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 2012

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'

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Optimal Japan Absolute Long Fund – US Feeder,
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Independent Auditor's Report

To the Shareholders 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 (a sub fund of Optimal Japan Long Fund))

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 (a sub fund of Optimal Japan Long Fund)), which comprise the statement of financial position - combined as at 31 December 2012, 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 notes, comprising 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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

30 April 2013

Statement of financial position - Combined
As at 31 December 2012

	Notes	2012 USD	2011 USD
Assets			
Current Assets			
Cash balances	2.4	1,257,440	1,422,653
Financial assets at fair value through profit or loss	2.3, 6	13,234,216	13,399,724
Amounts due from brokers	2.8	1,223,047	-
Other receivables and prepayments		11,344	26,994
Total Assets		**15,726,047**	**14,849,371**
Liabilities			
Current Liabilities			
Amounts due to brokers	2.8	1,542,046	130,551
Other payables and accrued expenses		74,133	120,357
Net assets attributable to holders of redeemable participating shares of the:			
- Offshore Feeder	2.7	14,109,668	14,598,263
- US Feeder		-	-
Total Liabilities		**15,725,847**	**14,849,171**
Equity			
Ordinary share capital	8	200	200
Total Equity		**200**	**200**
Total Liabilities and Equity		**15,726,047**	**14,849,371**

Warwick Johnson
Director

Eric Lucas
Director

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

Statement of comprehensive income - Combined
For the year ended 31 December 2012

	Notes	2012 USD	2011 USD
Income			
Dividends	2.6	337,037	1,140,111
Bank interest	2.6	137	598
Other income			-
Net foreign currency gain/(loss) on cash		(239,008)	(728,626)
Gain/(loss) on financial assets at fair value through profit or loss	6	258,245	(6,324,679)
Total investment income/(loss)		**356,411**	**(5,912,596)**
Expenses			
Investment management fees	4.1	(143,876)	(757,695)
Transaction fees	2.10	(12,250)	(25,501)
Auditors' remuneration		(26,000)	(51,099)
Directors' fees	4.5	(19,250)	(41,750)
Administration fees	4.4	(34,000)	(105,092)
Custodian fees	4.3	(15,073)	(78,092)
Other operating expenses		(44,180)	(99,197)
Total operating expenses		**(294,629)**	**(1,158,426)**
Operating income/(loss) before finance and tax		**61,782**	**(7,071,022)**
Withholding tax on dividends	5	(23,598)	(79,808)
Net increase/(decrease) in net assets attributable to holders of redeemable participating shares from operations		**38,184**	**(7,150,830)**
Net increase/(decrease) in net assets attributable to holders of redeemable participating shares from operations of the:			
- Offshore Feeder		38,184	(7,150,830)
- US Feeder		-	-
		38,184	**(7,150,830)**

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

Statement of changes in net assets attributable to holders of redeemable participating shares - Combined
For the year ended 31 December 2012

2012	Offshore Feeder USD	US Feeder USD	Total USD
Net assets attributable to holders of redeemable participating shares at beginning of the year	14,598,263	-	14,598,263
Redeemable participating shares issued	-	-	-
Redeemable participating shares redeemed	(526,779)	-	(526,779)
Net decrease from share transactions	(526,779)	-	(526,779)
Increase in net assets attributable to holders of redeemable participating shares from operations	38,184	-	38,184
Net assets attributable to holders of redeemable participating shares at end of year	**14,109,668**	**-**	**14,109,668**

2011	Offshore Feeder USD	US Feeder USD	Total USD
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	**14,598,263**	**-**	**14,598,263**

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

Cash flow statement - Combined
For the year ended 31 December 2012

	2012 USD	2011 USD
Cash flows from operating activities:		
Interest received from bank deposits	137	598
Dividends received	349,108	1,237,474
Investment management fees paid	(144,324)	(890,132)
Directors' fees paid	(50,000)	(20,875)
Custodian fees paid	(15,878)	(90,547)
Administration fees paid	(48,783)	(114,547)
Withholding tax paid	(23,598)	(79,808)
Purchase of financial assets at fair value through profit or loss	(14,460,501)	(89,312,471)
Sale of financial assets at fair value through profit or loss	15,072,701	219,376,108
Other	(78,288)	(177,330)
Net cash inflow from operating activities	**600,574**	**129,928,470**
Cash flows used in financing activities:		
Proceeds from redeemable participating shares issued	-	1,500,000
Payments for redeemable participating shares redeemed	(526,779)	(150,150,421)
Net cash outflow from financing activities	**(526,779)**	**(148,650,421)**
Net increase/(decrease) in cash	**73,795**	**(18,721,951)**
Cash at beginning of the year	1,422,653	20,873,230
Net foreign currency gain/(loss) on cash	(239,008)	(728,626)
Cash at end of the year	**1,257,440**	**1,422,653**

