

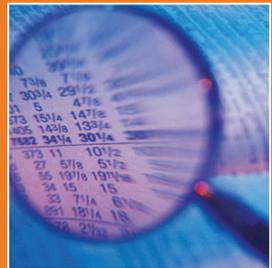
Dexion

ABSOLUTE



Dexion
ABSOLUTE LIMITED

2005
Interim Report



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Summary Information

Principal Activity

Dexion Absolute Limited (the "Company") is a Guernsey registered closed-ended investment company listed on the London Stock Exchange. Trading in the Company's ordinary shares (since converted into £ Shares) commenced on 19 December 2002.

Investment Objective and Investment Policy

The Company's investment objective is to provide ordinary shareholders with consistent capital appreciation, with a target US dollar annualised return of 12% to 15% in any three to five year period, independent of equity market direction and with low volatility. It is emphasised that this is a target return and there is no guarantee that it can be achieved.

The Company seeks to achieve its investment objective through investment in an actively managed portfolio of hedge funds, diversified by investment strategy, style and manager, in order to achieve attractive risk-adjusted returns, with little correlation to equity and fixed interest benchmarks.

Shareholder Information

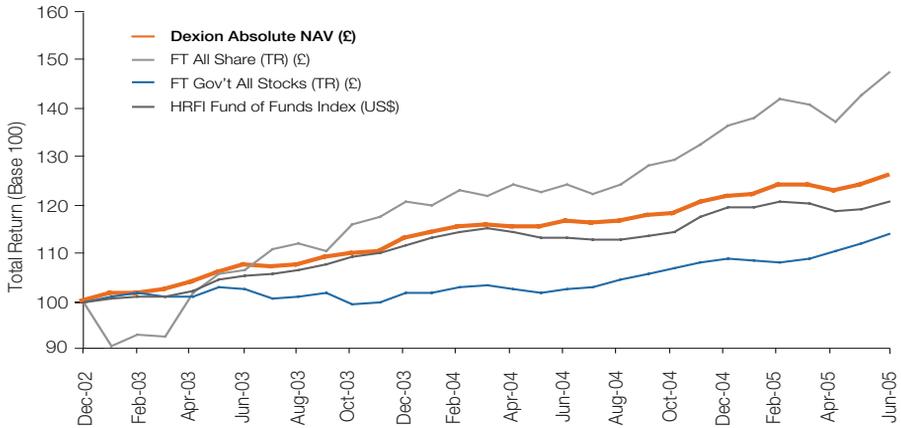
The Company announces its net asset value on a monthly basis together with a commentary on investment performance. Estimated net asset values are normally provided weekly. Share price, net asset value and performance information can also be found on the Company's website www.dexionabsolute.com. However information on that website does not form part of, nor is it incorporated by reference into this document and that information is not available to certain overseas shareholders.

Financial Highlights

	<i>30 June 2005 £ Shares</i>	<i>30 June 2005 C £ Shares</i>	<i>30 June 2005 C € Shares</i>	<i>30 June 2005 C US\$ Shares</i>	<i>30 June 2004 £ Shares</i>
Total Net Assets	£259,007,321	£60,086,590	€47,990,208	US\$30,604,904	£109,196,441
Net Asset Value per Share	123.56p	98.26p	€0.9824	US\$0.9825	114.19p
Mid-Market Share Price	126.13p	101.00p	€1.0200	US\$1.0150	119.25p
Premium to Net Asset Value	2.08%	2.79%	3.83%	3.31%	4.43%

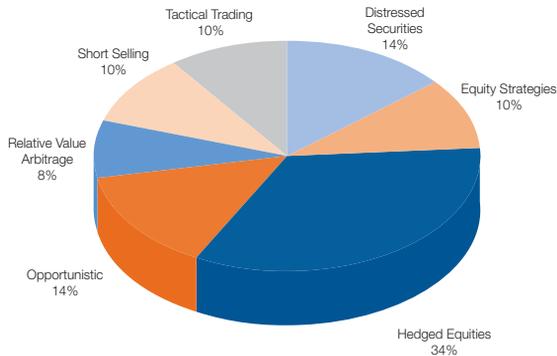
Summary Information (continued)

Comparative performance to 30 June 2005



source: Bloomberg (data)

