

**OPTIMAL JAPAN ABSOLUTE LONG MASTER FUND
OPTIMAL JAPAN ABSOLUTE LONG FUND – US FEEDER
OPTIMAL JAPAN ABSOLUTE LONG FUND – OFFSHORE FEEDER
(FORMERLY KNOWN AS OPTIMAL JAPAN ABSOLUTE LONG FUND)**

COLLECTIVELY ‘THE OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP’

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

OPTIMAL JAPAN ABSOLUTE LONG MASTER FUND
OPTIMAL JAPAN ABSOLUTE LONG FUND – US FEEDER
OPTIMAL JAPAN ABSOLUTE LONG FUND – OFFSHORE FEEDER
(FORMERLY KNOWN AS OPTIMAL JAPAN ABSOLUTE LONG FUND)

COLLECTIVELY ‘THE OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP’

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OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

DIRECTORS AND ADMINISTRATION

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF OPTIMAL JAPAN ABSOLUTE LONG MASTER FUND, OPTIMAL JAPAN ABSOLUTE LONG FUND – US FEEDER AND OPTIMAL JAPAN ABSOLUTE LONG FUND – OFFSHORE FEEDER (FORMERLY KNOWN AS OPTIMAL JAPAN ABSOLUTE LONG FUND)

We have audited the financial statements 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 (formerly know as Optimal Japan Absolute Long Fund)) (the "Group") set out on pages 3 to 21, which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in net assets attributable to holders of redeemable participating shares and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The management of the Group are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true 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 the 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 give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

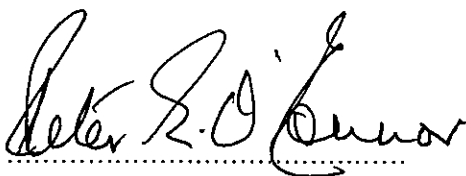


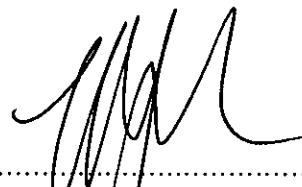
28 April 2008

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

**BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Notes	2007 US\$	2006 US\$
Assets			
Financial assets at fair value through profit or loss	6	561,857,291	245,333,238
Amounts due from brokers		377,254	4,857,980
Other receivables and prepayments		806,095	267,880
Cash balances		<u>47,449,720</u>	<u>88,378,177</u>
Total assets		<u>610,490,360</u>	<u>338,837,275</u>
Equity and liabilities			
Ordinary share capital	8	<u>200</u>	<u>100</u>
Liabilities			
Subscriptions in advance		2,000,000	2,000,000
Redemptions payable		350,281	91,568
Performance fee payable	4.2	417,956	2,421,446
Other payables and accrued expenses		<u>829,887</u>	<u>395,098</u>
Liabilities (excluding net assets attributable to holders of redeemable participating shares)		<u>3,598,124</u>	<u>4,908,112</u>
Net assets attributable to holders of redeemable participating shares		<u>606,892,036</u>	<u>333,929,063</u>
Net assets attributable to holders of redeemable participating shares of the:			
- Offshore Feeder		576,055,250	333,929,063
- US Feeder		<u>30,836,786</u>	<u>-</u>
		<u>606,892,036</u>	<u>333,929,063</u>


.....
Director


.....
Director

The accompanying notes on pages 7-21 are an integral part of these financial statements.

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	2007 US\$	2006 US\$
Income			
Dividends		5,801,783	1,748,901
Bank interest		1,042,330	324,510
Other income		48,838	-
(Loss)/gain on financial assets at fair value through profit or loss	6	<u>(61,953,273)</u>	<u>15,404,382</u>
Total investment income		(55,060,322)	17,477,793
Expenses			
Investment management fee	4.1	(5,901,157)	(1,606,564)
Performance fee	4.2	(417,956)	(2,421,271)
Transaction fee		(41,125)	(42,405)
Auditors' remuneration		(54,363)	(30,917)
Directors' fee	4.5	(58,000)	(36,000)
Administration fee	4.4	(541,049)	(146,735)
Custodian fee	4.3	(483,496)	(145,546)
Other operating expenses		<u>(312,848)</u>	<u>(47,546)</u>
Total operating expenses		(7,809,994)	(4,476,984)
Operating (loss)/profit before tax		(62,870,316)	13,000,809
Withholding tax on dividends	5	<u>(406,124)</u>	<u>(122,423)</u>
Net (decrease)/increase in net assets attributable to holders of redeemable participating shares from operations		<u>(63,276,440)</u>	<u>12,878,386</u>
Net (decrease)/increase in net assets attributable to holders of redeemable participating shares from operations of the:			
- Offshore Feeder		(60,012,808)	12,878,386
- US Feeder		<u>(3,263,632)</u>	<u>-</u>
		<u>(63,276,440)</u>	<u>12,878,386</u>

