

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER 2006

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

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**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

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**Registrar's Agent and Principal
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HSBC Institutional Trust Services (Asia) Limited
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INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)
(Incorporated in the Cayman Islands with Limited Liability)**

Report on the financial statements

We have audited the accompanying financial statements of Optimal Japan Absolute Long Fund (the "Sub-Fund"), a sub-fund of Optimal Japan Long Fund (the "Company"), which comprise the balance sheet as of 31st December 2006 and the income statement, statement of changes in net assets attributable to holders of redeemable participating shares and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

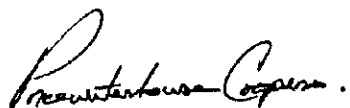
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 accompanying financial statements give a true and fair view of the financial position of the Sub-Fund as of 31st December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

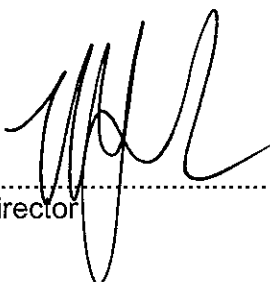



24th April 2007

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**BALANCE SHEET
AS AT 31ST DECEMBER 2006**

	Note	2006 US\$	2005 US\$
Assets			
Trading securities	7	245,333,238	70,584,267
Amounts due from brokers		4,857,980	1,490,792
Other receivables		267,880	62,604
Bank balances		88,378,177	27,708,102
		<u>338,837,275</u>	<u>99,845,765</u>
Total assets			
Equity and liabilities			
Equity			
Ordinary share capital	8	100	100
		<u>100</u>	<u>100</u>
Liabilities			
Subscription proceeds received in advance		2,000,000	8,500,000
Redemption payable		91,568	-
Performance fee payable		2,421,446	14,864
Other payables		395,098	167,828
		<u>4,908,112</u>	<u>8,682,692</u>
Liabilities (excluding net assets attributable to holders of redeemable participating shares)		4,908,112	8,682,692
		<u>4,908,112</u>	<u>8,682,692</u>
Net assets attributable to holders of redeemable participating shares		333,929,063	91,162,973
		<u>333,929,063</u>	<u>91,162,973</u>
Total liabilities and equity		338,837,274	99,845,765
		<u>338,837,274</u>	<u>99,845,765</u>


.....
Director


.....
Director

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

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB- FUND OF OPTIMAL JAPAN LONG FUND)**

**INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2006**

	Note	2006 US\$	2005 US\$
Income			
Dividends		1,748,901	278,432
Bank interest		324,510	84,342
Gains on trading securities	4	15,404,382	13,297,376
		<u>17,477,793</u>	<u>13,660,150</u>
Expenses			
Investment management fee	5(a)	(1,606,564)	(312,191)
Performance fee	5(b)	(2,421,271)	(14,952)
Transaction fee	5(d)	(42,405)	(30,750)
Auditors' remuneration		(30,917)	(19,000)
Directors' fee	5(e)	(36,000)	(42,652)
Administration fee	5(d)	(146,735)	(31,219)
Custodian fee	5(c)	(145,546)	(31,219)
Other operating expenses		(47,546)	(45,735)
		<u>(4,476,984)</u>	<u>(527,718)</u>
Profit before tax		13,000,809	13,132,432
Withholding tax on dividends	6	(122,423)	(19,490)
Increase in net assets attributable to holders of redeemable participating shares from operations		<u>12,878,386</u>	<u>13,112,942</u>

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

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB- FUND OF OPTIMAL JAPAN LONG FUND)**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF
REDEEMABLE PARTICIPATING SHARES
FOR THE YEAR ENDED 31ST DECEMBER 2006**

	2006 US\$	2005 US\$
Net assets attributable to holders of redeemable participating shares at 1st January	91,162,973	12,828,266
Proceeds from redeemable participating shares issued	246,305,551	65,553,702
Redemption of redeemable participating shares	<u>(16,417,847)</u>	<u>(331,937)</u>
Net increase from share transactions	229,887,704	65,221,765
Increase in net assets attributable to holders of redeemable participating shares from operations	<u>12,878,386</u>	<u>13,112,942</u>
Net assets attributable to holders of redeemable participating shares at 31 December	<u><u>333,929,063</u></u>	<u><u>91,162,973</u></u>

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

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

1 General

The Company

Optimal Japan Long Fund ("the Company") is an open-ended investment company with limited liability incorporated in the Cayman Islands on 20th January 2004. The Company is registered as an exempted company pursuant to Sections 187 and 188 of the Companies Law (Revised) of the Cayman Islands which is constituted as an umbrella fund. Optimal Japan Absolute Long Fund is the first sub-fund of the Company.

