

**OPTIMAL JAPAN ABSOLUTE LONG MASTER FUND  
OPTIMAL JAPAN ABSOLUTE LONG FUND – US FEEDER  
OPTIMAL JAPAN ABSOLUTE LONG FUND – OFFSHORE FEEDER**

**COLLECTIVELY ‘THE OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP’**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP**

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**OPTIMAL JAPAN ABSOLUTE LONG MASTER FUND  
OPTIMAL JAPAN ABSOLUTE LONG FUND – US FEEDER  
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**COLLECTIVELY ‘THE OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP’**

<b>CONTENTS</b>	<b>PAGE</b>
Directors and Administration .....	1
Independent auditor’s report.....	2
Balance sheet .....	3
Statement of comprehensive income .....	4
Statement of changes in net assets attributable to holders of redeemable participating shares.....	5
Cash flow statement.....	6
Notes to the financial statements .....	7-23
Investment portfolio (unaudited).....	24

## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Directors and Administration

#### Directors of Optimal Japan Absolute Long Master Fund, Optimal Japan Absolute Long Fund – US Feeder, Optimal Japan Absolute Long Fund – Offshore Feeder

David FitzHerbert  
Warwick Johnson  
Eric Lucas  
Paul Smith

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## **Independent Auditor's Report**

To the shareholders of Optimal Japan Absolute Long Fund Group (comprised of Optimal Japan Absolute Long Master Fund, Optimal Japan Absolute Long Fund – US Feeder and Optimal Japan Absolute Long Fund – Offshore Feeder)

We have audited the accompanying financial statements of Optimal Japan Absolute Long Fund Group (a reporting entity comprised of Optimal Japan Absolute Long Master Fund, Optimal Japan Absolute Long Fund – US Feeder and Optimal Japan Absolute Long Fund – Offshore Feeder), which comprise the balance sheet – combined as at 31 December 2011 and the statements of comprehensive income – combined, changes in net assets attributable to holders of redeemable participating shares – combined and cash flow statement – combined for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Optimal Japan Absolute Long Fund Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers*

4 May 2012

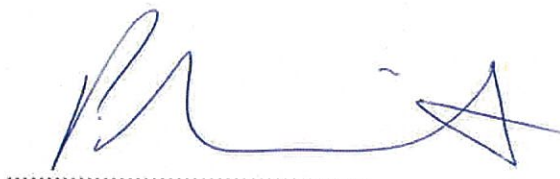
**OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP**

**Balance Sheet - Combined  
As at 31 December 2011**

	Notes	2011 USD	2010 USD
<b>Assets</b>			
<b>Current Assets</b>			
Cash balances	2.4	1,422,653	20,873,230
Financial assets at fair value through profit or loss	2.3, 6	13,399,724	136,940,114
Amounts due from brokers	2.8	-	13,108,710
Other receivables and prepayments		26,994	134,878
<b>Total Assets</b>		<b>14,849,371</b>	<b>171,056,932</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Amounts due to brokers	2.8	130,551	391,332
Other payables and accrued expenses		120,357	265,886
Net assets attributable to holders of redeemable participating shares of the:			
- Offshore Feeder	2.7	14,598,263	170,399,514
- US Feeder		-	-
<b>Total Liabilities</b>		<b>14,849,171</b>	<b>171,056,732</b>
<b>Equity</b>			
Ordinary share capital	8	200	200
<b>Total Equity</b>		<b>200</b>	<b>200</b>
<b>Total Liabilities and Equity</b>		<b>14,849,371</b>	<b>171,056,932</b>



**Warwick Johnson**  
Director



**Paul Smith**  
Director

The accompanying notes are an integral part of these financial statements.

**OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP**

**Statement of Comprehensive Income - Combined  
For the year ended 31 December 2011**

	Notes	2011 USD	2010 USD
<b>Income</b>			
Dividends	2.6	1,140,111	3,134,681
Bank interest	2.6	598	159
Other income		-	3,594
(Loss)/gain on financial assets at fair value through profit or loss	6	(7,053,305)	23,720,049
<b>Total investment (loss)/income</b>		<b>(5,912,596)</b>	<b>26,858,483</b>
<b>Expenses</b>			
Investment management fees	4.1	(757,695)	(1,882,089)
Transaction fees	2.10	(25,501)	(35,085)
Auditors' remuneration		(51,099)	(49,419)
Directors' fees	4.5	(41,750)	(41,750)
Administration fees	4.4	(105,092)	(209,143)
Custodian fees	4.3	(78,092)	(187,143)
Other operating expenses		(99,197)	(138,922)
<b>Total operating expenses</b>		<b>(1,158,426)</b>	<b>(2,543,551)</b>
<b>Operating (loss)/income before finance and tax</b>		<b>(7,071,022)</b>	<b>24,314,932</b>
Withholding tax on dividends	5	(79,808)	(219,428)
<b>Net (decrease)/increase in net assets attributable to holders of redeemable participating shares from operations</b>		<b>(7,150,830)</b>	<b>24,095,504</b>
<b>Net (decrease)/increase in net assets attributable to holders of redeemable participating shares from operations of the:</b>			
- Offshore Feeder		(7,150,830)	24,110,997
- US Feeder		-	(15,493)
		<b>(7,150,830)</b>	<b>24,095,504</b>

The accompanying notes are an integral part of these financial statements.

**OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP**

**Statement of changes in net assets attributable to holders of redeemable participating shares - Combined**

**For the year ended 31 December 2011**

<b>2011</b>	<b>Offshore Feeder USD</b>	<b>US Feeder USD</b>	<b>Total USD</b>
Net assets attributable to holders of redeemable participating shares at beginning of the year	170,399,514	-	170,399,514
Redeemable participating shares issued	1,500,000	-	1,500,000
Redeemable participating shares redeemed	(150,150,421)	-	(150,150,421)
Net decrease from share transactions	(148,650,421)	-	(148,650,421)
Decrease in net assets attributable to holders of redeemable participating shares from operations	(7,150,830)	-	(7,150,830)
Net assets attributable to holders of redeemable participating shares at end of year	<u>14,598,263</u>	-	<u>14,598,263</u>
	<b>Offshore Feeder USD</b>	<b>US Feeder USD</b>	<b>Total USD</b>
<b>2010</b>			
Net assets attributable to holders of redeemable participating shares at beginning of the year	204,871,490	176,145	205,047,635
Redeemable participating shares issued	7,527,815	-	7,527,815
Redeemable participating shares redeemed	(66,110,788)	(160,652)	(66,271,440)
Net decrease from share transactions	(58,582,973)	(160,652)	(58,743,625)
Increase/(decrease) in net assets attributable to holders of redeemable participating shares from operations	24,110,997	(15,493)	24,095,504
Net assets attributable to holders of redeemable participating shares at end of year	<u>170,399,514</u>	-	<u>170,399,514</u>

The accompanying notes are an integral part of these financial statements.

**OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP**

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**Cash Flow Statement - Combined**  
**For the year ended 31 December 2011**

	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
<b>Cash flows from operating activities:</b>		
Interest received from bank deposits	598	3,753
Dividends received	1,237,474	3,226,786
Investment management fees paid	(890,132)	(2,095,348)
Directors' fees paid	(20,875)	(48,625)
Custodian fees paid	(90,547)	(190,127)
Administration fees paid	(114,547)	(216,127)
Withholding tax paid	(79,808)	(219,428)
Purchase of financial assets at fair value through profit or loss	(89,312,471)	(304,338,820)
Sale of financial assets at fair value through profit or loss	219,376,108	351,781,330
Other	(177,330)	(269,681)
<b>Net cash inflow from operating activities</b>	<b>129,928,470</b>	<b>47,633,713</b>
<b>Cash flows used in financing activities:</b>		
Proceeds from redeemable participating shares issued	1,500,000	7,527,511
Proceeds for redeemable participating shares redeemed	(150,150,421)	(66,271,440)
<b>Net cash outflow from financing activities</b>	<b>(148,650,421)</b>	<b>(58,743,625)</b>
<b>Net decrease in cash</b>	<b>(18,721,951)</b>	<b>(11,109,912)</b>
Cash at beginning of the year	20,873,230	29,912,787
Effect of exchange rate differences	(728,626)	2,070,355
<b>Cash at end of the year</b>	<b>1,422,653</b>	<b>20,873,230</b>

The accompanying notes are an integral part of these financial statements.



## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 1 GENERAL

##### 1.1 Legal structure

Pursuant to the board resolution made on 22 December 2006, the Optimal Japan Absolute Long Fund – Offshore Feeder (the ‘Offshore Feeder’) was restructured into a master-feeder structure whereby two new entities were established.

The two new entities, namely the Optimal Japan Absolute Long Master Fund (the ‘Master Fund’) and Optimal Japan Absolute Long Fund – US Feeder (the ‘US Feeder’) were incorporated as limited liability companies in the Cayman Islands on 6 December 2006. The Offshore Feeder was incorporated as a limited liability company on 20 January 2005.

The Master Fund, Offshore Feeder and US Feeders are open-ended investment companies and are registered as exempted companies pursuant to Sections 187 and 188 of the Companies Law (Revised) of the Cayman Islands.

The Master Fund, Offshore Feeder and US Feeder all have the same Board of Directors.

Under the restructure, all investments and 90% of the net cash balances previously held by the Offshore Feeder were transferred to the Master Fund on 2 January 2007 and in return the Offshore Feeder received the number of shares in the Master Fund with an equivalent economic value. The US investors in the Offshore Feeder redeemed their shares in the Offshore Feeder and then subscribed for shares in the US Feeder on 2 January 2007.

##### 1.2 Business activities and management

Since the restructure of the Optimal Japan Absolute Long Fund effective 2nd January 2007, all three entities have operated as a master-feeder fund structure (collectively the ‘Group’).

The Master Fund seeks to achieve returns above those of the Topix Index in Japan by investing in a highly diversified portfolio of Japanese listed equity and debt securities. Investments are pre-dominantly in equities but may include equity derivatives and foreign exchange contracts.

These financial statements are in respect of the Group, comprising the Master Fund, the Offshore Feeder and the US Feeder. They are presented on a combined basis as Management considers that they represent one reporting entity given the manner in which the entities are managed. Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full.

Separate books and records are maintained for each entity in order to determine the net asset values for each of the feeder funds.