The accompanying notes on pages 7-21 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 FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 US\$	2007 US\$	2007 US\$	2006 US\$
	Offshore Feeder	US Feeder	Total	Offshore Feeder
Net assets attributable to holders of redeemable participating shares at beginning of the year	333,929,063	-	333,929,063	91,162,973
Proceeds from redeemable participating shares issued	406,286,505	35,359,826	441,646,331	246,305,551
Proceeds for redeemable participating shares redeemed	<u>(104,147,510)</u>	<u>(1,259,408)</u>	<u>(105,406,918)</u>	<u>(16,417,847)</u>
Net increase from share transactions	302,138,995	34,100,418	336,239,413	229,887,704
(Decrease)/increase in net assets attributable to holders of redeemable participating shares from operations	<u>(60,012,808)</u>	<u>(3,263,632)</u>	<u>(63,276,440)</u>	<u>12,878,386</u>
Net assets attributable to holders of redeemable participating shares at end of year	<u>576,055,250</u>	<u>30,836,786</u>	<u>606,892,036</u>	<u>333,929,063</u>

The accompanying notes on pages 7-21 are an integral part of these financial statements.

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	2007	2006
	US\$	US\$
Cash flows from operating activities:		
Interest received from bank deposits	1,047,172	319,241
Dividends received	5,316,072	1,540,329
Investment management fee paid	(5,614,550)	(1,428,599)
Performance fee paid	(2,421,271)	(14,776)
Interest paid	(98,910)	-
Directors' fee paid	(38,000)	(60,000)
Custodian fee paid	(483,161)	(109,859)
Administration fee paid	(536,942)	(109,858)
Withholding tax paid	(406,124)	(122,423)
Purchase of financial assets at fair value through profit or loss	(855,941,936)	(226,281,826)
Proceeds from sale of financial assets at fair value through profit or loss	483,940,937	64,320,502
Net payment on realised (loss)/gain on futures contracts	(4,697,829)	1,948,854
Other	(194,271)	(111,474)
Net cash outflow from operating activities	(380,128,813)	(160,109,889)
Cash flows provided by financing activities:		
Proceeds from redeemable participating shares issued	441,646,331	239,905,551
Proceeds for redeemable participating shares redeemed	(105,148,205)	(16,326,279)
Net cash inflow from financing activities	336,498,126	223,479,272
(Decrease)/increase in cash	(43,630,687)	63,369,383
Cash at beginning of the year	88,378,177	27,708,102
Effect of exchange rate differences	2,702,230	(2,699,308)
Cash at end of the year	47,449,720	88,378,177

The accompanying notes on pages 7-21 are an integral part of these financial statements.

Notes to the Financial Statements as at 31 December 2007

NOTE 1 GENERAL

1.1 Restructure

Pursuant to the board resolution made on 22 December 2006, the Optimal Japan Absolute Long Fund -- Offshore Feeder (the 'Offshore Feeder') (formerly known as Optimal Japan Absolute Long Fund) 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 and Offshore 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.

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 with effective on 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 assets value 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 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). The principal accounting policies applied consistently by the Group and consistent with those used in the previous year by the Offshore Feeder are set out below.

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, amendment and interpretations effective 1st January 2007*

IFRS7, ‘Financial instruments: Disclosures’, and the complementary amendment to IAS 1 ‘Presentation of financial statements – Capital Disclosures’ introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group’s financial instruments, or the disclosures relating to taxation and trade and other payables. IAS 1 introduces disclosure about the level of an entity’s capital and how it manages it.

(ii) *Standards, amendment and interpretations not effective 1st January 2007*

All new standards issued but not effective are considered not relevant to the Group’s operations.

2.2 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 at 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 received by the Group and as liabilities when amounts are payable by the Group. Changes in the fair value of derivatives are included in the income statement as they arise.

Notes to the Financial Statements as at 31 December 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) *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 income statement.