The Sub-Fund

Optimal Japan Absolute Long Fund (the "Sub-Fund") is a sub-fund of the Company. The Sub-Fund commenced its operation on 1st September 2004. The objective of the Sub-Fund is to seek to achieve returns above those of the Topix Index in Japan through investing in quoted securities issued by Japanese companies. Investments will be predominantly in equities but may include equity derivatives and foreign exchange contracts.

The Investment Manager of the Sub-Fund is Optimal Fund Management Pty Limited which is incorporated in Australia and is a company established by Warwick Johnson.

On 14th August 2006, the Board of Directors resolved to issue a new class of redeemable participating shares, which results in the Company's shares being designated as Class A and Class B respectively (refer to note 5 and note 8).

The financial statements are in respect of the Sub-Fund only. Net asset values referred throughout these financial statements means net assets attributable to the holders of redeemable participating shares.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

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

The Sub-Fund's functional currency is United States Dollar ("USD") and it has also adopted USD as its presentation currency in the financial statements.

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

2 Principal accounting policies (continued)

(a) Basis of preparation (Continued)

(i) Amendments to published standards effective in 2006

- IAS 39 (Amendment), The Fair Value Option is mandatory for the Sub-Fund's accounting period beginning on 1 January 2006. It allows entities to designate financial assets and financial liabilities at fair value through profit or loss when not held for trading if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('an accounting mismatch') or if a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis.

Adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

(ii) Standards and interpretations that are not yet effective and have not been early adopted by the Sub-Fund

Certain new standards have been published that are mandatory for the Sub-Fund's accounting periods beginning on or after 1st January 2007 or later periods but which the Sub-Fund has not early adopted, are as follows:

- IFRS 7 "Financial Instruments: Disclosures" introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces the disclosure requirements in IAS 32.
- Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures" introduces disclosures about the level of an entity's capital and how it manages capital. The Sub-Fund has already commenced an assessment of the impact of these new standards but is not yet in a position to state whether these new standards would have a significant impact on its results of operations and financial position.

(b) Trading securities

Trading securities consist principally of listed securities and are initially recognised at fair value and are subsequently also re-measured at fair value based on the market price quoted on the relevant stock exchanges at the close of the business on the valuation day.

Purchases and sales of trading securities are accounted for on trade dates. Realised and unrealised gains and losses on securities are recognised in the income statement as they arise.

Transaction costs on purchase and sale of investments are accounted for in the income statement.

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

2 Principal accounting policies (continued)

(c) Derivative financial instruments

Derivative financial instruments, including forward foreign exchange contracts and futures contracts are recognised at fair value on the date on which a derivative contract is entered into and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices and pricing models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in fair values of derivatives are included in the income statement.

(d) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date.

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

(e) Expenses

All expenses are accounted for on an accruals basis.

(f) Redeemable participating shares

Redeemable participating shares are redeemable at the shareholder's option and are classified as financial liabilities. The redeemable participating share can be put back to the Sub-Fund at any time for cash equal to a proportionate share of the Sub-Fund's net asset value. The redeemable participating share is 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 Sub-Fund.

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.

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

2 Principal accounting policies (continued)

(g) Translation of foreign currencies

(i) Functional and presentation currency

The performance of the Sub-Fund is measured and reported to the investors in US dollars. The Board of Directors considers the US dollars as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in US dollars, which is also the Fund's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary financial assets and liabilities such as trading securities are recognised in the income statement within the fair value net gain or loss.

(h) 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.

(i) Amounts due from brokers

Amounts due from brokers represent receivables for securities sold that have been contracted for but not yet delivered by the end of the year.

(j) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices at the balance sheet date.

3 Financial instruments

The Company is exposed to a number of risks arising from the various financial instruments it holds. The risk management policies employed by the Sub-Fund to manage these risks are discussed below:

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

3 Financial instruments (continued)

Market price risk

As of 31st December 2006, the Sub-Fund's trading securities consisted principally of equity securities quoted on the Tokyo Stock Exchange.

The Sub-Fund's trading securities are susceptible to market price risk arising from uncertainties about future prices of the instruments. The Sub-Fund's market price risk is managed through diversification of the investment portfolio to different industry sectors in Japan.

Concentration of credit risk

Financial assets which potentially subject the Sub-Fund to concentration of credit risk consist of trading securities and bank balances. The Sub-Fund's trading portfolio consists principally of quoted equity securities issued by corporations in Japan. The Sub-Fund manages its concentrations of credit risk by limiting its investment in a single investment to 10%.

