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 2009

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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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

We have audited the accompanying combined 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) (the "Group") set out in pages 4 to 24 which comprise the combined balance sheet as of 31 December 2009 and the combined statement of comprehensive income, combined statement of changes in net assets attributable to holders of redeemable participating shares and combined cash flow statement for the year ended 31 December 2009, 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 combined 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 combined 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 combined financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year ended 31 December 2009 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers
Cayman Islands, 30 April 2010

BALANCE SHEET - COMBINED
AS AT 31 DECEMBER 2009

	Notes	2009 USD	2008 USD
Assets			
Current Assets			
Cash balances		29,912,787	104,315,151
Financial assets at fair value through profit or loss	6	173,248,090	151,937,572
Amounts due from brokers		5,705,408	58,911
Other receivables and prepayments		220,554	495,957
Total Assets		**209,086,839**	**256,807,591**
Liabilities			
Current Liabilities			
Amounts due to brokers		3,503,190	-
Other payables and accrued expenses		535,814	448,159
Net assets attributable to holders of redeemable participating shares of the:			
- Offshore Feeder		204,871,490	236,626,703
- US Feeder		176,145	19,732,529
Total Liabilities		**209,086,639**	**256,807,391**
Equity			
Ordinary share capital	8	200	200
Total Equity		**200**	**200**
Total Liabilities and Equity		**209,086,839**	**256,807,591**

....
Director

....
Director

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

STATEMENT OF COMPREHENSIVE INCOME - COMBINED
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 USD	2008 USD
Income			
Dividends	2.6	2,794,781	7,077,003
Bank interest	2.6	1,050	293,792
Other income		5,003	-
Loss on financial assets at fair value through profit or loss	6	(856,994)	(128,266,819)
Total investment income/(loss)		**1,943,840**	**(120,896,024)**
Expenses			
Investment management fee	4.1	(2,218,373)	(4,579,581)
Transaction fees	2.10	(28,570)	(28,555)
Auditors' remuneration		(49,900)	(38,000)
Directors' fees	4.5	(53,000)	(58,000)
Administration fees	4.4	(258,855)	(441,712)
Custodian fees	4.3	(216,855)	(390,294)
Other operating expenses		(139,185)	(366,555)
Total operating expenses		**(2,964,738)**	**(5,902,697)**
Operating loss before finance and tax		**(1,020,898)**	**(126,798,721)**
Withholding tax on dividends	5	(210,287)	(495,390)
Net decrease in net assets attributable to holders of redeemable participating shares from operations		**(1,231,185)**	**(127,294,111)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(1,231,185)**	**(127,294,111)**
Net (decrease)/increase in net assets attributable to holders of redeemable participating shares from operations of the:			
- Offshore Feeder		(1,270,357)	(119,886,249)
- US Feeder		39,172	(7,407,862)
		(1,231,185)	**(127,294,111)**

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 2009

2009	Offshore Feeder USD	US Feeder USD	Total USD
Net assets attributable to holders of redeemable participating shares at beginning of the year	236,626,703	19,732,529	256,359,232
Proceeds from redeemable participating shares issued	2,487,839	-	2,487,839
Proceeds from redeemable participating shares redeemed	(32,972,695)	(19,595,556)	(52,568,251)
Net decrease from share transactions	(30,484,856)	(19,595,556)	(50,080,412)
(Decrease)/increase in net assets attributable to holders of redeemable participating shares from operations	(1,270,357)	39,172	(1,231,185)
Net assets attributable to holders of redeemable participating shares at end of year	**204,871,490**	**176,145**	**205,047,635**

2008			
Net assets attributable to holders of redeemable participating shares at beginning of the year	576,055,250	30,836,786	606,892,036
Proceeds from redeemable participating shares issued	16,040,397	1,500,000	17,540,397
Proceeds from redeemable participating shares redeemed	(235,582,695)	(5,196,395)	(240,779,090)
Net decrease from share transactions	(219,542,298)	(3,696,395)	(223,238,693)
Decrease in net assets attributable to holders of redeemable participating shares from operations	(119,886,249)	(7,407,862)	(127,294,111)
Net assets attributable to holders of redeemable participating shares at end of year	**236,626,703**	**19,732,529**	**256,359,232**

