

Monthly Report to Unitholders of the Optimal Japan Trust 14th February, 2006

Date	NAV	Monthly % Return*
27 January 2006	A\$ 16.81	+1.82%

* After all fees

* NAV is ex-distribution of **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: The Optimal Japan Fund and Optimal Japan Trust are not accepting new investments. The administrator (HSBC Institutional Trust Services) will only accept applications for investment from those with agreements with the manager.

2006 has begun with a bang and, importantly – at least for derivatives traders - volatility is back. January's 3.7% rise in the Topix index obscures first a 5% decline to 18th January and then a 9% recovery from the 18th to the 31st. February has begun in a similar vein with Topix down 5.5% MTD as at the close on Feb. 13th with many of 2005's sectoral winners performing much worse than that. Shipping – a sector that we have long held dear – rose 48% in 2005 and a further 4% in January but has shed 13% in February. At its peak, shipping represented 8% of the Fund's NAV but we exited Kawasaki Shipping in late 2005 and sold the vast bulk of our stake in Mitsui OSK early in February so at the time of writing, our exposure had been cut back to less than 1%.

Not so happy was our experience shorting Sony. We put the short on towards the end of 2005 after the shares had climbed 20% when the new Chairman's medium term plan was released. The targets were modest in the extreme – and the valuation looked poor – but the stock had been unloved for ever and others have decided that it is a buy. After a 20% rally in January we reluctantly covered the short – tail between our legs – but will watch for new opportunities if things do not pan out as the optimists expect.

The consumer finance industry took a nasty broadside in January (-10.1%) as a higher court decision ruled that the exorbitant rates of interest they charge are in contravention of another finance law that limits the legal rate chargeable on unsecured consumer loans. We have always wondered why such a shady – but profitable - area has been tolerated (by the banks to begin with!) and felt that the sector could not warrant anything but a low multiple of earnings, so whilst not directly benefiting, we do not regard the share price slump in January with great dismay. The obvious distaste with which the giant Japanese city banks regard this highly profitable area of lending is especially unimpressive in our view and highlights a weakness in one of Japan's largest service sectors.

We do wish to reiterate that we are bullish on Japan. The economy, the attitude of company management, and a growing confidence in their (important) place in the world are all on the improve, and we expect a long period where our investments will prosper. The rise in stock prices in late 2005 however, was such that we feel a slow period is quite natural. Although it is always depressing to see prices fall in stocks we own, there is also a sense of relief that we are able to get a second bite at the cherry and accumulate bigger

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Optimal FUND MANAGEMENT

positions in those that we like. That is the sort of market we are in now – and it might be that way for a while yet.

To finish on an administrative matter, we wish to stress that any applications for redemptions or subscriptions in our funds that come in to HSBC Institutional Trust Services (Asia) 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) Kubota, Ushio, Fujitsu
(short) Oji Paper, Meiji Seika, Mabuchi Motor

Negative contributors (long) Tokyu Corp, Toyota Motor, Tokyo Tatemono
(short) Toppan Printing, Sony, Murata

Major Positions

Mitsui Fudosan, Sumitomo Trust & Banking, Sumitomo Metal Mining, Kubota, Mitsui OSK

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Return Snapshot	
Period	%(AUD)
Year to Date Return	1.82
Return since inception Inception 20 Dec, 1999	119.16
Fund size at 27 Jan 06	AUD 64.2 mil

Portfolio Composition at Month End			
% of NAV	Nov 05	Dec 05	Jan 06
Long Stock Position	81.13	78.89	79.40
Short Stock Position	(25.24)	(22.13)	(16.68)
Index Futures	(10.22)	(10.50)	(9.05)
Equity Derivatives			
Net Exposure	45.67	46.26	53.67

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												1.82

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