(iii) *Subsequent valuation*

The realised gains or losses resulting from the sale of investments are calculated on an average cost basis. Open investment positions are securities listed on a stock exchange or traded on a regulated market are valued at their value based on 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, may be valued at fair value determined by the Management. In such circumstances, the Management would refer to quotes obtained from a number of external brokers. At reporting date, all investments were valued at quoted prices.

Open futures are valued at market closing prices at the valuation date, with the differences between the market closing prices and the contract prices recognised as unrealised profit or loss.

2.3 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.

2.4 Foreign currency translation

(i) *Functional and presentation currency*

The performance of the Group 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 Group's presentation currency.

(ii) *Foreign currency 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 are recognised in the income statement.

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 gains or losses are recognised in the income statement.

Notes to the Financial Statements as at 31 December 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Income and expense

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

Dividends received on quoted equity shares are 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.

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

2.6 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 US\$1 each on the liquidation of the entity.

2.7 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.

NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

3.1 Strategy in using financial instruments

Investment objectives

The Group's investment objective is capital appreciation and seeks to achieve this through investing primarily in 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.

Notes to the Financial Statements as at 31 December 2007

NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)

3.1 Strategy in using financial instruments (continued)

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.

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 is limited to investing a maximum of 10% of its gross assets in the securities of any one company. The Master Fund's market price risk is also managed through the diversification of the investment portfolio to different Japanese industry sectors.

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

Notes to the Financial Statements as at 31 December 2007

NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)

3.2 Market price risk (continued)

Industry	As a % of Master Fund's NAV	
	2007	2006
Automotive	16.24	11.33
Machinery	14.16	8.90
Electronics	13.35	4.86
Import/Export	7.34	4.96
Bank and Finance	6.94	4.23
Real Estate	6.93	8.57
Steel	6.44	5.00
Ceramics	4.49	3.67
Diversified Materials	-	2.54
Manufacturing	-	2.52
Transportation	3.52	4.47
Lighting Prod. & Systems	3.36	2.20
Textile	-	1.91
Finance	2.90	3.88
Building Products	2.87	-
Retail	2.83	-
Metal Processors & Fabricators	1.45	1.44
Computer	-	1.00
Engineering	-	1.09
Consulting Services	-	0.33
REITS – Shopping Centres	1.19	-
Non-Ferrous metals	1.17	-
Photo Equipment & Supplies	0.44	0.57
Equity securities, listed in Japan, at fair value	95.62	73.47

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 Master Fund's investment strategy against any particular index or external benchmark. For the purpose of determining and disclosing the sensitivity analysis as required under IFRS 7 - Financial Instruments: Disclosures", the Investment Manager has made reference to the Topix Index (the "Index") for the purpose of determining reasonable possible shift in the value of the investment portfolio.

2007			2006		
Reasonable possible shift in market index	Impact on net assets value		Reasonable possible shift in market index	Impact on net assets value	
increase/(decrease)	increase/(decrease)		increase/(decrease)	increase/(decrease)	
%	US\$		%	US\$	
1%	5,618,573		1%	2,453,332	

The Investment Manager considers that a reasonable possible shift is based on the monthly change in the index in the last 12 months would be $\pm 1\%$ (2006: $\pm 1\%$) and the analysis above shows the potential impact on the net assets value attributable to holders of redeemable participating shares in the event of the above stated possible reasonable shift when applied to the Master Fund's investment portfolio as at 31 December.

Notes to the Financial Statements as at 31 December 2007

NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)

3.3 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Master Fund's assets and liabilities are mainly denominated in US Dollar and 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 exchange rates. The table below summarises the Master Fund's net exposure to Japanese Yen, incorporating the underlying currency risk through all financial assets and liabilities held by it, both monetary and non-monetary. All exposures are stated in US\$ equivalents:

	2007 US\$	2006 US\$
Japanese Yen	587,189,753	319,262,165

The table below summarises the impact of movements in the Japanese Yen exchange/USD exchange rate. The analysis is based on the assumption that the exchanges rates had increased/decreased by the respective percentage with all other variables held constant. The sensitivity analysis is presented gross of the impact, if any, of performance fees.

	2007	2006
	Reasonable possible shift %	Impact on net assets value US\$
JPY/USD	+3%	(17,102,614)
		2006
		Reasonable possible shift %
		Impact on net assets value US\$
		+2%
		(6,260,042)

A corresponding decrease in the exchange rate in the above table will result in opposite effect on the net assets value.