Currency risk

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Sub-Fund's financial position as a result of a change in foreign currency exchange rates. A summary of the Sub-Fund's net assets as at 31st December 2006 by major currencies, other than United States dollar, is shown follows:

	2006 US\$	2005 US\$
Japanese Yen	<u>319,262,165</u>	<u>81,055,446</u>

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable to meet commitments it has entered into with the Sub-Fund. The Sub-Fund transacts its trading securities sales and purchases with brokers and counterparties which the Sub-Fund believes to be reputable. Bank deposits and trading securities are placed with the Custodian.

Interest rate risk

The majority of the Sub-Fund's financial assets and liabilities are non-interest bearing. As a result, the Sub-Fund is not subject to significant amounts of risk due to fluctuations in the prevailing level of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates. The Sub-Fund is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates on its bank deposits.

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

3 Financial instruments (continued)

Liquidity risk

The Sub-Fund's trading securities are considered to be readily realisable as they are listed on the Tokyo Stock Exchange.

Fair value

At 31st December 2006, the carrying amounts of trading securities, bank balances, other receivables and payables approximated their fair values.

4 Gains on investments

	2006 US\$	2005 US\$
Net realised gain on investments	9,230,124	2,680,272
Net realised gain/loss on future contracts	1,948,853	(531,232)
Net change in unrealised gain on investments	6,924,713	12,386,986
Net foreign exchange loss	(2,699,308)	(1,238,650)
	<u>15,404,382</u>	<u>13,297,376</u>

5 Fees

(a) Investment management fee

The Investment Manager receives a fee currently at the rate of 1% per annum and 1.5% per annum of the value of the Sub-Fund's weekly net assets attributable to Class A redeemable participating share and Class B redeemable participating share respectively. For the investment management fee received from Class B redeemable participating share, the Investment Manager will remit one third of this fee to distributors appointed by it to promote the Class B redeemable participating shares to prospective investors on a private placement basis. These rebates are not accounted for in these financial statements.

(b) Performance fee

Pursuant to the Sub-Fund's private placing memorandum dated September 2006 related to Class A redeemable participating share and dated September 2006 related to Class B redeemable participating share, the Investment Manager is entitled (if applicable) to a Performance Fee payable by each Shareholder. The objective of the Directors is to levy a Performance Fee only if the return of an investment in the Sub-Fund over a performance period is both positive and in excess of the return of the Topix Index (in USD) over the same period.

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

5 Fees (continued)

(b) Performance fee (continued)

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.

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 per Class A redeemable participating share and Class B redeemable participating share 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 Sub-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 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.

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

5 Fees (continued)

(c) Custodian fee

The Custodian is entitled to receive a custodian fee which consists of two elements, the first being a fixed amount due in respect of the Sub-Fund (currently US\$5,000 per annum payable pro-rata by the Sub-Fund of the Sub-Fund) which is payable quarterly in arrears.

The Custodian is also entitled to receive a fee which accrues in relation to the Sub-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 US\$250 million of the net asset value
- 0.075% per annum on the excess of the first US\$250 million of the net asset value

The above charges are subject to a minimum aggregate fee of US\$800 per month.

(d) Administration fee

The Administrator is entitled to receive a fee at the rate of 0.1% per annum of net asset value of the Sub-Fund accrued on each relevant valuation date and payable monthly in arrears, subject to a minimum of US\$1,000 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 Sub-Fund, based on time charges but subject to an annual minimum of US\$5,000.

(e) Directors' fee

Pursuant to the private placing memorandum dated September 2006, each of the Company's directors is entitled to an annual director fee, subject to a total maximum of US\$50,000 per annum. During the year, total US\$36,000 (2005: US\$42,652) has been charged as directors' fee.

6 Taxation

Under current laws of the Cayman Islands, there is no income, estate, corporation, capital gains or other taxes payable by the Company. As a result, no provision for income taxes has been made in the accounts.

The Company currently incurs withholding tax imposed by Japan on investment income which is recorded gross of withholding tax in the income statement.