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

CASH FLOW STATEMENT - COMBINED
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 USD	2008 USD
Cash flows from operating activities:		
Interest received from bank deposits	6,061	295,264
Dividends received	3,043,263	7,353,581
Investment management fees paid	(2,096,482)	(4,879,247)
Performance fees paid	-	(417,956)
Directors' fees paid	(83,250)	(29,000)
Custodian fees paid	(222,245)	(410,618)
Administration fees paid	(262,497)	(463,246)
Withholding tax paid	(210,287)	(495,390)
Purchase of financial assets at fair value through profit or loss	(307,657,873)	(169,194,945)
Proceeds from sale of financial assets at fair value through profit or loss	286,506,709	400,327,293
Net receipt on realised gain on futures contracts	-	37,632,299
Other	(185,692)	(470,226)
Net cash (outflow)/inflow from operating activities	**(21,162,293)**	**269,247,809**
Cash flows used in financing activities:		
Proceeds from redeemable participating shares issued	2,487,839	15,540,397
Proceeds for redeemable participating shares redeemed	(52,568,251)	(241,129,371)
Net cash (outflow) from financing activities	**(50,080,412)**	**(225,588,974)**
Net (decrease)/increase in cash	**(71,242,705)**	**43,658,835**
Cash at beginning of the year	104,315,151	47,449,720
Effect of exchange rate differences	(3,159,659)	13,206,596
Cash at end of the year	**29,912,787**	**104,315,151**

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

Notes to the Financial Statements as at 31 December 2009

NOTE 1 GENERAL

1.1 Legal structure

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

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

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

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

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

1.2 Business activities and management

Since the restructure of the Optimal Japan Absolute Long Fund 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 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.

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.

Notes to the Financial Statements as at 31 December 2009

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

2.1 Basis of preparation (continued)

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.

The Group operates in one segment. Consequently no segment reporting is provided in the Group's financial statements.

(i) Impact of IAS, IFRS and IFRIC Interpretations Issued and Effective

The Group has adopted the following standards and amendments as of 1 January 2009:

- IAS 1 (Revised 2007), '*Presentation of Financial Statements*'
- IAS 32, '*Financial Instruments: Presentation*'
- Amendments to IFRS 7, '*Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*'.

The principal effect of these changes is as follows:

IAS 1 (Revised 2007) 'Presentation of Financial Statements'

The standard replaces IAS 1 'Presentation of Financial Statements (revised in 2003)' as amended in 2005. The revised IAS 1 'Presentation of Financial Statements' was issued in September 2007 and is effective for accounting periods beginning on or after 1 January 2009. As a consequence, the financial statements now present a statement of comprehensive income.

IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009) (the 'amendment'). Previously the Group has classified its puttable instruments as liabilities in accordance with IAS 32, 'Financial instruments: Presentation'. The amendment requires puttable financial instruments that meet the definition of a financial liability to be classified as equity where certain strict criteria are met. Those criteria include: the puttable instruments must entitle the holder to a pro-rata share of net assets; the puttable instruments must be the most subordinated class and that class' features must be identical; there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and the total expected cash flows from the puttable instrument over its life must be based substantially on the profit or loss of the issuer. The Group's puttable instruments do not meet each of these criteria and will therefore remain classified as a liability.

Amendments to IFRS 7, '*Financial Instruments: Disclosures - Improving Disclosures About Financial Instruments*'

The amendments to IFRS 7 were issued in March 2009 and become effective for annual periods beginning on or after 1 January 2009. The Group has adopted these amendments with effect from 1 January 2009. The amendments to IFRS 7 require fair value measurements to be disclosed by the source of inputs, using a three-level hierarchy:

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

Notes to the Financial Statements as at 31 December 2009

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

2.1 Basis of preparation (continued)

The adoption of the amendment results in additional disclosures but does not have an impact on the Group's financial position or performance.