3.4 Interest rate risk

The majority of the Master Fund's financial assets and financial liabilities are non-interest bearing, as its 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. Any excess cash and cash equivalents are invested at short-term market interest rates and are exposed to interest rate risk on its bank deposits.

3.5 Credit risk

Credit risk is the risk that an issuer 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 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 2007, the Custodian held assets totaling US\$609,307,011 (2006: US\$333,711,415) 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 AA-.

Notes to the Financial Statements as at 31 December 2007**NOTE 3 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)****3.5 Credit risk (continued)**

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

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 predominately investing its investments in listed Japanese companies 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 either as a means to effectively increase its exposure to price changes in markets or to provide temporary liquidity to meet redemptions. The Master Fund and Offshore and US Feeders have short-term lending facilities provided by the Custodian.

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.

At 31 December 2007	Less than 1 month
Subscriptions for shares to be issued	2,000,000
Redemptions and performance fees payable	768,237
Other payables and accrued expenses	829,887
	<hr/>
	3,598,124
Net assets attributable to holders of redeemable participating shares	<hr/>
	606,892,036
At 31 December 2006	
Subscriptions for shares to be issued	2,000,000
Redemptions and performance fees payable	2,513,014
Other payables and accrued expenses	395,098
	<hr/>
	4,908,112
Net assets attributable to holders of redeemable participating shares	<hr/>
	333,929,063

Notes to the Financial Statements as at 31 December 2007

NOTE 4 SIGNIFICANT AGREEMENTS AND FEES

4.1 Investment management fee

Offshore Feeder

The Investment Manager receives a fee, payable monthly in arrears, at the rate of 1% per annum and 1.5% per annum of the value of the Offshore Feeder's 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 remits one third of this fee to the distributor appointed to promote the Class B redeemable participating shares to prospective investors on a private placement basis. This rebate is not accounted for in these financial statements.

US Feeder

The Investment Manager is entitled to receive a fee, payable monthly in arrears, at the rate of 1% p.a. of the value of the 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 2007 related to Class A and B redeemable participating shares and January 2007 related to Class A redeemable participating shares respectively, 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 Offshore 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.

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 class of 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.

Notes to the Financial Statements as at 31 December 2007

NOTE 4 SIGNIFICANT AGREEMENTS AND FEES (continued)

4.2 Performance fees (continued)

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 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 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\$2,000 per month.

In 2006, the custodian fee was borne by the Offshore Feeder.

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 US\$250 million of the net asset value
- 0.08% 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\$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 US\$5,000.

Notes to the Financial Statements as at 31 December 2007

NOTE 4 SIGNIFICANT AGREEMENTS AND FEES (continued)

4.4 Administration fee (continued)

Offshore Feeder

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

In 2006, the Administration fee borne by the Offshore Feeder. The Administrator is entitled to receive fee at the rate of 0.1% per annum of net asset value of the Offshore Feeder 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 Offshore Feeder, based on time charges but subject to an annual minimum of US\$5,000.

US Feeder

The Administrator is entitled to receive a fee fixed at US\$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 US\$2,500.

In 2006, the Administration fee was borne by the Offshore Feeder.

4.5 Director fees

Master Fund

Pursuant to the private placing memorandum dated September 2007, the Master Fund's directors are entitled to be paid an annual director fee subject to a total maximum of US\$75,000 per annum. During the year, total US\$58,000 has been charged as directors' fees.

In 2006, the directors' fee was borne by the Offshore Feeder.

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 investment income which is recorded gross of withholding tax in the income statement.

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

Notes to the Financial Statements as at 31 December 2007

NOTE 6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Categories of financial instruments	2007 US\$	2006 US\$
Equity securities, listed in Japan, at fair value	<u>561,857,291</u>	<u>245,333,238</u>
Net gains and losses on financial assets at fair value through profit or loss		
Net realised (loss)/gain on investments	(6,053,057)	9,230,124
Net realised gain on futures contracts	-	1,948,853
Net unrealised (loss)/gain on investments	(58,602,446)	6,924,713
Net foreign exchange gain/(loss)	<u>2,702,230</u>	<u>(2,699,308)</u>
	<u>(61,953,273)</u>	<u>15,404,382</u>

NOTE 7 ASSETS HELD BY THE CUSTODIAN

A custodian agreement is held with Bank of Bermuda (Cayman) Limited whereby the custodian agrees to provide the Group with custodian services in accordance with the terms and conditions described in the Custody Agreement in return for a fee.

