

Monthly Report to Unitholders of the Optimal Japan Trust May 15th, 2007

Date	NAV	Monthly % Return*
30 April 2007	A\$17.31	1.35%

* After all fees

* NAV is ex-distribution of **A\$ 1.24 (for Yr to 6/06)** A\$1.4218 (for Yr to 6/05), A\$0.4713 (for Yr to 6/04) A\$ 0.8983 (for Yr to 6/02) A\$0.8989 (for Yr to 6/01) and A\$ 1.4158 (for Yr to 6/00)

* Returns are based on the redemption price of the initial series

Important: With effect from July 3rd, 2006, the Trust's administrator is EFA of Luxembourg. A new Private Placing Memorandum has been created and is available on our website (www.optimalasia.com) or can be emailed by the manager upon request.

The Japanese market was unable to shake itself into life in April. Perhaps it was the imminent reporting season that kept everyone sitting on the fence, or maybe it was the sloth produced by too much carousing under the cherry trees for the domestic investors. For foreigners, it was more likely a case that there was so much fun to be had elsewhere in Asia. The MSCI Asia Pacific (ex-Japan) Free Index was up almost 5% in April led by the barnstorming markets of Malaysia, Indonesia, India and Korea. Only Taiwan – perhaps the market that has more similarities to Japan than either country would care to admit – produced a return worse than Japan's as their index fell 0.1% and lags the region with a YTD gain of less than 1%.

As the company profit results for the year to March 2007 began to come through, the market in Japan has changed in nature with high-beta sectors that did poorly in April rocketing ahead. The big gains seen in the first two weeks of May in sectors such as Shipping, Other Finance, Securities and Banks may be partly down to sectorial rotation (a Japanese favourite play on reversion to the mean) but is also due in some part to great results and strong forecasts. As anyone investing in Japan would know, the pattern of the past few years has been for companies to announce painfully modest forecasts at the time they release their financial results and then spend the year revising up and beating "forecasts". Although it is too early to generalise, we have noticed some forecasts from Japanese companies that show a bit of the old (distinctly un-Japanese) swagger is back. Mitsui Fudosan – a real estate major that we have had a long and beneficial love affair with – announced a new three year plan two years earlier than expected. The reason for the haste was that they had reached the targets of their existing three year plan two years earlier than "planned" so now we have a plan that takes us to March 2010 and that includes annual growth of operating profits of 12%. Given that they have achieved average OP growth of 15% in the past three years, this may seem anaemic, but the implicit doubling of profits in a six year period beginning in April 2004 is no mean feat when the economy is growing at between 1.5-2.5%. They are by no means the only company we own that has given us some cause for hope. Topcon – added quite recently to our portfolios – has announced a good result for March 2007 with OP up 16% on the previous year. Better still, they are expecting further OP growth to March 2008 of over 20%. This would take already healthy operating profits margins from 13.5% to 15.5% and given the demand for their positioning devices, we share their confidence.

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Optimal FUND MANAGEMENT

Apart from the good results coming through and the encouraging tone to forecasts, there is still much to be done for Japan's share market to attract the concerted interest of the domestic individual investor. As long as the current yield attainable in overseas assets such as government bond funds is far superior to that from investing in similar assets at home, it is very likely that the trend for investment in overseas assets will come to an end.

Too many Japanese companies are indifferent to the interests of their shareholders and continue to pay down debt to levels where their balance sheets are grossly inefficient to equity interests. The private equity stormtroopers have yet to make any real advances in Japan – admittedly something we do not shed many a tear for – but it would be massively positive if we saw evidence that Japan Inc still had some fire in the belly and cared about its relative place in the world of corporate endeavour. It was a shame that the attempted takeover by Oji Paper of Hokuetsu Paper ended in failure last year as that was a purely Japanese affair based on sound arguments of market share and capacity in the paper industry. Investors in Japan need something similar to the success that Porsche has had in Germany with its holding (to control levels) in VW. It is ironic that Porsche's chief executive openly talks about "stealing" from Toyota's example and is disdainful of the capital markets and yet is prepared to take control of a rival German car maker. In our view, should a more aggressive corporate culture take hold in Germany, Japan is likely to follow. Already Germany has cut company tax and there are strong rumours that the same will happen in Japan in 2008. The downside in Japan is negligible in our opinion. The upside depends on Toyota and its fellow corporate leaders to determine through their actions.

To finish on an administrative matter, we wish to stress that any applications for redemptions or subscriptions in our funds that come in to EFA (administrator) after the dealing deadline will be rejected. Please visit our website www.optimalasia.com for related information and we encourage you to contact us through the web-site.

Positive contributors (long) Hitachi Construction Machinery, Komatsu, Star Micronics, Makino Milling
(short) Topix Index Future Jun07, Funai Electric, IHI

Negative contributors (long) Mitsubishi UFJ Lease, Showa Denko, Tokyo Tatemono
(short) Trend Micro, Elpida, Mitsubishi Materials

Major Positions

Sumitomo Corp, Tokyo Tatemono, Mitsui Fudosan, Tokyu Corp , Toyota Motor

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	2.91
Return since inception Inception 20 Dec, 1999	136.61
Fund size at 30 Apr 07	AUD 85 mil

Portfolio Composition at Month End			
% of NAV	Feb07	Mar07	Apr07
Long Stock Position	78.89	81.98	89.33
Short Stock Position	(17.48)	(16.73)	(16.51)
Index Futures	(10.61)	(37.99)	(38.51)
Equity Derivatives		(0.62)	(0.20)
Net Exposure	50.80	26.64	34.10

Historical Returns

Below we provide a table detailing the monthly returns of the Fund since its inception in December 1999. The returns are of the Trust's Initial Series

Optimal Japan Trust Net Monthly Returns in AUD													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
1999												0.58*	0.58
2000	-0.32	12.76	8.99	-1.53	2.45	11.82	-9.05	4.02	-0.37	0.90	-0.18	-3.86	26.63
2001	-2.34	3.13	1.36	8.46	-2.14	3.96	-2.88	1.49	-3.58	1.77	-3.89	-5.46	-0.25
2002	1.10	1.47	2.07	-0.26	7.2	-2.9	-1.43	-1.47	2.04	-4.47	-3.65	-0.42	-0.59
2003	1.80	1.98	0.41	-0.20	2.55	3.97	1.91	5.90	3.81	3.58	-1.73	3.02	30.43
2004	-0.33	1.22	7.01	0.23	-1.20	3.67	-2.26	4.03	0.82	-1.55	1.65	1.92	15.95
2005	2.83	2.05	0.0	-0.13	1.04	1.37	2.38	4.15	6.71	1.31	2.39	4.30	30.03
2006	1.82	0.42	3.79	0.34	-4.04	0.24	-0.77	1.46	0.13	2.72	0.99	2.62	9.42
2007	1.96	0.58	-0.99	1.35									2.91

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