The Investment Manager of the Group is Optimal Fund Management Pty Limited which is incorporated in Australia.

Notes to the Financial Statements as at 31 December 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - COMBINED

2.1 Basis of preparation

The combined financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). They include the financial statements of the Group, comprising the Master Fund, the Offshore Feeder and the US Feeder.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair valuation through profit or loss.

All references made to ‘net assets’ throughout these financial statements refer to the net assets attributable to holders of redeemable participating shares unless otherwise stated.

(i) *Standards and amendments to existing standards effective 1 January 2011*

- IAS 24 (amendment), ‘Related party disclosures’

This amendment clarifies in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- IFRS 7 (amendment), ‘Financial instruments: disclosures’

This amendment was part of the IASB’s annual improvement project published in May 2010. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Adoption of this amendment did not have a significant impact on the Group’s financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Group.

(ii) *Standards, amendments and interpretations that are not yet effective and not early applied*

- IFRS 13, ‘Fair value measurement’ (effective from 1 January 2013)

This standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The standard is not expected to have a significant impact on the Group’s financial position or performance.

- IFRS 9, ‘Financial instruments’ (effective from 1 January 2015)

This standard specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach compared with the requirements of IAS 39. The standard is not expected to have a significant impact on the Group’s financial position or performance, as it is expected that the Group will to continue to classify its financial assets and financial liabilities as being at fair value through profit or loss.

## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - COMBINED (CONTINUED)

##### 2.2 Group accounting

Intra-group transactions, balances and gains and losses on transactions between the Master Fund, the Offshore Feeder and the US Feeder are eliminated. The accounting policies used by the Group are consistent with Master Fund, the Offshore Feeder and the US Feeder.

##### 2.3 Financial assets at fair value through profit or loss and derivative financial instruments

Investments consist principally of listed securities and derivative financial instruments. They are initially recognised at fair value and subsequently re-measured at fair value based on the market price quoted on the relevant stock exchange and independently quoted prices respectively at the close of the business on the valuation day.

###### (i) Classification

The category of financial assets at fair value through profit or loss is sub-divided into two categories: financial assets held for trading and those designated by Management at fair value through profit or loss at inception.

Financial assets held for trading ('trading securities') are acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in price.

All investments in listed securities have been designated by Management as 'financial assets or liabilities at fair value through profit or loss at inception'.

Derivative financial instruments, which may include futures, options and foreign exchange contracts, are categorised as held for trading as Management do not designate any derivatives as hedges for hedge accounting purposes as described under IAS 39. All derivatives are carried as assets when amounts are receivable by the Group and as liabilities when amounts are payable by the Group. Changes in the fair value of derivatives are included in the statement of comprehensive income as they arise.

###### (ii) Initial recognition

The Group's securities and derivatives are accounted for on trade date and are recognised at fair value at the time of acquisition, with transaction costs for such instruments being recognised directly in the statement of comprehensive income

###### (iii) Subsequent valuation

The realised gains or losses resulting from the sale of investments are calculated on an average cost basis. Open investment positions that are securities listed on a stock exchange or traded on a regulated market are revalued to their quoted prices. Should the Group hold securities which are not freely transferable or which are not regularly traded, or which for any other reason are subject to limited marketability, they may be revalued at a fair value determined by the Directors. In such circumstances, the Directors would refer to quotes obtained from a number of external brokers. At reporting date, all investments were valued at quoted prices.

Notes to the Financial Statements as at 31 December 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - COMBINED (CONTINUED)

2.3 Financial assets at fair value through profit or loss and derivative financial instruments (continued)

(iv) *Derecognition*

Financial assets at fair value through profit or loss are derecognised when the contractual rights to the cash flows from the financial asset expires or if the Group transfers substantially all risks and rewards of ownership of the financial asset. Financial liabilities at fair value through profit or loss are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Realised gains and losses on derecognition are determined using the weighted average method and are included in the combined statement of comprehensive income as they arise.

(v) *Offsetting*

The Group offsets financial assets and financial liabilities at fair value through profit or loss if it has a legally enforceable right to offset the recognised amounts and either intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.4 Cash and cash equivalents

Cash comprises of cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

2.5 Foreign currency translation

(i) *Functional and presentation currency*

Subscriptions and redemptions of the redeemable participating shares are denominated in USD. Accordingly, the Directors consider the USD as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in USD which is the Group's functional and presentation currency.

(ii) *Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the combined statement of comprehensive income.

Monetary and non-monetary assets and liabilities outstanding at the year end that are denominated in currencies other than USD are translated at the closing exchange rate. Resulting unrealised gains or losses are recognised in the combined statement of comprehensive income.

**Notes to the Financial Statements as at 31 December 2011**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - COMBINED (CONTINUED)**

**2.6 Income and expense**

All income and expenses are accounted for on an accruals basis.

Dividend income on quoted equity shares is brought to account on the ex-dividend date. Dividends receivable where no ex-dividend date is quoted are brought to account when the Group's right to receive payment is established.