Asset allocation by hedge fund strategy as at 1 July 2005



source: Harris Alternatives, LLC

Manager count by strategy

Distressed Securities
Equity Strategies
Hedged Equities
Opportunistic

6
4
19
6

Relative Value Arbitrage
Short Selling
Tactical Trading

3
8
5

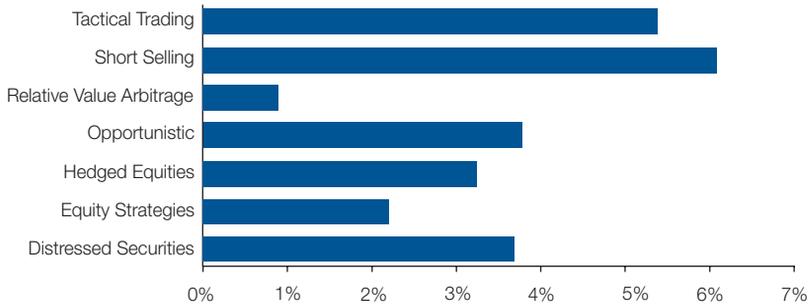
Total

51

source: Harris Alternatives, LLC

Summary Information (continued)

Performance by hedge fund strategy over the period from 1 January 2005 to 30 June 2005



source: Harris Alternatives, LLC

Analysis of significant investments

The ten largest holdings of the Company as at 30 June 2005 are set out below:

<i>Name of investment</i>	<i>Strategy</i>	<i>Book cost £</i>	<i>Market Value £</i>	<i>% of Company's net assets</i>	<i>% of issued share capital ⁽¹⁾</i>
Greywolf Capital Overseas Fund	Distressed Securities	8,148,616	9,821,063	2.67	1.64
Moore Global Investments Limited	Tactical Trading	8,155,876	9,732,686	2.64	0.35
Citadel Kensington Global Strategies Fund Limited	Relative Value Arbitrage	8,791,680	9,624,402	2.61	0.20
SAB Overseas Fund Limited	Opportunistic	7,789,236	8,713,927	2.36	1.99
York Select Unit Trust	Opportunistic	7,966,628	8,586,898	2.33	2.70
Highfields Capital Limited	Opportunistic	7,151,113	7,927,967	2.15	0.30
Brevan Howard Fund Limited	Tactical Trading	7,021,633	7,808,722	2.12	0.19
Impala Fund Limited	Hedged Equities	5,879,788	7,326,057	1.99	2.27
Cavalry Technology Offshore Limited	Hedged Equities	7,289,923	7,302,945	1.98	2.09
ValueAct Capital International Limited	Equity Strategies	5,905,444	7,292,522	1.98	1.79
		74,099,937	84,137,188	22.83	

⁽¹⁾ Percentages of issued share capital are based on estimates of fund capital provided by underlying manager as of 30 June 2005.

Whilst it is generally considered best practice to disclose the full portfolio of an investment company, the composition of the Company's investment portfolio is the subject of confidentiality provisions with the Investment Adviser. The Board believes that such disclosure could be disadvantageous to the Company and its shareholders, for instance by increasing competition for the limited investment capacity in underlying hedge funds and hedge fund strategies. Accordingly, in common with several other funds of hedge funds, and, in compliance with current UK Listing Authority requirements, the Company intends to disclose only its ten largest investments.

Introduction

In presenting this interim update I would like firstly to thank all shareholders for their ongoing support.

In June 2005, the Company successfully completed a multi-currency C Share issue raising an aggregate of £111 million of new monies (in sterling terms). This issue was a significant step for Dexion Absolute both in terms of its scale and the international expansion of the Company's investor base with subscriptions received from institutional investors in 11 jurisdictions across Europe and Asia. With aggregate net assets in excess of £368 million at the period end, I am pleased to note that Dexion Absolute is now, globally, the largest exchange-listed closed-ended fund of hedge funds.

Performance

At this interim stage, I am pleased to report that the Company's net asset value has risen by 3.30% (in sterling terms) over the period under review, notwithstanding the challenging market conditions for hedge funds during the period referred to below. Over the same period, traditional UK equity market and fixed interest benchmarks, as measured by the FTSE All Share Index (total return) and the FTSE Government Securities All Stocks Index (total return), rose 8.21% and 4.57% respectively (in sterling terms) whilst the HFRI Fund of Funds Index (a US dollar based index representing the performance of funds investing with multiple hedge fund managers) returned 0.99% (in US dollar terms). The Company's positive net asset appreciation has been achieved with substantially lower volatility than traditional equity benchmarks.