NOTE 8 SHARE CAPITAL

Master Fund

The authorised share capital of the Master Fund is US\$150,000 divided into 150,000,000 redeemable participating preference shares of US\$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 2007, the Offshore Feeder owned 95.03% of the Master Fund and the US Feeder owned 4.97% of the Master Fund. The sum of the investment in Master Fund by the Offshore Feeder and US Feeder totalling US\$587,611,318 was eliminated when preparing the Group's account.

Offshore Feeder

The authorised share capital of the Offshore Feeder consists of two classes of redeemable participating shares, Class A and B, and management shares. The two classes of 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 US\$50,000 divided into 49,900,000 participating shares of nominal value of US\$0.001 each and 100 management shares of a nominal value of US\$1.00 each to US\$150,000 divided into 149,900,000 participating shares of a nominal value of US\$0.001 each and 100 management shares of a nominal value of US\$1.00 each.

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

Notes to the Financial Statements as at 31 December 2007

NOTE 8 SHARE CAPITAL (continued)

Offshore Feeder (continued)

All issued redeemable participating shares are fully paid. Holders of redeemable participating shares are entitled to dividends and voting powers. The 100 management shares of the two classes 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 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 share have the same terms, rights and privileges except for the calculation of management fee (note 4.1).

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 US\$150,000 divided into 149,900,000 redeemable participating shares of US\$0.01 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. 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 US Feeder.

NOTE 9 MOVEMENTS IN REDEEMABLE PARTICIPATING SHARES

Offshore Feeder

2007	Class A No. of shares	Class B No. of shares	Total No. of shares
Balance at the beginning of the year	22,372,687.635	539,170.281	22,911,857.916
Shares issued during the year	24,130,253.773	2,782,934.056	26,913,187.829
Shares redeemed during the year	(6,452,974.786)	(695,164.491)	(7,148,139.277)
Balance at the end of the year	<u>40,049,966.622</u>	<u>2,626,939.846</u>	<u>42,676,906.468</u>

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

Notes to the Financial Statements as at 31 December 2007

NOTE 9 MOVEMENTS IN REDEEMABLE PARTICIPATING SHARES (continued)

Offshore Feeder (continued)

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
Shares issued during the year	16,770,826.708	539,170.281	17,309,996.989
Shares 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>

US Feeder

2007	Class A No. of shares
Balance at the beginning of the year	-
Shares issued during the year	2,348,932.700
Shares redeemed during the year	<u>(85,007.030)</u>
Balance at the end of the year	<u>2,263,925.670</u>

NOTE 10 RELATED PARTY TRANSACTIONS

Details of other related party transactions are as follows:

10.1 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.

10.2 Interests in the Fund's shares

As at 31st December 2007, the Investment Manager held 100 (2006: 100) management shares in 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 (2006: 68,946.254) redeemable participating shares in the Offshore Feeder as at 31 December 2007.

David Fitzherbert, a director, held 19,877.829 (2006: 19,877.829) redeemable participating shares in the Offshore Feeder as at 31 December 2007.

Paul Smith, a director, held 16,331.911 (2006: 16,331.911) redeemable participating shares in the Offshore Feeder as at 31 December 2007.

Notes to the Financial Statements as at 31 December 2007

NOTE 11 POST BALANCE SHEET EVENT

At the extraordinary meeting held on 3 December 2007, the shareholders provided their consent to change the dealing frequency of the Offshore and US Feeders from weekly to monthly. This change became effective from 2 January 2008 dealing date.

NOTE 12 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the directors on 28 April 2008.