Fixed returns on non-equity securities are recognised on a time apportionment basis so as to reflect the effective yield on the securities. Other returns on non-equity securities are recognised when the right to the returns is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

**2.7 Redeemable participating shares and management shares**

Redeemable participating shares are redeemable at the shareholder's option and are classified as financial liabilities. The redeemable participating shares can be put back to the Offshore or US Feeder at any time for cash equal to a proportionate share of the entity's net asset value. The redeemable participating shares are carried at the redemption amount that would be payable at the balance sheet date if the shareholder exercised its right to put the share back to the entity.

Prices for issues and redemptions are based on the latest available preceding, unaudited computed net asset value. Proceeds and payments for redeemable participating shares issued and redeemed are shown as movements in the statement of changes in net assets attributable to holders of redeemable participating shares. Management shares in the individual companies in the Group have been issued to the Investment Manager and do not carry any right to vote. They are not entitled to dividends but are entitled to repayment of USD 1 each on the liquidation of the entity.

**2.8 Amounts due from or to brokers**

Amounts due from or to brokers represent receivables or payables for securities sold or purchased that have been contracted for but not yet delivered by the end of the year. These amounts are recognised initially at fair value and subsequently measured at amortised cost less any impairment provisions. The amounts are settled upon delivery of the securities.

**2.9 Receivables**

Receivables are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition or origination. They are subsequently re-measured at amortised cost using the effective interest method, less accumulated impairment losses.

At each balance date, the Group assesses whether there is objective evidence that these financial assets are impaired and recognises an allowance for impairment when such evidence exists. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - COMBINED (CONTINUED)

##### 2.9 Receivables (continued)

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

##### 2.10 Transaction Costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include the bid-ask spread, fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in profit or loss as an expense.

#### NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

##### 3.1 Strategy in using financial instruments

###### Investment objectives

The Group's investment objective is capital appreciation. It seeks to achieve this through investing primarily in listed equity securities and may also invest in convertible bonds and debt securities. The Group is therefore exposed to market risk (including market price risk, currency risk and interest rate risk), credit risk, and liquidity risks. In addition, the Group may seek to enhance capital appreciation and reduce volatility with the use of derivative and currency contracts.

The Investment Manager expects to adopt the following investment policies and processes for managing the Group's capital.

###### Investment policies

The Master Fund's principal investment objective is to seek to achieve returns above those of the Topix Index through investing in quoted securities issued by listed Japanese companies.

A primary objective of the Group is to enhance capital appreciation so preservation of capital is fundamental. As share price volatilities fluctuate with changing global market conditions, the Group's positions are monitored on a regular basis. The investment mandate stipulates that the Master Fund may invest a maximum of 10% of the Master Fund's gross assets in the securities of any one company.

To preserve gains, the Investment Manager may raise cash levels when deemed necessary and may also sell index futures in order to reduce the Master Fund's market exposure. Index futures are not be used to increase the Master Fund's exposure.

## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (CONTINUED)

##### 3.1 Strategy in using financial instruments (continued)

###### Investment processes

The Investment Manager's stock selection is based on the assessment of industry and company specific conditions with a view to constructing a portfolio with attractively valued businesses.

The Investment Manager's investment process relies on a variety of measures of value to quantify how equity is priced relative to its own history and relative to competing assets such as bonds and money market instruments. In addition to price-to-book and price-to-earnings ratios, a modified discounted cash flow model is used to test the Investment Manager's assumptions against the market consensus. This method is used to break down the market's apportionment of value in a security between earnings from existing assets and those from future investments to highlight disparities in value.

Although the investment decision-making process incorporates various quantitative valuation methods, the Investment Manager plans to make regular contact with the management of target companies to help make subjective judgments on their business strategies and prospects. The Investment Manager believes that this is vital as management ability and attitudes vary widely.

The risks and respective risk management policies employed by the Investment Manager to mitigate these risks are discussed below.

##### 3.2 Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

All securities investments and derivative financial instruments present a risk of loss of capital as they are susceptible to market price risk arising from uncertainties about future prices of the instruments.

The Investment Manager aims to moderate this risk through the careful selection of securities and other financial instruments. The Master Fund's market price risk is also managed through the diversification of the investment portfolio to different Japanese industry sectors.

Industry	As a % of Master Fund's NAV	
	2011	2010
Energy	4.09	0.18
Health Care	-	1.59
Financials	15.81	19.71
Consumer Discretionary	24.57	11.34
Industrials	13.86	18.14
Information Technology	10.09	8.90
Telecommunication Services	5.94	4.44
Materials	12.57	9.25
Consumer Staples	5.51	6.81
<b>Equity securities, listed in Japan, at fair value</b>	<b>92.44</b>	<b>80.36</b>

## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS - COMBINED (CONTINUED)

##### 3.2 Market price risk (continued)

The Investment Manager expects to monitor the Master Fund's individual and overall market positions and associated market price risk on a continuous basis, and the Directors to review it on a quarterly basis.

The Investment Manager does not manage the Group's investment strategy against any particular index or external benchmark. Accordingly, for the purposes of determining and disclosing the sensitivity analysis as required under IFRS 7 - "Financial instruments: disclosures", the Investment Manager has made reference to the volatility in the Group's monthly returns in the last twelve months.

On this basis, the Investment Manager considers that a reasonable monthly return on the Group's financial net assets at fair value would be an increase/decrease of 1.0% (2010: +/- 1.5%). The analysis below shows the potential impact on the net asset value attributable to holders of redeemable participating shares in the event of the above stated possible reasonable shift when applied to the Group's investment portfolio as at 31 December 2011, with all other variables held constant. This does not take into account any impact on management and performance fees.