The Company's £ Shares have continued to trade at a premium to net asset value in the secondary market throughout the reporting period.

The Company's £ Shares continued the stated policy of hedging all currency exposure back to sterling through the use of rolling monthly forward foreign exchange contracts. This policy, which is an integral aspect of the Company's investment strategy, and which has also been applied to the Company's new € Shares in issue, eliminated volatility that would otherwise have occurred as a result of fluctuations in the sterling/US dollar exchange rate over the period.

Investment Review

From the beginning of 2005 through to the early part of May, record-high oil prices, coupled with concerns over inflation and higher interest rates, hampered the performance of numerous asset classes. Global markets did stage an impressive recovery during the latter part of May through to June, but many benchmarks still finished the period in negative territory. Despite the backdrop of difficult markets and numerous challenging events during the first half of 2005, each of the 7 hedge fund strategies in which the Company's assets are invested generated gains, with positive net asset performance in each month, except April.

Hedged equities was the leading contributor to performance during the period due to the Company's large allocation and the strategy's strong return. The Company's short selling managers were the top performers with all of their gains coming in the first quarter, a period that witnessed a sharp reversal of the speculative, beta-driven equity market rally of late 2004. Although the first half of 2005 witnessed one of the more chaotic periods for convertible bond arbitrage, the Company's relative value arbitrage managers produced a positive return. Overall, the Company's gains were a result of the underlying hedge fund managers' ability to negotiate a treacherous investment landscape characterised by both opportunities and pitfalls.

Investment Outlook

Preliminary indications are that the market stabilisation witnessed in June has carried on through July. The Company's hedged equities managers, the largest allocation in the portfolio, remain well-positioned to capture opportunities made available by the more accommodating stock-selection environment. Correlation among equities has remained low while realised volatility has experienced a slight pickup. In addition, corporate activity has accelerated considerably as companies begin to spend their record-high cash levels, and these transactions may prove to be interesting catalyst-driven opportunities for the Company's underlying managers. In general, a return to more normalised trading conditions should offer a range of opportunities for a number of the Company's hedge fund strategies.

Post Balance Sheet Event

On 6 July 2005 the Company announced that approximately 93% of net issue proceeds raised through the issue of C Shares had been successfully invested in accordance with the Company's investment policy. Accordingly, the C Shares (of each class) converted into new Ordinary Shares (of the relevant class) on 11 August 2005.

Peter P Walsh

Chairman

26 September 2005

Statement of Total Return (unaudited)

For the six month period ended 30 June

	<i>Note</i>	2005 £	2004 £
Gains on investments	2	11,535,749	4,758,146
		11,535,749	4,758,146
Income		61,773	8,454
Management fee		(1,904,629)	(794,568)
Performance fee		(918,811)	(368,155)
Expenses	3	(513,678)	(290,483)
Net loss on ordinary activities		(3,275,345)	(1,444,752)
Total return for the period		8,260,404	3,313,394
Net increase in shareholders' funds from operating activities		8,260,404	3,313,394
Return per £ Share	6	3.92p	4.06p
Return per C £ Share		0.01p	–
Return per C € Share		– €	–
Return per C US\$ Share		– \$	–

The Company has no other gains or losses other than the return for the period.

All items derive from continuing activities.

The notes on pages 10 to 16 form part of the financial statements.

Balance Sheet (unaudited)

As at 30 June

	Note	2005 £	2004 £
Investments	7	353,331,687	109,746,902
Current assets			
Cash at bank		36,259,421	1,262,248
Amounts due from redemptions awaiting settlement		581,570	–
Debtors		264,725	26,747
		37,105,716	1,288,995
Liabilities due within one year			
Forward currency deals awaiting settlement		(4,823,538)	(1,253,013)
Bank overdraft		(14,944,850)	–
Creditors	8	(2,149,844)	(586,443)
		(21,918,232)	(1,839,456)
Net current assets/(liabilities)		15,187,484	(550,461)
Net assets		368,519,171	109,196,441

Represented by:

Capital and reserves

Called up share capital	10	–	956,240
Special reserves	11a)	341,186,925	100,526,187
Other reserves	11b)	27,332,246	7,714,014
		368,519,171	108,240,201
Total shareholders' funds		368,519,171	109,196,441
Net assets per £ Share	9	123.56p	114.19p
Net assets per C £ Share		98.26p	–
Net assets per C € Share		0.9824 €	–
Net assets per C US\$ Share		0.9825 \$	–

The financial statements on pages 6 to 16 were approved by the Board of Directors on 26 September 2005.