In addition, the amendments revise the specified minimum liquidity risk disclosures including: the contractual maturity of non derivative and derivative financial liabilities, and a description of how this is managed.

In the first year of application, comparative information is not required.

The following standards, amendments and interpretations are effective for 2009 but had no impact or immaterial impact on the financial position or performance of the Group:

Standard	Title
IAS 23	(Amendment), 'Borrowing Costs'
IAS 39 and IFRIC 9	(Amendments), 'Embedded derivatives' (effective for all periods, ending on or after 30 June 2009)
IAS 39 and IFRS 7	(Amendments), 'Reclassification of financial assets'
IFRS 1	(Amendment), 'First–time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements' (Amendments) 'Additional exemptions for first-time adopters'
IFRS 2	(Amendment) 'Share-based payment'
IFRS 8	'Operating segments'
IFRIC 15	'Agreements for Construction of real estates'

(ii) Impact of IAS, IFRS and IFRIC Interpretations Issued But Not Yet Effective

The Group has not yet applied the following IAS, IFRS and IFRIC Interpretations that have been issued but not yet effective:

Standard	Title	Effective date (annual periods beginning on or after)
IFRS 3	(Revised), 'Business Combinations'	July 1, 2009
IAS 27	(Revised), 'Consolidated and Separate Financial Statements'	July 1, 2009
IAS 39	(Amendments), 'Financial Instruments: Recognition and measurement'	July 1, 2009
IFRIC 17	'Distributions of Non-cash Assets to Owners'	July 1, 2009
IFRIC 18	'Transfer of Assets from Customers'	July 1, 2009

The Directors expect that adoption of the above pronouncements will have no material impact to the financial statements in the financial period of initial application.

2.2 Group accounting

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

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

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

Notes to the Financial Statements as at 31 December 2009

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

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

(i) Classification

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

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

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

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

(ii) Initial recognition

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

(iii) Subsequent valuation

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

(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 2009

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.

Notes to the Financial Statements as at 31 December 2009

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 using the effective interest method, less provision for impairment for amounts due from brokers. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Group will not be able to collect all amounts due from the relevant broker.

Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers is impaired. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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.

Notes to the Financial Statements as at 31 December 2009

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 equity securities and may also invest in convertible bonds and debt securities. The Group is therefore exposed to market risk (including market price risk, currency risk and interest rate risk), credit risk, and liquidity risks. In addition, the Group may seek to enhance capital appreciation and reduce volatility with the use of derivative and currency contracts.

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

Investment policies

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

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

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

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.

Notes to the Financial Statements as at 31 December 2009

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

3.2 Market price risk

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

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

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

Industry	**As a % of Master Fund's NAV 2009**	**2008**
Financials	15.14	15.65
Consumer Discretionary	26.07	15.54
Industrials	12.52	9.57
Information Technology	9.55	7.07
Telecommunication Services	6.60	5.41
Materials	11.85	3.98
Consumer Staples	2.75	2.05
Equity securities, listed in Japan, at fair value	84.48	59.27

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 Company'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 Company's monthly returns in the last twelve months.

On this basis, the Investment Manager considers that a reasonable monthly return on the Company's financial net assets at fair value would be an increase/(decrease) of 1% (2008: 2%). 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 Company's investment portfolio as at 31 December 2009, with all other variables held constant. This does not take into account any impact on management and performance fees.

2009		**2008**	
Reasonable possible shift in market index increase/(decrease) %	**Impact on net assets value increase/(decrease) USD**	**Reasonable possible shift in market index increase/(decrease) %**	**Impact on net assets value increase/(decrease) USD**
1	1,732,481	2	3,038,751

Notes to the Financial Statements as at 31 December 2009

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

3.2 Market price risk (continued)

Fair Value Hierarchy of Financial Instruments

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

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

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

The following table presents the Master Fund's financial assets at fair value at 31 December 2009.

Types of Assets	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Exchange listed shares	173,248,090	-	-	173,248,090
Total Assets	**173,248,090**	-	-	**173,248,090**

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 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 USD equivalents:

	2009 USD	2008 USD
Japanese Yen	204,770,829	249,848,427

Notes to the Financial Statements as at 31 December 2009

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

3.3 Currency risk (continued)

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.