	Reasonable possible shift	Impact on net asset value USD
2011	+/- 1.0%	+/- 133,997
2010	+/- 1.5%	+/- 2,054,102

##### Fair Value Hierarchy of Financial Instruments

The Master Fund has adopted the IFRS 7 amendments, effective 1 January 2009. This requires the Directors to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

The determination of what constitutes 'observable' requires significant judgement by the Directors. The Directors consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table presents the Master Fund's financial assets at fair value at 31 December 2011:

Types of Assets	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Exchange listed shares	13,399,724	-	-	13,399,724
<b>Total Assets</b>	<b>13,399,724</b>	<b>-</b>	<b>-</b>	<b>13,399,724</b>



## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS - COMBINED (CONTINUED)

##### 3.2 Market price risk (continued)

The following table presents the Master Fund's financial assets at fair value at 31 December 2010:

Types of Assets	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Exchange listed shares	136,940,114	-	-	136,940,114
<b>Total Assets</b>	<b>136,940,114</b>	<b>-</b>	<b>-</b>	<b>136,940,114</b>

Level 1 financial instruments - the fair value of securities traded on recognised stock exchanges are based on quoted market prices from the exchange at the balance sheet date.

The Master Fund did not hold any Level 2 or 3 financial instruments during the year or at year end.

There were no transfers between hierarchy levels during the year.

##### 3.3 Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's financial position as a result of a change in foreign currency exchange rates.

The Master Fund's assets and liabilities are mainly denominated in Japanese Yen. The Master Fund is therefore exposed to currency risk, as the value of the assets and liabilities denominated in Japanese Yen will fluctuate due to changes in JPY/USD exchange rates.

Management monitors the exposure on all foreign currency denominated assets and liabilities.

The table below summarises the impact of reasonably possible daily movements in the JPY/USD exchange rate. The sensitivity analysis has been determined by reference to the volatility of the exchange rate during the year end period which the Group believes is indicative of potential future volatility. The analysis is based on the assumption that the exchanges rates had increased or decreased by the respective percentage with all other variables held constant. The sensitivity analysis is presented gross of the impact, if any, of management and performance fees and includes both monetary and non-monetary balances.

	Reasonable possible shift in JPY / USD exchange rate	Impact on net asset value USD
2011	+/- 1.5%	+/- 216,934
2010	+/- 2.0%	+/- 3,403,927

**Notes to the Financial Statements as at 31 December 2011**

**NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS - COMBINED (CONTINUED)**

**3.4 Interest rate risk**

The majority of the Master Fund's financial assets and financial liabilities are non-interest bearing, as it mainly invests in listed equities except for its cash balances which placed at short term interest rates. As a result, the Master Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

**3.5 Credit /custody risk**

Credit risk is the risk that an issuer, custodian or counterparty will be unable or unwilling to meet a commitment (including payment of amounts arising from derivative contracts) in full when due.

The Group is exposed to credit/custody risk associated with Bank of Bermuda (Cayman) Limited (the 'Custodian') who holds the Master Fund's financial assets and cash balances. The Custodian provides clearing and depositary operations for the Master Fund's investment transactions. The Custodian also provides short-term lending facilities to the Master Fund and Offshore and US Feeders. At 31 December 2011, the Custodian held securities totaling USD 13,399,724 (2010: USD 136,940,114) and cash balances of USD 1,422,108 (2010: USD 18,770,672) on behalf of the Group.

The Bank of Bermuda is part of the HSBC Holdings Plc Group, which has a credit rating issued by S&P at the year end of 'A+' (2010: 'AA-/A-1+').

The Master Fund limits its exposure to credit/custody risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges which the Directors consider to be well established and to have high credit ratings. The risk of default is considered minimal as delivery of securities sold is only made when the proceeds have been received from the broker. Payment is made on a purchase when the securities have been received from the broker. The trade will fail if either party fails to meet its obligation.

The Master Fund also has a cash deposit account with JPMorgan Chase Bank, N.A. (the "JPM Account"). The JPM Account is located in Japan and as such the JPM Account Terms, the relevant JPM Account Documentation and the rights and obligations in respect of the JPM Account shall be governed by and construed in accordance with Japan laws. At 31 December 2011, the JPM Account held a cash balance of USD 545 (2010: 2,102,557) on behalf of the Group. The JPMorgan Chase Bank, N.A. credit rating issued by S&P at the year end was 'A+/A-1' (2010: 'A+/A-1').

The Investment Manager monitors the Group's credit position on a quarterly basis.

**3.6 Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in settling a liability or selling a financial asset quickly at close to its fair value.

The Offshore and US Feeders are exposed to monthly cash redemptions of redeemable shares subject to one day prior notice. The Investment Manager manages the Group's liquidity risk by predominantly investing its investments in listed Japanese companies which are traded on the Tokyo stock exchange and are considered readily realisable.

The Master Fund may also be leveraged up to a maximum of 25% of its latest available net asset value to provide temporary liquidity to meet redemptions. The Master Fund and Offshore and US Feeders have short-term lending facilities provided by the Custodian.

## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS - COMBINED (CONTINUED)

##### 3.6 Liquidity risk (continued)

The table below analyses the Group's liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month USD
<b>2011</b>	
Amount due to brokers	130,551
Other payables and accrued expenses	<u>120,357</u>
	<u>250,908</u>
Net assets attributable to holders of redeemable participating shares	<u>14,598,263</u>
<b>2010</b>	
Amount due to brokers	391,332
Other payables and accrued expenses	<u>265,886</u>
	<u>657,218</u>
Net assets attributable to holders of redeemable participating shares	<u>170,399,514</u>

#### NOTE 4 SIGNIFICANT AGREEMENTS AND FEES - COMBINED

##### 4.1 Investment management fee

###### Offshore and US Feeders

The Investment Manager is entitled to receive a fee, payable monthly in arrears, at the rate of 1% per annum of the value of the Offshore and US Feeder's weekly net assets.

##### 4.2 Performance fees

###### Offshore and US Feeders

Pursuant to the Offshore Feeder and US Feeder's private placing memorandum dated January 2008, the Investment Manager is entitled (if applicable) to a performance fee payable by each shareholder.

The objective of management is to levy a performance fee only if the return of an investment in the Offshore or US Feeder over a performance period is both positive and in excess of the return of the Topix Index (in USD) over the same period.

A performance period is a financial year, or the period from the investment date to the end of the financial year in which the investment was made, or the period from the beginning of a financial year to the redemption date within that financial year where shares are redeemed during the course of a financial year.

**Notes to the Financial Statements as at 31 December 2011**

**NOTE 4 SIGNIFICANT AGREEMENTS AND FEES – COMBINED (CONTINUED)**

**4.2 Performance fees (continued)**

The performance fee calculation that will be applied can be expressed as follows:

Performance fee per share = 20% x (period end NAV per share – benchmark NAV per share);

Where the benchmark NAV for the relevant redeemable participating shares equals the greater of:

- i) High Water Mark of the relevant share; and
- ii) The NAV per share at the beginning of the period plus a threshold return (being the positive Topix return in USD for the relevant performance period).

The high water mark is the greater of:

- i) the net asset value of the relevant share at the time of issue; and
- ii) the highest net asset value per share in respect of which a performance fee has been paid in any previous performance period during which such share was in issue.

By using the high water mark, no investment will be charged a performance fee “twice” and by using the threshold return, no performance fee is payable unless the investment return over the relevant performance period has also exceeded that of the Topix Index. It is only on that excess return portion that the performance fee of 20% is paid.

Payment of the performance fee comes at the investment level (not Fund level) and is effected by the compulsory redemption of shares by the investor. The performance fee will be payable annually in arrears (or upon redemption of shares part way through a year) calculated on a share-by-share basis so that each share is charged a performance fee which equates precisely with that share’s performance.

The performance fee due in respect of all the shares held by each shareholder shall accrue as an equalisation credit in respect of that shareholder and subject to an equalisation adjustment at the end of each performance period.

At the end of each performance period, the performance fee due on the shares held by each shareholder is payable by the shareholder to the Investment Manager by way of compulsory redemption of such number of shares held by such shareholder as have an aggregate net asset value equal to the amount of the equalisation credit in respect of his share. The proceeds of the compulsory redemption will be remitted by the Registrar directly to the Investment Manager on behalf of the relevant shareholder.

**4.3 Custodian fee**

**Master Fund**

The Custodian is entitled to receive a fee which accrues in relation to the Master Fund on each relevant valuation date as a percentage of the net asset value and is payable monthly in arrears, calculated at the following rates:

- 0.1% per annum on the first USD 250 million of the net asset value
- 0.075% per annum on the excess of the first USD 250 million of the net asset value

The above charges are subject to a minimum aggregate fee of USD 2,000 per month.

## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 4 SIGNIFICANT AGREEMENTS AND FEES - COMBINED (CONTINUED)

##### 4.4 Administration fee

###### **Master Fund**

The Administrator is entitled to receive a fee which accrues in relation to the Master Fund on each relevant valuation date as a percentage of the net asset value and is payable monthly in arrears, calculated at the following rates:

- 0.1% per annum on the first USD 250 million of the net asset value
- 0.08% per annum on the excess of the first USD 250 million of the net asset value

The above charges are subject to a minimum aggregate fee of USD 5,000 per month. The Administrator is also entitled to receive transaction fees at rates agreed with the Investment Manager.

In addition, the Administrator is entitled to receive secretariat fees in respect of the Master Fund, based on time charges but subject to an annual minimum of USD 5,000.

###### **Offshore Feeder**

The Administrator is entitled to receive a fee fixed at USD 1,500 per month accrued on each relevant valuation date and payable monthly in arrears.

In addition, the Administrator is entitled to receive secretariat fees in respect of the Offshore Feeder, based on time charges but subject to an annual minimum of USD 2,500.

###### **US Feeder**

The Administrator is entitled to receive a fee fixed at USD 1,500 per month for the first 20 investors of the US Feeder accrued on each relevant valuation date and payable monthly in arrears. In addition, the Administrator is entitled to receive secretariat fees in respect of the US Feeder, based on time charges but subject to an annual minimum of USD 2,500.