The notes on pages 10 to 16 form part of the financial statements.

Reconciliation of Movements in Shareholders' Funds (unaudited)

For the six month period ended 30 June

	2005 £	2004 £
Opening shareholders' funds	250,738,018	100,685,620
Net proceeds from issue of shares	109,520,749	5,197,427
Total recognised gain for the period	8,260,404	3,313,394
Closing shareholders' funds	368,519,171	109,196,441

The notes on pages 10 to 16 form part of the financial statements.

Cashflow Statement (unaudited)

For the six month period ended 30 June

	2005 £	2004 £
Operating activities		
Net loss for the financial period	(3,275,345)	(1,444,752)
Decrease in creditors	(667,628)	(106,192)
Increase in debtors	(211,570)	(26,747)
Net cash outflow from operating activities	(4,154,543)	(1,577,691)
Financial investment		
Cost of investments purchased and pending investments*	(103,560,492)	(15,151,004)
Sale of investments and pending investments*	49,579,490	2,496,772
Realised (losses)/gains on forward foreign currency contracts	(3,255,412)	6,204,148
Net cash outflow from financial investment	(57,236,414)	(6,450,084)
Financing		
Issue of shares	111,459,040	5,290,002
Costs related to issue of shares	(1,143,082)	(92,575)
Net cash inflow from financing	110,315,958	5,197,427
Increase/(decrease) in cash	48,925,001	(2,830,348)

* Pending investments are purchases (and sales) which settled post period-end for which cash has been paid (or received) prior to the period end.

Reconciliation of net cash flow to movement in net funds

	2005 £	2004 £
Increase/(decrease) in cash as above	48,925,001	(2,830,348)
Realised (losses)/gains on currency translation	(7,244,175)	586,506
Net movement in the period	41,680,826	(2,243,842)
Cash at beginning of the period	(20,366,255)	3,506,090
Cash at end of the period	21,314,571	1,262,248

Analysis of cash at end of the period

Cash at bank	36,259,421	1,262,248
Bank overdraft	(14,944,850)	–
	21,314,571	1,262,248

The notes on pages 10 to 16 form part of the financial statements.

1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

a) *Basis of accounting*

The financial statements are prepared under the historical cost convention adjusted by the revaluation of investments and in accordance with UK applicable accounting standards. The financial statements are prepared in pounds sterling (£).

The accounting policies have been applied consistently by the Company and are consistent with those used in the previous reporting period except for changes resulting from new Financial Reporting Standards ("FRSs"). Under transitional provisions, the comparative figures for 2004 have not been adjusted or extended to conform to changes in presentation in the 2005 financial statements as required by the amended FRSs.

The Company adopted the new FRSs from 1 January 2005. The changes to the Company's accounting policies and their effect on the financial statements are described in note (h) below.

b) *Revenue recognition*

Bank deposit interest is accounted for on an accruals basis.

c) *Expenses*

All expenses are accounted for on an accruals basis.

d) *Valuation of investments*

Classification

From 1 January 2005, the Company adopted Financial Reporting Standards No.26 "Financial Instruments: Measurement" (FRS 26) and designated all of its investments into the financial assets at fair value through profit or loss category. This category comprises:

– Financial instruments designated at fair value through profit or loss upon initial recognition – these include financial assets that are not held for trading purposes and which may be sold. These are principally investments in unlisted open-ended investment funds.

– Financial instruments held for trading – these include forward foreign currency contracts.

Financial assets that are classified as loans and receivables include balances due from redemptions awaiting settlement.

Financial liabilities that are not at fair value through profit or loss include balances due on purchases awaiting settlement and accounts payable.

Measurement

Financial instruments are measured initially at fair value being the transaction price. Subsequent to initial recognition, all instruments classified as fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of total return.

Financial assets classified as loans and receivables are carried at amortised cost.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost.

Fair value measurement principles

Investments in underlying funds which are not quoted on a recognised stock exchange or other trading facility will be valued at the net asset values provided by such entities or their administrators. These values may be unaudited or may themselves be estimates. In addition, these entities or their administrators may not provide values at all or in a timely manner and, to the extent that values are not available, those investments will be valued by the Investment Adviser using valuation techniques appropriate to those investments. The Manager has no reason to believe that the valuations used are unreasonable.

