



# **Macquarie Titan II Trust**

## **Financial Report**

**30 June 2008**

ABN 91 446 478 622

The Trustee of Macquarie Titan II Trust is Macquarie Financial Products Management Limited  
(ACN 095 135 694)

The Trustee's registered office is:  
Level 10, 135 King Street  
Sydney NSW 2000

This annual financial report covers Macquarie Titan II Trust as an individual entity and the consolidated entity consisting of Macquarie Titan II Trust and its subsidiaries.

Macquarie Financial Products Management Limited ACN 095 135 694 (Trustee of Macquarie Titan II Trust (the "Consolidated Entity") ABN 91 446 478 622) is a wholly owned subsidiary of Macquarie Bank Limited ACN 008 583 542 who in turn is a wholly owned subsidiary of Macquarie Group Limited ACN 122 169 279.

Other than Macquarie Bank Limited ABN 46 008 583 542 ("MBL"), any Macquarie Group entity noted on this page is not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). That entity's obligations do not represent deposits or other liabilities of MBL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of that entity, unless noted otherwise.

This report is not an offer or invitation for subscription or purchase, or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in the Consolidated Entity, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

Macquarie Financial Products Management Limited, as Trustee of the Consolidated Entity, is entitled to fees for so acting. Macquarie Bank Limited and its related corporations, together with their officers and Directors, may hold units in the Consolidated Entity from time to time.

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# Macquarie Titan II Trust

## Director's report

### For the year ended 30 June 2008

In respect of the year ended 30 June 2008, the Directors of Macquarie Financial Products Management Limited (the "Trustee") submit the following report together with the consolidated financial report of Macquarie Titan II Trust (the "Trust") and its controlled entities (the "Consolidated Entity") made out in accordance with a resolution of the Directors.

## Directors

The following persons held office as Directors of Macquarie Financial Products Management Limited for the year ended 30 June 2008 or since the end of the year and up to the date of this report:

| Names                   | Appointed/resigned         |
|-------------------------|----------------------------|
| Peter Bruce Lucas       |                            |
| Charles Warwick Wheeler | Resigned 12 February 2008  |
| Anthony Abraham         |                            |
| William Dudley Fox      | Appointed 6 September 2007 |
| Simone Alison Mosse     | Appointed 6 September 2007 |

No units were held in either the Trustee or the Trust by the directors or their related entities.

## Principal activities

The principal activity of the Trust is to invest in Class B shares of Macquarie Offshore Funds No. 2 Ltd, a company incorporated in Bermuda. Macquarie Offshore Funds No. 2 Ltd invests in Macquarie Offshore Master Fund Limited, a Fund of Funds company incorporated in Bermuda, which holds a portfolio of shares in offshore hedge fund companies.

The Consolidated Entity did not have any employees during the year.

There were no significant changes in the nature of the Consolidated Entity's activities during the year.

## Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Consolidated Entity that occurred during the year which are not otherwise disclosed in this report.

## Events subsequent to balance sheet date

In accordance with the trust constitution, the Directors have resolved to wind up the trust at 31 December 2008.

As at the date of this report, in addition to Drake, redemption gates and suspensions have been imposed by three of the component funds in Macquarie Offshore Master Fund Limited (MOMFL), these being the Asian Debt Fund, Centaurus Alpha Fund and DKR Soundshore Oasis Program. The redemption gates and suspensions prevent redemptions occurring until further notice. These three funds comprised 12.58 % of MOMFL's investments at the most recent valuation date of 30 September 2008 (30 June 2008: 18.84%). The MOMFL NAV will be segregated into the regular NAV (consisting of the underlying Funds which may be fully redeemed) and a side pocket (consisting of the abovementioned funds) to correctly account for the above redemption gates and suspensions. Assuming there are no further changes in the redemption status of the component funds of MOMFL, investors will receive the proceeds on redemption of the regular NAV upon termination or wind up, and investors will receive the proceeds of the side pocket NAVs at some point in the future once the investments in the side pocket can be realised. This side pocket will ensure that all investors are treated equitably following termination.