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

**OPTIMAL JAPAN ABSOLUTE LONG MASTER FUND
INVESTMENT PORTFOLIO – UNAUDITED AS AT 31ST DECEMBER 2007**

	Holding	Fair value US\$	Fair value as a % of NAV
<u>LONG POSITION - LISTED</u>			
JAPANESE EQUITIES			
<i>Automotive</i>			
Isuzu Motors Ltd	3,631,000	16,511,194	2.81
Suzuki Motor Corp	784,200	23,656,214	4.03
Toyota Motor Corp	575,800	31,131,289	5.30
Bosch Corp	1,323,000	6,442,394	1.10
Press Kogyo Co Ltd	1,965,000	8,970,595	1.53
Riken Corp	1,701,000	8,755,091	1.49
		<u>95,466,777</u>	<u>16.24</u>
<i>Bank and Finance</i>			
Mitsubishi UFJ Financial Group Inc	3,040,000	28,491,071	4.85
Nomura Holdings Inc	724,200	12,284,465	2.09
		<u>40,775,536</u>	<u>6.94</u>
<i>Building Products</i>			
Taiheiyo Cement Corp	7,053,000	16,856,743	2.87
		<u>16,856,743</u>	<u>2.87</u>
<i>Ceramics</i>			
Showa Denko KK	7,376,000	26,410,061	4.49
		<u>26,410,061</u>	<u>4.49</u>
<i>Electronics</i>			
Mitsubishi Electronic Corp	848,000	8,865,989	1.51
Fanuc Ltd	298,000	29,022,423	4.94
Star Micronics Co Ltd	871,700	19,156,098	3.26
Sumco Corp	101,800	2,934,217	0.50
Sumco Techxiv Corp	70,400	2,482,889	0.42
Hirose Electronic Co Ltd	138,400	16,006,159	2.72
		<u>78,467,775</u>	<u>13.35</u>
<i>Finance</i>			
Mitsubishi UFJ Lease & Finance Company Ltd	513,340	17,047,768	2.90
		<u>17,047,768</u>	<u>2.90</u>
<i>Lighting Prod. & Systems</i>			
Ushio Inc	896,800	19,747,823	3.36
		<u>19,747,823</u>	<u>3.36</u>
<i>Import/Export</i>			
Mitsubishi Corp	655,300	17,949,407	3.05
Sumitomo Corp	1,774,100	25,202,495	4.29
		<u>43,151,902</u>	<u>7.34</u>

OPTIMAL JAPAN ABSOLUTE LONG FUND GROUP

OPTIMAL JAPAN ABSOLUTE LONG MASTER FUND
INVESTMENT PORTFOLIO – UNAUDITED AS AT 31ST DECEMBER 2007

	Holding	Fair value US\$	Fair value as a % of NAV
<u>LONG POSITION - LISTED</u>			
<i>Machinery</i>			
Hitachi Construction Machinery Co Ltd	727,000	21,800,564	3.71
Komatsu Ltd	1,304,600	35,500,909	6.04
Tadano Ltd	1,051,000	10,734,378	1.83
Makino Milling Machine Co Ltd	520,000	3,630,667	0.62
Okuma Holdings Inc	10,690,001	11,521,067	1.96
		<u>83,187,585</u>	<u>14.16</u>
<i>Metal Processors & Fabricators</i>			
Nachi-Fujikoshi Corp	2,155,000	8,506,960	1.45
		<u>8,506,960</u>	<u>1.45</u>
<i>Non-Ferrous Metals</i>			
Mitsubishi Materials Corp	1,602,000	6,854,550	1.17
		<u>6,854,550</u>	<u>1.17</u>
<i>Photo Equipment & Supplies</i>			
Noritsu Koki Co Ltd	130,900	2,612,962	0.44
		<u>2,612,962</u>	<u>0.44</u>
<i>Real Estate</i>			
Mitsui Fudosan Co Ltd	948,000	20,620,687	3.51
Tokyo Tatemono Co Ltd	2,121,000	20,086,989	3.42
		<u>40,707,676</u>	<u>6.93</u>
<i>Retail</i>			
Yamada Denko Co Ltd	145,390	16,619,347	2.83
		<u>16,619,347</u>	<u>2.83</u>
<i>REITS – Shopping Centres</i>			
Japan Retail Fund Investment Corp	978	6,977,273	1.19
		<u>6,977,273</u>	<u>1.19</u>
<i>Steel</i>			
JFE Holdings Inc	372,000	18,847,245	3.21
Kyoel Steel Ltd	386,500	7,178,870	1.22
Sumitomo Metal Industries Ltd	2,536,000	11,781,623	2.01
		<u>37,807,738</u>	<u>6.44</u>
<i>Transportation</i>			
Tokyu Corp	3,140,000	20,658,819	3.52
		<u>20,658,819</u>	<u>3.52</u>
Total Equity – Long Positions		561,857,291	95.62
Other net assets		<u>25,754,027</u>	<u>4.38</u>
TOTAL NET ASSETS		<u>587,611,318</u>	<u>100.00</u>