Open forward foreign currency contracts at the balance sheet date are valued at forward currency rates at that point. The unrealised appreciation or depreciation on open forward foreign currency contracts is calculated by reference to the difference between the contracted rate and the rate to close out the contract.

Realised and unrealised gains and losses

Realised gains and losses arising on disposal of investments are calculated by reference to the proceeds received on disposal and the average cost attributable to those investments, and are recognised in the income statement. Unrealised gains on investments are recognised in the statement of total return.

Realised and unrealised gains or losses on forward foreign currency contracts are recognised in the statement of total return.

e) *Foreign currency transactions*

Transactions denominated in foreign currencies are translated at the rate of exchange ruling on the date of transaction. Foreign currency assets and liabilities are translated into sterling at the exchange rate prevailing at the balance sheet date. Realised and unrealised gains or losses on currency translation are recognised in the income statement. Foreign currency differences relating to investments at fair value through profit or loss are included in gains and losses on investments (note 2).

f) *Distribution policy*

The Directors do not expect income (net of expenses) to be significant and do not currently expect to declare any dividends. In the event that future net income is significant, the Directors may consider the distribution of net income in the form of dividends.

g) *Issue expenses*

The expenses associated with the issue of C Shares in June 2005 amounted to £1,938,291 and were borne exclusively by the subscribers for C Shares. These expenses have been written off against special reserves.

Notes to the Unaudited Interim Financial Statements (continued)

h) Changes in accounting policy

As described in note (d) above, from 1 January 2005 the Company adopted FRS 26, which was issued by the UK Accounting Standards Board in December 2004. This has resulted in a change to the accounting policies of the Company.

From 1 January 2005, all investments held by the Company were designated at fair value through profit or loss. This did not result in any adjustments to their carrying amount. For the period ended 30 June 2005, transaction costs applicable to investment transactions have been separately disclosed. Under the transitional provisions of FRS 26, there have been no adjustments or amendments to the comparative information provided in the financial statements.

2. Gains on Investments

	30 June 2005 £	30 June 2004 £
Realised gains/(losses) on investments	996,474	(80,732)
Unrealised gains on investment	24,532,733	2,295,456
Realised (losses)/gains on forward currency contracts	(3,255,412)	3,209,930
Unrealised losses on forward currency contracts	(3,493,871)	(1,253,014)
Net realised foreign exchange (losses)/gains	(7,244,175)	586,506
	11,535,749	4,758,146

Foreign exchange differences arising on the Company's investment portfolio are included in realised and unrealised gains and losses on investments.

3. Expenses

	30 June 2005 £	30 June 2004 £
Fund administration fee	77,285	62,807
Other professional fees	76,219	67,869
Directors' remuneration & expenses	65,049	50,463
Directors' and officers' insurance	(1,908)	25,360
Custodian charges	89,433	47,452
Transaction charges	9,998	–
Sundry expenses	197,602	36,532
	513,678	290,483

4. Directors' Remuneration & Expenses

The annual Directors' fees comprise of £20,000 paid to Mr Walsh, the Chairman, and £15,000 each to Mr Hallam, Mr Ash and Mr Hotchkis. Mr Bowie waived his right to his fee of £15,000. Mr Hotchkis' remuneration is paid to his employer the Co-operative Insurance Society, in consideration of it allowing Mr Hotchkis to be a director of the Company. An additional payment of £5,000 was paid during the period to each Director (excluding Mr Bowie) in respect of the issue of C Shares in June 2005.

Notes to the Unaudited Interim Financial Statements (continued)

5. Taxation

The Company is registered for taxation purposes in Guernsey where it pays an annual exempt status fee of £600 under The Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989.

6. Return per share

The calculation of the return per £ share is based on the total return for the period attributable to £ Shareholders of £8,260,404 (30 June 2004: £3,313,394) and on the weighted average number of £ Shares in issue during the period ended 30 June 2005 of 209,627,000 (30 June 2004: 81,514,198).

The calculation of the return per C Share is based on the total return for the period from 28 June 2005 to the period-end.