As at the date of this report the Directors are not aware of any other matters or circumstances which have arisen since the end of the year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the period subsequent to 30 June 2008 which are not otherwise disclosed in this report.

# Macquarie Titan II Trust

## Director's report

For the year ended 30 June 2008

### Likely developments and expected results of operations

The Consolidated Entity will continue to be managed in accordance with the investment objectives and guidelines set out in the governing documents of the Trust and in accordance with the provisions of the Trust Constitution.

The results of the Consolidated Entity will be affected by a number of factors, including the performance of investment markets in which the component funds invest. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further disclosures of information relating to the likely developments in the operations, and the expected results of those operations in future financial years of the Consolidated Entity have not been included in this report as the Trustee believes it may result in unreasonable prejudice to the Consolidated Entity.

### Environmental regulation

The Consolidated Entity's operations are not regulated by any significant environmental regulation under a Commonwealth, State or Territory law.

### Indemnifying officers or auditors

No insurance premiums are paid for out of the assets of the Consolidated Entity in regard to insurance cover provided to either the Trustee or the auditors of the Consolidated Entity. So long as the officers of the Trustee act in accordance with the Trust Constitution and the Corporations Act 2001, the officers remain indemnified out of the assets of the Consolidated Entity against any losses incurred while acting on behalf of the Consolidated Entity. The auditors of the Consolidated Entity are in no way indemnified out of the assets of the Consolidated Entity.

### Fees paid to and interests held in the Trust by the Trustee or its associates

Fees paid to the Trustee out of Consolidated Entity property during the year are disclosed in Note 10 to the financial statements.

No fees were paid out of Consolidated Entity property to the directors of the Trustee during the year.

Interests in the Consolidated Entity held by the Trustee and its associates during the period are disclosed in Note 10 to the financial statements.

### Review and results of operations

The financial report for the year ended 30 June 2008, and the results herein, are prepared in accordance with Australian Equivalents to International Financial Reporting Standards ("AIFRS").

The financial report is presented in the New Zealand currency.

The net profit from continuing activities before financing costs attributable to ordinary unitholders, under AIFRS, for the financial for the year ended 30 June 2008 and 30 June 2007 have been outlined below:

| <i>Review of operations</i>  | Consolidated | Parent       |              |
|--|--------------|--------------|--------------|
|  | 30 June 2008 | 30 June 2008 | 30 June 2007 |
|  | \$000        | \$000        | \$000        |
| Total net investment income/(loss)   | 2,534        | 1,643        | 2,520        |
| Operating profit/(loss) before financing costs attributable to unitholders | 2,089        | 1,643        | 2,520        |

# Macquarie Titan II Trust

## Director's report

For the year ended 30 June 2008

### Distributions

|                               | Consolidated | Parent       |              |
|-------------------------------|--------------|--------------|--------------|
|                               | 30 June 2008 | 30 June 2008 | 30 June 2007 |
|                               | \$ 000       | \$ 000       | \$ 000       |
| Distribution paid and payable | -            | -            | 96           |

### Value of net assets

|   | Consolidated | Parent       |              |
|---|--------------|--------------|--------------|
|   | 30 June 2008 | 30 June 2008 | 30 June 2007 |
|   | \$ 000       | \$ 000       | \$ 000       |
| Net assets for unit pricing purposes  | 19,182       | 19,182       | 19,425       |
| Effect of classification of net assets attributable to unitholders as liabilities | (19,182)     | (19,182)     | (19,425)     |
| Net assets under AIFRS  | -            | -            | -            |

### Interests in the Consolidated Entity

The movement in units on issue in the Consolidated Entity during the year ended 30 June 2008 is disclosed in Note 5 to the financial statements.

The value of the Consolidated Entity's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 1 to the financial statements.