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

7 Investments

	2006 US\$	2005 US\$
Equity securities, listed in Japan, at fair value	245,333,238	70,584,267

Analysis of securities by industry sector is as follows:

<u>Industry</u>	2006 as a % of NAV	2005 as a % of NAV
Automotive	11.33	6.38
Machinery	8.90	5.67
Real Estate	8.57	13.35
Steel	5.00	5.58
Import/Export	4.96	8.63
Electronics	4.86	5.69
Transportation	4.47	5.57
Bank and Finance	4.23	9.41
Finance	3.88	3.76
Ceramics	3.67	1.01
Diversified Materials	2.54	4.92
Manufacturing	2.52	-
Lighting Prod. & Systems	2.20	-
Textile	1.91	-
Metal Processors & Fabricators	1.44	-
Computer	1.00	-
Engineering	1.09	-
Photo Equipment & Supplies	0.57	-
Consulting Services	0.33	-
Chemicals	-	3.95
Electric Products	-	2.70
Publishing	-	0.75
Heating/Cooling Equipment	-	0.06
	<u>73.47%</u>	<u>77.43%</u>

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

8 Share capital

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

The authorised share capital of the Company is US\$50,000 divided into 49,900,000 redeemable participating shares of US\$0.001 each and 100 management shares of US\$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 US\$1 each on the liquidation of the Company.

On 14th August 2006, the Board of Directors resolved to issue a new class of redeemable participating shares, which resulted in the shares of the Company 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 share have the same terms, rights and privileges except for the calculation of management fee (note 5(a)).

9 Movement in redeemable participating shares

Year ended 31st December 2006	Class A No. of Shares	Class B No. of Shares	Total No. of Shares
Balance at the beginning of the year	6,778,723.664	-	6,778,723.664
Issued during the year	16,770,826.708	539,170.281	17,309,996.989
Redeemed during the year	<u>(1,176,862.737)</u>	<u>-</u>	<u>(1,176,862.737)</u>
Balance at the end of the year	<u>22,372,687.635</u>	<u>539,170.281</u>	<u>22,911,857.916</u>
Year ended 31st December 2005	Class A No. of Shares	Class B No. of Shares	Total No. of Shares
Balance at the beginning of the year	1,214,087.592	-	1,214,087.592
Issued during the year	5,595,436.233	-	5,595,436.233
Redeemed during the year	<u>(30,800.161)</u>	<u>-</u>	<u>(30,800.161)</u>
Balance at the end of the year	<u>6,778,723.664</u>	<u>-</u>	<u>6,778,723.664</u>

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2006**

10 Net asset value per redeemable participating share

Class A

The calculation of net asset value per Class A redeemable participating share is based on the net assets attributable to holders of Class A redeemable participating shares of US\$326,070,239 (2005: US\$91,162,973) and the number of redeemable participating shares in issue at the year end being 22,372,687.635 (2005: 6,778,723.664).

Class B

The calculation of net asset value per Class B redeemable participating share is based on the net assets attributable to holders of Class B redeemable participating shares of US\$7,858,824 and the number of redeemable participating shares in issue at the year end being 539,170.281.

11 Related party transactions

In addition to the fees paid by the Sub-Fund to the various advisors to the Sub-Fund as detailed in note 5 above, details of other related party transactions are as follows:

Directorships

Mr. Warwick Johnson and Mr Eric Lucas, a director of the Company, are also directors and shareholders of the Investment Manager.

Interests in the Company's shares

As at 31st December 2006, the Investment Manager held 100 (2005: 100) management shares in the Company, representing all of the Company's authorised and issued management shares.

Furthermore, Warwick Johnson, a director and shareholder of the Investment Manager, held 68,946.254 (2005: 70,000) redeemable participating shares in the Sub-Fund as at 31st December 2006.

David Fitzherbert, a director, held 19,877.829 redeemable participating preference shares (2005: 20,182) in the Sub-Fund as at 31st December 2006.

Paul Smith, a director, held 16,331.911 redeemable participating preference shares (2005: 9,479) in the Sub-Fund as at 31st December 2006.

12 Post balance sheet event

Pursuant to a board resolution dated 22nd December 2006 and effective on 1st January 2007, the Sub-Fund was restructured to become a feeder fund and was renamed as "Optimal Japan Absolute Long Fund – Offshore Feeder". The Sub-Fund invests substantially all of its assets in Optimal Japan Absolute Long Master Fund (the "Master Fund"), an exempted company incorporated with limited liability in the Cayman Islands, through a "master-feeder" structure.

13 Approval of financial statements

The financial statements were approved by the directors on 24 April 2007.

OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)

INVESTMENT PORTFOLIO - UNAUDITED
AS AT 31ST DECEMBER 2006

	Holding	Fair value US\$	Fair value as a % of NAV
<u>LONG POSITION - LISTED</u>			
JAPAN			
EQUITIES			
<i>Automotive</i>			
Suzuki Motor Corporation	351,200	9,903,336	2.97
Toyota Motor Corporation	222,000	14,830,431	4.44
Bosch Corp	978,000	5,162,704	1.55
Press Kogyo Co Ltd	858,000	4,241,215	1.27
Riken Corp	569,000	3,662,649	1.10
		<hr/>	<hr/>
		37,800,335	11.33
<i>Bank and Finance</i>			
Sumitomo Trust & Banking Co	1,110,000	11,625,865	3.48
Japan Securities Finance Co Ltd	207,000	2,503,353	0.75
		<hr/>	<hr/>
		14,129,218	4.23
<i>Ceramics</i>			
Showa Denko K K	3,204,000	12,261,542	3.67
		<hr/>	<hr/>
		12,261,542	3.67
<i>Computer</i>			
Fujitsu Ltd	426,000	3,339,214	1.00
		<hr/>	<hr/>
		3,339,214	1.00
<i>Consulting Services</i>			
INTAGE Inc	51,800	1,097,688	0.33
		<hr/>	<hr/>
		1,097,688	0.33
<i>Diversified Minerals</i>			
Sumitomo Metal Mining Co Ltd	661,000	8,470,874	2.54
		<hr/>	<hr/>
		8,470,874	2.54
<i>Electronics</i>			
CMK Corp	146,600	1,518,228	0.45
Fanuc Ltd	45,500	4,475,347	1.34
Star Micronics Co Ltd	363,900	7,253,263	2.17
Hirose Electric Co Ltd	26,600	3,015,954	0.91
		<hr/>	<hr/>
		16,262,792	4.87
<i>Engineering</i>			
Taikisha Ltd	307,500	3,636,167	1.09
		<hr/>	<hr/>
		3,636,167	1.09

OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)

INVESTMENT PORTFOLIO - UNAUDITED
AS AT 31ST DECEMBER 2006

	Holding	Fair value US\$	Fair value as a % of NAV
<u>LONG POSITION - LISTED (CONTINUED)</u>			
<i>Finance</i>			
Diamond Lease Co Ltd	269,200	12,968,050	3.88
		<hr/>	<hr/>
		12,968,050	3.88
<i>Lighting Prod. & Systems</i>			
Ushio Inc	357,600	7,337,770	2.20
		<hr/>	<hr/>
		7,337,770	2.20
<i>Import / Export</i>			
Mitsubishi Corp	399,900	7,517,737	2.25
Sumitomo Corp	605,000	9,042,885	2.71
		<hr/>	<hr/>
		16,560,622	4.96
<i>Machinery</i>			
Hitachi Construction Machinery Co	350,400	9,410,264	2.82
Komatsu Ltd	507,000	10,275,733	3.09
Makino Milling Machine Co Ltd	843,000	9,982,569	2.99
		<hr/>	<hr/>
		29,668,566	8.90
<i>Manufacturing</i>			
ARRK Corp	84,400	1,270,020	0.38
JSR Corp	277,000	7,160,086	2.14
		<hr/>	<hr/>
		8,430,106	2.52
<i>Metal Processors & Fabricators</i>			
Nachi-Fujikoshi Corp	868,000	4,822,425	1.44
		<hr/>	<hr/>
		4,822,425	1.44
<i>Photo Equipment & Supplies</i>			
Noritsu Koki Co Ltd	102,900	1,904,196	0.57
		<hr/>	<hr/>
		1,904,196	0.57
<i>Real Estate</i>			
Mitsui Fudosan Co Ltd	599,000	14,603,625	4.38
Tokyo Tatemono Co Ltd	1,258,000	13,999,480	4.19
		<hr/>	<hr/>
		28,603,105	8.57
<i>Steel</i>			
JFE Holdings Inc	191,700	9,862,121	2.95
Nippon Steel Corp	1,192,000	6,842,583	2.05
		<hr/>	<hr/>
		16,704,704	5.00

**OPTIMAL JAPAN ABSOLUTE LONG FUND
(A SUB-FUND OF OPTIMAL JAPAN LONG FUND)**

**INVESTMENT PORTFOLIO - UNAUDITED
AS AT 31ST DECEMBER 2006**

	Holding	Fair value US\$	Fair value as a % of NAV
<u>LONG POSITION - LISTED (CONTINUED)</u>			
<i>Textile</i>			
Teijin Ltd	1,039,000	6,391,566	1.91
		<hr/>	<hr/>
		6,391,566	1.91
<i>Transportation</i>			
Mitsui OSK Lines Ltd	353,000	3,478,008	1.04
Tokyu Corp	1,793,000	11,466,290	3.43
		<hr/>	<hr/>
		14,944,298	4.47
Total Equity – Long Positions	20,618,200	245,333,238	73.47
Other net assets		88,595,825	26.53
TOTAL NET ASSETS		<hr/> <hr/>	<hr/> <hr/>
		333,929,063	100.00