##### 4.5 Director fees

###### **Master Fund**

Pursuant to the private placing memorandum dated January 2008, the Master Fund's directors are entitled to be paid an annual director fee subject to a total maximum of USD 75,000 per annum. During the year, a total of USD 41,750 has been charged as directors' fees (2010: USD 41,750).

#### NOTE 5 TAXATION

The Group is not subject to taxation in the Cayman Islands. Each of the entities in the Group has obtained, under Section 6 of the Tax Concessions Law (Revised), a tax exemption certificate which exempts the Group from any tax or duty for a period of 20 years.

The Master Fund currently incurs withholding tax imposed by Japan on dividend income which is recorded gross of withholding tax in the income statement.

## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - COMBINED

Categories of financial instruments	2011 USD	2010 USD
Equity securities, listed in Japan, at fair value	<u>13,399,724</u>	<u>136,940,114</u>
<b>Net gains and losses on financial assets at fair value through profit or loss</b>		
Net realised gain/(loss) on investments	8,936,315	(5,004,817)
Net unrealised (loss)/gain on investments	(15,260,993)	26,654,511
Net foreign exchange (loss)/gain	<u>(728,626)</u>	<u>2,070,355</u>
	<u>(7,053,304)</u>	<u>23,720,049</u>

#### NOTE 7 SHARE CAPITAL - COMBINED

##### Master Fund

The authorised share capital of the Master Fund is USD 150,000 divided into 150,000,000 redeemable participating preference shares of USD 0.001 each.

All issued redeemable participating preference shares are only issued to the two feeder funds and are fully paid. Holders of redeemable participating preference shares are entitled to dividends and voting powers.

As at 31 December 2011, the Offshore Feeder owned 100% (2010: 100%) of the Master Fund and the US Feeder owned nil (2010: nil) of the Master Fund. The sum of the investment in the Master Fund by the Offshore Feeder and US Feeder totalling USD 14,498,216 (2010: USD 170,168,150) was eliminated when preparing the Group's accounts.

##### Offshore Feeder

The authorised share capital of the Offshore Feeder consists of redeemable participating shares and management shares. The redeemable participating shares will be subscribed to by investors and the management shares will be held solely by the Investment Manager.

On 3 December 2007, the Offshore Feeder held an extraordinary general meeting where the shareholders approved that the company increase its share capital from USD 50,000 divided into 49,900,000 participating shares of nominal value of USD 0.001 each and 100 management shares of a nominal value of USD 1 each to USD 150,000 divided into 149,900,000 participating shares of a nominal value of USD 0.001 each and 100 management shares of a nominal value of USD 1 each.

All issued redeemable participating shares are fully paid. Holders of redeemable participating shares are entitled to dividends and voting powers. The 100 management shares have been issued to the Investment Manager and do not carry any right to vote. They are not entitled to dividends but are entitled to repayment of USD 1 each on the liquidation of the Offshore Feeder.

**Notes to the Financial Statements as at 31 December 2011**

**NOTE 7 SHARE CAPITAL – COMBINED (CONTINUED)**

On 14 August 2006, the Board of Directors resolved to issue a new class of redeemable participating shares, which resulted in the shares of the Offshore Feeder being designated as Class A redeemable participating share and Class B redeemable participating share respectively. Class A redeemable participating share and Class B redeemable participating shares had the same terms, rights and privileges except for the calculation of management fee. The Investment Manager received a management fee at the rate of 1% per annum and 1.5% per annum of the value of the weekly net assets attributable to Class A redeemable participating shares and Class B redeemable participating shares respectively. For the investment management fee received from Class B redeemable participating shares, the Investment Manager remitted 0.5% of this fee to the distributor appointed to promote the Class B redeemable participating shares to prospective investors on a private placement basis.

On 3 March 2010, the Board of Directors resolved that Class B would no longer be offered by the Group. As requested by the Board of Directors, all Class B redeemable participating shares were either redeemed or transferred to Class A redeemable participating shares by dealing day 2 July 2010. The total value of redeemable participating shares transferred from Class B to Class A as a non-cash transaction was USD 2,229,696.

**US Feeder**

The authorised share capital of the US Feeder consists of redeemable participating shares and management shares. The redeemable participating shares will be subscribed to by investors and the management shares will be held solely by the Investment Manager.

Similarly, the US Feeder shareholders approved the increase of the company's authorised share capital at an extra-ordinary general meeting held on 3 December 2007. The authorised share capital of the US Feeder is USD 150,000 divided into 149,900,000 redeemable participating shares of USD 0.01 each and 100 management shares of USD 1 each.

All issued redeemable participating shares are fully paid. Holders of redeemable participating shares are entitled to dividends and voting powers. 100 management shares have been issued to the Investment Manager and do not carry any right to vote. They are not entitled to dividends but are entitled to repayment of USD 1 each on the liquidation of the US Feeder.

During the year ended 31 December 2010, all investors in the US Feeder redeemed their holdings. While the US Feeder is not active at year end it remains open for subscriptions at any time in the future.

**OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP**

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**Notes to the Financial Statements as at 31 December 2011**

**NOTE 8 MOVEMENTS IN REDEEMABLE PARTICIPATING SHARES – COMBINED**

**Offshore Feeder**

<b>2011</b>	<b>Class A No. of shares</b>	<b>Class B No. of shares</b>	<b>Total No. of shares</b>
Balance at the beginning of the year	13,977,516.412	-	13,977,516.412
Shares issued during the year	131,578.947	-	131,578.947
Shares redeemed during the year	<u>(12,772,981.640)</u>	<u>-</u>	<u>(12,772,981.640)</u>
<b>Balance at the end of the year</b>	<b><u>1,336,113.719</u></b>	<b><u>-</u></b>	<b><u>1,336,113.719</u></b>

**2010**

Balance at the beginning of the year	19,092,469.430	530,338.456	19,622,807.886
Shares issued during the year	903,764.241	-	903,764.241
Shares redeemed during the year	<u>(6,018,717.259)</u>	<u>(530,338.456)</u>	<u>(6,549,055.715)</u>
<b>Balance at the end of the year</b>	<b><u>13,977,516.412</u></b>	<b><u>-</u></b>	<b><u>13,977,516.412</u></b>

**US Feeder – Class A**

	<b>2011</b>	<b>2010</b>
Balance at the beginning of the year	-	17,029.972
Shares issued during the year	-	-
Shares redeemed during the year	<u>-</u>	<u>(17,029.972)</u>
<b>Balance at the end of the year</b>	<b><u>-</u></b>	<b><u>-</u></b>



## OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

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### Notes to the Financial Statements as at 31 December 2011

#### NOTE 9 RELATED PARTY TRANSACTIONS - COMBINED

Details of other related party transactions are as follows:

##### 9.1 Directorships

Mr. Warwick Johnson and Eric Lucas, directors of the Master Fund and Offshore and US Feeders, are also directors and shareholders of the Investment Manager.

##### 9.2 Interests in the Fund's shares

As at 31st December 2011, the Investment Manager held 100 (2009: 100) management shares in the Offshore Feeder and US Feeder respectively, representing all of the Offshore Feeder and US Feeder's authorised and issued management shares.

Furthermore, Warwick Johnson, a director and shareholder of the Investment Manager, held 161,600.124 (2010: 161,600.124) redeemable participating shares in the Offshore Feeder as at 31 December 2011.

David Fitzherbert, a director, held nil (2010: 19,877.829) redeemable participating shares in the Offshore Feeder as at 31 December 2011.

Paul Smith, a director, held 16,331.911 (2010: 16,331.911) redeemable participating shares in the Offshore Feeder as at 31 December 2011.

#### NOTE 10 APPROVAL OF FINANCIAL STATEMENTS - COMBINED

The financial statements were approved by the directors on 4 May 2012

**OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP**

**OPTIMAL JAPAN ABSOLUTE LONG MASTER FUND  
INVESTMENT PORTFOLIO – UNAUDITED AS AT 31ST DECEMBER 2011**

<u>LONG POSITION - LISTED</u>	<b>Holding</b>	<b>Fair value USD</b>	<b>Fair value as a % of NAV</b>
<b>JAPANESE EQUITIES</b>			
Aeon Co Ltd	58,100	798,177	5.50
Aeon Delight Co Ltd	6,700	135,585	0.93
Aisin Seiki Co Ltd	9,900	282,306	1.95
Asahi Kasei Corp	131,000	790,018	5.46
Benness Holdings	9,500	459,936	3.17
Canon Inc	13,700	607,187	4.19
Daido Metal Co Ltd	18,000	198,856	1.37
Daiichikosho Co Ltd	6,000	113,465	0.78
Don Quijote Co Ltd	15,800	542,342	3.75
Eagle Industry Co Ltd	18,000	142,241	0.98
Hitachi Ltd	124,000	651,105	4.49
Inpex Corp Ltd	94	592,540	4.08
Itochu Corp	59,900	608,809	4.20
JS Group Corp	34,800	667,143	4.60
Mitsubishi Estate Co Ltd	39,000	582,922	4.02
Mitsubishi UFJ Financial Group Inc	139,200	591,609	4.08
Mitsui Chemicals Inc	91,000	277,944	1.92
Mitsui OSK Lines	119,000	460,904	3.18
NTT Domoco Inc	221	406,440	2.80
Nippon Telegraph & Telephone Corp	8,900	455,179	3.14
Nippon Television Network	3,600	551,183	3.81
Nissan Motor Co Ltd	51,600	464,092	3.20
ORIX Corp	3,000	247,985	1.71
Seria Co Ltd	19	105,446	0.73
Skymark Airlines Inc	10,300	136,414	0.94
So-net Entertainment Corp	56	203,868	1.41
Sumitomo Mitsui Trust Holdings Inc	147,000	431,791	2.98
Sumitomo Realty & Development	25,000	438,004	3.02
Taiheiyo Cement Corp	113,000	215,896	1.49
Toagosei Cement Corp	64,000	262,854	1.81
Unipress Corp	8,300	238,622	1.64
Yamada Denki Co Ltd	6,800	463,114	3.19
Yamato Kogyo Co Ltd	9,600	275,747	1.90
<b>Total Equity – Long Positions</b>		<b>13,399,724</b>	<b>92.42</b>
Other net assets		1,098,492	7.58
<b>MASTER FUND'S TOTAL NET ASSETS</b>		<b>14,498,216</b>	<b>100.00</b>