7. Investments

	<i>30 June</i> <i>2005</i> £	<i>30 June</i> <i>2004</i> £
Cost at beginning of the period	271,628,208	94,177,540
Additions	27,536,962	15,151,004
Pending investments*	76,023,530	(656,534)
Disposals	(50,161,060)	(1,840,239)
Realised gains/(losses) on investments	996,474	(80,732)
Cost at end of period	326,024,114	106,751,039
Unrealised gains on investments	27,307,573	2,995,863
Market value at end of the period	353,331,687	109,746,902

*Pending investments are purchases which settled post period-end for which cash has been paid prior to the period-end.

8. Creditors – amounts falling due within one year

	<i>30 June</i> <i>2005</i> £	<i>30 June</i> <i>2004</i> £
Performance fee	918,812	368,155
Management fee	329,142	147,178
Other professional fees	17,703	–
Fund administration fee	26,473	11,584
Costs related to issue of shares	795,209	–
Directors' remuneration	16,464	41,842
Sundry expenses	46,041	17,684
	2,149,844	586,443

9. Net asset value

The net asset value of each £ Share and C Share is determined by dividing the net assets of the Company attributed to the £ Shares of £259,007,321 (30 June 2004: £109,196,441) and C Shares (C £ Shares: £60,079,875, C € Shares: €47,990,208 and C US\$ Shares: US\$30,604,904) (30 June 2004: £nil) by the number of £ Shares in issue at the period-end of 209,627,000 (30 June 2004: 95,624,000) and the number of C Shares in issue at the period-end (C £ Shares: 61,150,000, C € Shares: 48,850,000 and C US\$ Shares: 31,150,000) (30 June 2004: nil).

10. Called up share capital

	<i>30 June 2005</i>	<i>30 June 2004</i>
Authorised		
Unlimited number of shares of no par value	–	–
500,000,000 Ordinary Shares of 1p each	–	5,000,000
500,000,000 C Shares of 10p each	–	50,000,000
	–	55,000,000
Issued and fully paid		
209,627,000 Ordinary Shares of no par value designated as £ Shares	–	–
61,150,000 C Shares of no par value which will convert into £ Shares	–	–
48,850,000 C Shares of no par value which will convert into € Shares	–	–
31,150,000 C Shares of no par value which will convert into US\$ Shares	–	–
95,624,000 Ordinary Shares of 1p each	–	956,240
	–	956,240

On 10 June 2005, pursuant to a special resolution approved by ordinary shareholders, the Company cancelled all unissued shares and altered its share capital such that the share capital of the Company was re-organised into an unlimited number of shares of no par value which the Directors may designate on issue as Ordinary Shares or C Shares (and in each case of one or more currency classes) or such other class or classes of shares as the Directors may determine. On 20 June 2005 each Ordinary Share in the Company in issue as at 17 June 2005 was converted into an Ordinary Share of no par value and designated as a £ Share.

On 28 June 2005, the Company raised net proceeds of approximately £109.5 million through the issue of 61,150,000 C £ Shares, 48,850,000 C € Shares and 31,150,000 C US\$ Shares. The rights of both the Ordinary Shareholders and C Shareholders are, and continue to be, in accordance with the new Articles of Association dated 10 June 2005.

Notes to the Unaudited Interim Financial Statements (continued)

11. Reserves

a) Special reserve

	£
Balance brought forward at 31 December 2004	211,627,675
Reclassification of nominal value of ordinary shares upon conversion into shares of no par value	2,096,270
Shares issued during the period	111,459,040
Costs relating to the issue of shares	(1,938,291)
Transfer from capital redemption reserve	17,942,231
Balance at 30 June 2005	341,186,925

The £111,459,040 movement in special reserves above represents the premiums arising on the issue of C Shares on 28 June 2005.

On 10 June 2005, a special resolution was passed to enable the Company to repurchase up to 14.99% of each of the £ Shares, € Shares and US\$ Shares in issue, in each case following conversion of the respective C Shares in issue and for the cancellation of the entire amount which stood to the credit of the share premium account immediately after the issue of C Shares and to apply this amount to a special reserve to be used by the Company for the purpose of repurchasing its issued share capital. Approval was obtained from the Royal Court of Guernsey on 17 June 2005.

