is a Director of the Manager.

Directors' fees are disclosed in note 5. The basic fee payable to Directors in 2016 is £25,000 (US\$33,420), the Chairman of the Audit Committee £27,500 (US\$36,762) and the Chairman of the Board £30,000 (US\$40,104) per annum (2015: Directors £25,000, Chairman of the Audit Committee £27,500, Chairman £30,000). At 30 June, 2016, US\$30,202 (2015: US\$27,349) of the fee remained payable.

No Directors holding office at 30 June, 2016, 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.

Management fees are disclosed in note 4.

During 2015, the Company purchased SARs in Prospect Co. Ltd, the value of which is disclosed in note 7 under Unlisted Investments. During the period, the Company exercised 90 SARs.

### 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 PROSPECT JAPAN FUND LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

*Continued*

### Note 13 Segmental Reporting

*Continued*

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 of Investments.

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 (US\$1.01 million). Although an improvement, this was still significantly discounted to the fair value of Toho Real Estate and as such, on 8 April, 2015 the Company filed an appeal against the ruling. On 30 March, 2016, the Company announced that the Tokyo High Court had ruled that the tender offer price for Toho Real Estate amounted to fair value and eliminated a previous award of ¥121,600,000 to the Company. The Company has filed an appeal to this ruling.

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 Reconciliation of Published Valuation to Audited Financial Statements Prepared under IFRS

	<b>30.06.2016</b>	<b>31.12.2015</b>
	<b>In U.S. Dollars</b>	<b>In U.S. Dollars</b>
<b>Net assets per Financial Statements</b>	127,109,789	125,296,979
Writeback of prior year uplift on Toho Real Estate (note 14)	-	1,009,715
<b>Net assets per published valuation</b>	<u>127,109,789</u>	<u>126,306,694</u>
<b>NAV per share per Financial Statements (in cents)</b>	137.64	135.53
<b>NAV per share per published valuation (in cents)</b>	137.64	136.62

### Note 16 Subsequent Events

These Unaudited Condensed Financial Statements were approved for issuance by the Board on 18 August, 2016. Subsequent events have been evaluated until this date.

No subsequent events have occurred from the Statement of Financial Position date up to 18 August, 2016.

# THE PROSPECT JAPAN FUND LIMITED

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## 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 92,352,602 Ordinary Shares in issue as at 30 June, 2016. 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.

The Company also complies with the Common Reporting Standard ("CRS"). The CRS is a standard developed by the Organisation for Economic Co-operation and Development ("OECD") and is a global approach to the automatic exchange of tax information. Guernsey has now adopted the CRS which came into effect on 1 January 2016.

### 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, the Company will not:

- (i) invest in securities carrying unlimited liability; or
- (ii) deal short in securities; or
- (iii) take legal or management control in investments in its portfolio; or
- (iv) invest in any commodities, land or interests in land; or
- (v) invest or lend more than 25% 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% 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% of their total assets in other investment funds which are listed on the Official List) and the Company will not invest more than 15% of its assets at the time the investment is made in such funds; or
- (vii) 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) 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% 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".

# THE PROSPECT JAPAN FUND LIMITED

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## GENERAL INFORMATION

*Continued*

### **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 78, 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 73, 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. Mr Hawkins is resident in the United Kingdom.

Richard Battey, age 64, 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 is resident in Guernsey. 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.