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

Notes to the Financial Statements as at 31 December 2012

NOTE 1 GENERAL

1.1 Legal structure

Optimal Japan Long Fund (the 'Company') is an exempted company incorporated with limited liability in the Cayman Islands on 20 January 2004. The Company is empowered to issue separate classes of shares for different sub-funds. A sub-fund is not a separate legal entity. Optimal Japan Absolute Long Fund - Offshore Feeder is the only sub-fund of the Company. The Company may issue shares in different classes which may be subject to different terms with regard to fees, dealing procedures or otherwise provided that the terms of issue of any new class do not abrogate or vary the rights of holders of any existing class of shares in issue. The Directors have no current intention to establish new sub-funds in future.

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 2012

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, interpretations and amendments effective 1 January 2012*

There are no standards, interpretations or amendments that are effective for the first time for the financial year beginning 1 January 2012 that would be expected to have a material impact on the Group.

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

Certain new Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not yet been adopted by the Group for the annual reporting year ended 31 December 2012. The Directors of the Group have not early adopted any of these new or amended standards or interpretations as listed below:

IFRS 9 Financial Instruments: Classification and Measurement IFRS was issued by the IASB in November 2009 and amended in December 2011. It introduces new requirements for the classification and measurement of financial assets effective from January 1, 2015 with early adoption permitted.

IFRS 13 Fair Value Measurement: IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

The Group has not yet decided when to adopt IFRS 9 and IFRS 13. Management does not expect this will have a significant effect on the Group's Financial Statements. Standards and interpretations that are not expected to have material impact on the Fund have not been included.

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.

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

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 last traded 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 last traded 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 last traded prices.

(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.

Notes to the Financial Statements as at 31 December 2012

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

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.

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.

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

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.

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.

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss.

2.11 Comparative Information

Certain prior year amounts have been reclassified to conform to the presentation in the current year.

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.

NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (CONTINUED)

3.1 Strategy in using financial instruments (continued)

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.

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.

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

3.2 Market price risk (continued)

Industry	As a % of Master Fund's NAV 2012	2011
Energy	-	4.09
Financials	28.62	15.81
Consumer Discretionary	36.09	24.57
Industrials	15.46	13.86
Information Technology	8.19	10.09
Telecommunication Services	2.30	5.94
Materials	-	12.57
Consumer Staples	3.15	5.51
Equity securities, listed in Japan, at fair value	**93.81**	**92.44**

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 0.5% (2011: +/- 1.0%). 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 2012, with all other variables held constant. This does not take into account any impact on management and performance fees.

	Reasonable possible monthly shift	Monthly impact on net asset value USD
2012	+/- 0.5%	+/- 66,171
2011	+/- 1.0%	+/- 133,997

Fair Value Hierarchy of Financial Instruments

IFRS 7 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.

Notes to the Financial Statements as at 31 December 2012

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 2012:

Types of Assets	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Exchange listed shares	13,234,216	-	-	13,234,216
Total Assets	**13,234,216**	**-**	**-**	**13,234,216**

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
Total Assets	**13,399,724**	**-**	**-**	**13,399,724**

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 daily shift in JPY / USD exchange rate	Daily impact on net asset value USD
2012	+/- 4.5%	+/- 635,876
2011	+/- 1.5%	+/- 216,934

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 2012, the Custodian held securities totaling USD 13,234,216 (2011: USD 13,399,724) and cash balances of USD 1,257,146 (2011: USD 1,422,108) 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+' (2011: 'A+').

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 2012, the JPM Account held a cash balance of USD 294 (2011: 545) 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' (2011: '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.

Notes to the Financial Statements as at 31 December 2012

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
2012	
Amount due to brokers	1,542,046
Other payables and accrued expenses	74,133
	1,616,179
Net assets attributable to holders of redeemable participating shares	**14,109,668**
2011	
Amount due to brokers	130,551
Other payables and accrued expenses	120,357
	250,908
Net assets attributable to holders of redeemable participating shares	**14,598,263**

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 2012

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.

No performance fees are payable for the Group for 2012 (performance fees paid for 2011: USD 0).

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.

Notes to the Financial Statements as at 31 December 2012

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 19,250 has been charged as directors' fees (2011: 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 statement of comprehensive income.