	2009		2008	
	Reasonable possible shift %	**Impact on net asset value USD**	**Reasonable possible shift %**	**Impact on net asset value USD**
JPY/USD	+2%	(4,095,417)	+3%	(7,277,139)

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

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.

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 2009, the Custodian held securities totaling USD 173,248,090 (2008: USD 151,937,572) and cash balances of USD 23,786,753 (2008: USD 104,315,151) 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-/A-1+'.

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

Notes to the Financial Statements as at 31 December 2009

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

3.5 Credit /custody risk (continued)

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 2009, the JPM Account held a cash balance of USD 6,126,035 (2008: nil) 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'.

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.

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
2009	
Amount due to brokers	3,503,190
Other payables and accrued expenses	535,813
	4,039,003
Net assets attributable to holders of redeemable participating shares	205,047,635
2008	
Other payables and accrued expenses	448,159
	448,159
Net assets attributable to holders of redeemable participating shares	256,359,232

Notes to the Financial Statements as at 31 December 2009

NOTE 4 SIGNFICANT AGREEMENTS AND FEES - COMBINED

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% per annum 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 2008 related to Class A and B redeemable participating shares, 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.

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.

Notes to the Financial Statements as at 31 December 2009

NOTE 4 SIGNFICANT AGREEMENTS AND FEES - COMBINED (continued)

4.2 Performance fees (continued)

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

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

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

4.3 Custodian fee

Master Fund

The Custodian is entitled to receive a fee which accrues in relation to the 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.

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.

Notes to the Financial Statements as at 31 December 2009

NOTE 4 SIGNFICANT AGREEMENTS AND FEES - COMBINED (continued)

4.4 Administration fee (continued)

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.

The Administrator is entitled to receive a 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 USD 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 USD 5,000.

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 53,000 has been charged as directors' fees (2008: USD 58,000).

NOTE 5 TAXATION

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

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

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

Categories of financial instruments	2009 USD	2008 USD
Equity securities, listed in Japan, at fair value	173,248,090	151,937,572
Net gains and losses on financial assets at fair value through profit or loss		
Net realised (loss) on investments	(69,479,772)	(116,694,549)
Net unrealised gain/(loss) on investments	71,782,435	(24,778,866)
Net foreign exchange (loss)/gain	(3,159,657)	13,206,596
	(856,994)	(128,266,819)

Notes to the Financial Statements as at 31 December 2009

NOTE 7 ASSETS HELD BY THE CUSTODIAN - COMBINED

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 - 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 2009, the Offshore Feeder owned 99.99% (2008: 92.67%) of the Master Fund and the US Feeder owned 0.01% (2008: 7.33%) of the Master Fund. The sum of the investment in Master Fund by the Offshore Feeder and US Feeder totalling USD 205,296,086 (2008: USD 254,209,834) was eliminated when preparing the Group's accounts.

Offshore Feeder

The authorised share capital of the Offshore Feeder consists of two classes of redeemable participating shares, Classes A and B, and management shares. The two classes of redeemable participating shares are subscribed to by investors and the management shares are held solely by the Investment Manager.

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

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

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 have the same terms, rights and privileges except for the calculation of management fee (refer note 4.1).

Notes to the Financial Statements as at 31 December 2009

NOTE 8 SHARE CAPITAL – COMBINED (continued)

US Feeder

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

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

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

NOTE 9 MOVEMENTS IN REDEEMABLE PARTICIPATING SHARES – COMBINED

Offshore Feeder

2009	Class A No. of shares	Class B No. of shares	Total No. of shares
Balance at the beginning of the year	21,676,830.634	1,062,164.578	22,738,995.212
Shares issued during the year	234,701.777	-	234,701.777
Shares redeemed during the year	(2,819,062.981)	(531,826.122)	(3,350,889.103)
Balance at the end of the year	19,092,469.430	530,338.456	19,622,807.886
2008			
Balance at the beginning of the year	40,049,966.622	2,626,939.846	42,676,906.468
Shares issued during the year	1,177,497.394	87,934.264	1,265,431.658
Shares redeemed during the year	(19,550,633.382)	(1,652,709.532)	(21,203,342.914)
Balance at the end of the year	21,676,830.634	1,062,164.578	22,738,995.212