The capital redemption reserve of £17,942,231 as at 31 December 2004 was transferred to the special reserve, following the capital reduction and share cancellation instigated pursuant to a special resolution dated 10 June 2005.

b) Other Reserves

	<i>Capital Reserve – Realised</i> £	<i>Capital Reserve – Unrealised</i> £	<i>Statement of Total Return</i> £	<i>Total</i> £
Balance brought forward at 31 December 2004	21,048,916	4,001,243	(5,978,317)	19,071,842
Realised gains on investments	996,474	–	–	996,474
Unrealised gains on investments	–	24,532,733	–	24,532,733
Net realised foreign exchange losses	(7,244,175)	–	–	(7,244,175)
Net loss on forward currency contracts	(3,255,412)	(3,493,871)	–	(6,749,283)
Retained net loss for the period	–	–	(3,275,345)	(3,275,345)
Balance at 30 June 2005	11,545,803	25,040,105	(9,253,662)	27,332,246

12. Ultimate Controlling Party

In the opinion of the Directors on the basis of shareholdings advised to them, the Company has no ultimate controlling party.

13. Post Balance Sheet Event

On 11 August 2005, each issued C Share converted into new Ordinary Shares at a conversion ratio of 0.7952 £ Shares for every one C £ Share, 0.5361 € Shares for every one C € Share and 0.4434 US\$ Shares for every one C US\$ Share. A total of 48,626,480 new £ Shares arose on conversion, increasing the number of issued £ Shares to 258,253,480. A total of 26,188,485 new € Shares and 13,811,910 new US\$ Shares also arose on conversion.

Corporate Information

Directors

P P Walsh – Chairman
T C Ash
R M J Bowie
J E Hallam
R D N Hotchkis

Administrator, Secretary and Registered Office

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Manager

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UK Solicitors to the Company

(up to 6 September 2005)
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(from 7 September 2005)

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Glossary of Hedge Fund Strategies

Hedged Equities	The strategy generally involves long and short investing in equity securities that are deemed to be under or overvalued. Portfolio managers do not attempt to neutralise the amount of long and short positions (i.e., will be net long or short). Portfolio managers may specialise in a particular industry or may diversify holdings across industries. Although the strategy is more common in U.S. markets, a growing number of portfolio managers invest globally. Portfolio managers in this strategy usually employ a low to moderate degree of leverage
Relative Value Arbitrage	The strategy generally involves the simultaneous purchase and sale of similar securities to exploit pricing differentials. Portfolio managers attempt to neutralise long and short positions to minimise the impact of general market movements. Different relative value strategies include convertible bond arbitrage, statistical arbitrage, pairs trading, fixed income arbitrage and closed end fund arbitrage. The types of instruments traded vary considerably depending on the Portfolio manager's arbitrage strategy. Since the strategy attempts to capture relatively small mispricings between two related securities, moderate to substantial leverage is often employed to produce attractive rates of return
Opportunistic	Portfolio managers invest in a wide variety of strategies and instruments, often assuming an aggressive risk posture. Most portfolio managers rely on macro-economic analyses to invest across countries, markets, sectors and companies, and have the flexibility to invest in numerous financial instruments. Futures and options are often used for hedging and speculation in order to quickly position a portfolio to profit from hanging markets. The use of leverage varies considerably
Distressed Securities	Portfolio managers invest in debt and equity securities of companies in financial difficulty, reorganisation or bankruptcy, non-performing and sub-performing bank loans and emerging market debt. Portfolios are usually concentrated in debt instruments. The use of leverage varies considerably. Portfolio managers differ in their preference for actively participating in the workout and restructuring process and the extent to which they use leverage
Event Driven	This strategy generally involves investments in securities of firms involved in mergers, acquisitions or other special situations which alter a company's financial structure or operating strategy: restructurings, liquidations, spin-offs, etc. Risk management and hedging techniques are employed to protect the portfolio from deals that fail to materialise. In addition, accurately forecasting the timing of a transaction is an important element impacting the realised return. The use of leverage varies considerably

Glossary of Hedge Fund Strategies (continued)

Short Selling	This strategy seeks to profit from declining security prices by assuming short positions in companies with unfavourable prospects. The strategy performs best in declining markets and therefore is especially attractive in a multi-manager fund to help reduce the fund's total exposure to general stock market movements. Portfolio managers use a range of fundamental and technical investment methodologies to identify short candidates, may or may not remain fully invested and use varying degrees of leverage. Some Portfolio managers assume modest long positions while remaining net short
Tactical Trading	These strategies generally involve fundamental, discretionary, directional trading in commodities, futures and their derivatives
Equity Strategies	These strategies generally involve long-only, discretionary investing and trading in specific market sectors or regions or the utilisation of specific investment methodologies

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