Notes to the Financial Statements as at 31 December 2012

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

Categories of financial instruments	2012 USD	2011 USD
Equity securities, listed in Japan, at fair value	**13,234,216**	**13,399,724**
Net gains and losses on financial assets at fair value through profit or loss		
Net realised (loss)/gain on investments	(498,555)	8,936,315
Net unrealised gain/(loss)/ on investments	756,800	(15,260,993)
	258,245	**(6,324,679)**

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 2012, the Offshore Feeder owned 100% (2011: 100%) of the Master Fund and the US Feeder owned nil (2011: nil) of the Master Fund. The sum of the investment in the Master Fund by the Offshore Feeder and US Feeder totalling USD 14,107,895 (2011: USD 14,498,216) 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 Offshore Feeder 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.

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.

Notes to the Financial Statements as at 31 December 2012

NOTE 7 SHARE CAPITAL – COMBINED (CONTINUED)

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.

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 US Feeder'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.

NOTE 8 MOVEMENTS IN REDEEMABLE PARTICIPATING SHARES – COMBINED

Offshore Feeder

2012	Class A No. of shares	Class B No. of shares	Total No. of shares
Balance at the beginning of the year	1,336,113.719	-	1,336,113.719
Shares issued during the year	-	-	-
Shares redeemed during the year	(50,368.842)	-	(50,368.84)
Balance at the end of the year	**1,285,744.877**	**-**	**1,285,744.877**

2011	Class A No. of shares	Class B No. of shares	Total No. of shares
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	(12,772,981.640)	-	(12,772,981.64 0)
Balance at the end of the year	**1,336,113.719**	**-**	**1,336,113.719**

Notes to the Financial Statements as at 31 December 2012

NOTE 8 MOVEMENTS IN REDEEMABLE PARTICIPATING SHARES – COMBINED (CONTINUED)

US Feeder – Class A

	2012	2011
Balance at the beginning of the year	-	-
Shares issued during the year	-	
Shares redeemed during the year	-	-
Balance at the end of the year	-	-

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 Group's shares

As at 31 December 2012, the Investment Manager held 100 (2011: 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 (2011: 161,600.124) redeemable participating shares in the Offshore Feeder as at 31 December 2012.

Paul Smith, a director, held 9,149.130 (2011: 16,331.911) redeemable participating shares in the Offshore Feeder as at 31 December 2012.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS - COMBINED

The financial statements were approved by the directors on 30 April 2013.

INVESTMENT PORTFOLIO – UNAUDITED AS AT 31ST DECEMBER 2012

LONG POSITION - LISTED	Holding	Fair value USD	Fair value as a % of NAV
JAPANESE EQUITIES			
Aeon Co Ltd	24,600	280,810	1.99
Aeon Delight Co Ltd	6,700	130,722	0.93
Ain Pharmaciez Inc	3,000	163,592	1.16
Benesse Holdings Inc	16,300	676,771	4.80
Bridgestone Corp	21,200	545,293	3.87
Daihatsu Motor Co Ltd	20,000	395,767	2.81
Daiichikosho Co Ltd	6,000	139,409	0.99
Daito Trust Construct Co Ltd	5,200	490,141	3.47
Hitachi Ltd	96,000	559,579	3.97
Itochu Corp	60,900	638,828	4.53
KDDI Corp	4,600	323,992	2.30
Komeri Co Ltd	16,600	419,104	2.97
Mazda Motor Corp	222,000	446,747	3.17
Mitsubishi Estate Co Ltd	35,000	829,411	5.88
Mitsubishi UFJ Financial Group Inc	216,200	1,152,700	8.17
Mitsui & Co Ltd	43,000	638,050	4.52
Nippon Television Network	36,000	479,223	3.40
Nissan Motor Co Ltd	74,600	699,712	4.96
Nomura Holdings Inc	96,600	561,959	3.98
Seria Co Ltd	9,900	157,205	1.11
Skymark Airlines Inc	41,000	232,348	1.65
Sumitomo Electric Industries	47,300	540,478	3.83
Sumitomo Mitsui Financial Group Inc	30,500	1,098,797	7.79
Sumitomo Realty & Development	12,000	395,119	2.80
Toshiba Corp	153,000	596,322	4.23
Unipres Corp	13,100	286,044	2.03
Yamada Denki Co Ltd	9,260	356,093	2.50
Total Equity – Long Positions		**13,234,216**	**93.81**
Other net assets		875,452	6.19
TOTAL NET ASSETS		**14,109,668**	**100.00**

INVESTMENT PORTFOLIO – UNAUDITED AS AT 31ST DECEMBER 2011

LONG POSITION - LISTED	Holding	Fair value USD	Fair value as a % of NAV
JAPANESE EQUITIES			
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
Bennesse 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
Total Equity – Long Positions		**13,399,724**	**92.42**
Other net assets		1,449,647	7.58
TOTAL NET ASSETS		**14,849,371**	**100.00**