US Feeder – Class A

	2009	2008
Balance at the beginning of the year	1,879,362.791	2,263,925.670
Shares issued during the year	-	107,991.360
Shares redeemed during the year	(1,862,332.819)	(492,554.239)
Balance at the end of the year	17,029.972	1,879,362.791

Notes to the Financial Statements as at 31 December 2009

NOTE 10 RELATED PARTY TRANSACTIONS - COMBINED

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 2009, the Investment Manager held 100 (2008: 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 (2008: 161,600.124) redeemable participating shares in the Offshore Feeder as at 31 December 2009.

David Fitzherbert, a director, held 19,877.829 (2008: 19,877.829) redeemable participating shares in the Offshore Feeder as at 31 December 2009.

Paul Smith, a director, held 16,331.911 (2008: 16,331.911) redeemable participating shares in the Offshore Feeder as at 31 December 2009.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS - COMBINED

The financial statements were approved by the directors on 30 April 2010.

OPTIMAL JAPAN ABSOLUTE LONG MASTER FUND
INVESTMENT PORTFOLIO – UNAUDITED AS AT 31ST DECEMBER 2009

LONG POSITION - LISTED	Holding	Fair value USD	Fair value as a % of NAV
JAPANESE EQUITIES			
ABC – Mart Inc	110,300	3,074,585	1.50
All Nippon Airways Co Ltd	2,747,000	7,435,888	3.62
Amada Co Ltd	671,900	4,193,285	2.05
Bridgestone Corp	433,500	7,571,524	3.69
Capcom Co Ltd	84,300	1,386,361	0.68
Chuo Mitsui Trust Hldgs Inc	3,070,000	10,255,868	5.00
Daicel Chemical Industries Ltd	962,000	5,621,441	2.74
Daiwa House Industry Co Ltd	612,000	6,534,486	3.19
Doshisha Co Ltd	39,300	875,960	0.43
Elpida Memory Inc	398,100	6,440,073	3.14
Fuji Media Holdings Inc	4,241	5,872,119	2.86
Gulliver International Co Ltd	21,140	1,471,478	0.72
Hajime Construction Co Ltd	14,100	434,685	0.21
K'S Holdings Corp	148,600	4,453,451	2.17
Kirin Holdings Co Ltd	352,000	5,633,815	2.75
Mabuchi Motor Co Ltd	81,900	4,029,239	1.97
Mitsubishi Estate Co Ltd	577,000	9,160,599	4.47
Mitsui & Co Ltd	767,000	10,801,192	5.27
Nippon Steel Corp	2,516,000	10,134,809	4.94
Nippon Telegraph & Telephone Corp	345,400	13,542,188	6.60
Nomura Hldgs Inc	927,200	6,782,568	3.30
Panasonic Corp	310,800	4,423,546	2.16
Press Kogyo Co Ltd	1,053,000	1,968,119	0.96
SHO-BOND Hldgs Co Ltd	170,200	2,810,005	1.37
Shin-Etsu Chemical Co Ltd	77,100	4,331,414	2.11
Sony Corp	221,200	6,344,100	3.09
Star Micronics Co Ltd	311,100	2,553,095	1.25
Tokyo Broadcasting System Holdings Inc	137,400	1,918,685	0.94
Tokyo Tatemono Co Ltd	1,275,000	4,848,273	2.36
Toshiba Corp	944,000	5,181,632	2.52
Toyota Motor Corp	214,700	8,948,236	4.36
Ube Industries Ltd	1,545,000	4,215,371	2.06
Total Equity – Long Positions		173,248,090	84.49
Other net assets		31,799,545	15.51
MASTER FUND'S TOTAL NET ASSETS		205,047,635	100.00