### Directors' indemnification

Under the Trust's Deed, the Trust indemnifies all past and present Directors and Secretaries of the Trust, including at this time the Directors named in this report and the Secretary or Secretaries, against every liability incurred by them in their respective capacities unless:

- The liability is owed to the Trust or to a related body corporate;
- The liability did not arise out of the conduct of good faith;
- The liability is for a pecuniary penalty order or a compensation order under the Corporations Act 2001; or
- In the case of a liability for legal costs, the costs are incurred in relation to a liability excluded above, the person is found guilty, grounds for a court order in proceedings brought by the Australian Securities & Investments Commission or a liquidator are established, or the court denies relief to the person in the relevant proceedings.

### Rounding amounts to the nearest thousand dollars

The Trust is an entity of a kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities & Investments Commission relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

Signed in accordance with a resolution of the Board of Directors:

Director: .....

William Dudley Fox

Sydney

Dated this 28<sup>th</sup> November day of November 2008

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### Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Titan II Trust for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Macquarie Titan II Trust and the entities it controlled during the year.



Peter Merrett  
Partner  
PricewaterhouseCoopers

Sydney  
28 November 2008

# Macquarie Titan II Trust

## Income statements

For the year ended 30 June 2008

|   | Notes | Consolidated | Parent       |              |
|---|-------|--------------|--------------|--------------|
|   |       | 2008         | 2008         | 2007         |
|   |       | \$ 000       | \$ 000       | \$ 000       |
| <b>Investment income</b>  |       |              |              |              |
| Interest income   |       | 192          | -            | -            |
| Dividend income   |       | -            | -            | 96           |
| Other income  |       | 26           | -            | -            |
| Net gains on financial assets at fair value through profit or loss                            | 4     | 2,316        | 1,643        | 2,424        |
| <b>Total net investment income/(loss)</b>   |       | <b>2,534</b> | <b>1,643</b> | <b>2,520</b> |
| <b>Expenses</b>   |       |              |              |              |
| Management fees   | 10    | 141          | -            | -            |
| Performance fees  | 10    | -            | -            | -            |
| Interest expense  |       | 49           | -            | -            |
| Other expenses  |       | 255          | -            | -            |
| <b>Total expenses</b>   |       | <b>445</b>   | <b>-</b>     | <b>-</b>     |
| <b>Net profit from continuing activities before finance costs attributable to unitholders</b> |       | <b>2,089</b> | <b>1,643</b> | <b>2,520</b> |
| <b>Finance costs attributable to unitholders</b>  |       |              |              |              |
| Distribution to unitholders of the parent entity  | 6     | -            | -            | (96)         |
| Distributions to minority interests   |       | -            | -            | -            |
| (Increase) in net assets attributable to unitholders to minority interests                    |       | (446)        | -            | -            |
| (Increase) in net assets attributable to unitholders of the parent entity                     | 5     | (1,643)      | (1,643)      | (2,424)      |
| <b>Profit/(loss) for the year</b>   |       | <b>-</b>     | <b>-</b>     | <b>-</b>     |

The above income statements should be read in conjunction with the accompanying notes.

# Macquarie Titan II Trust

## Balance sheets

As at 30 June 2008

|  | Note | Consolidated  | Parent        |               |
|--|------|---------------|---------------|---------------|
|  |      | 2008          | 2008          | 2007          |
|  |      | \$ 000        | \$ 000        | \$ 000        |
| <b>Assets</b>  |      |               |               |               |
| Cash and cash equivalents  |      | 5,486         | -             | -             |
| Redemption receivable  |      | -             | 365           | 277           |
| Dividend receivable  |      | -             | 2             | 96            |
| Other receivables  |      | 309           | -             | -             |
| Financial assets held at fair value through profit or loss                     | 7    | 31,159        | 19,182        | 19,425        |
| <b>Total assets</b>  |      | <b>36,954</b> | <b>19,549</b> | <b>19,798</b> |
| <b>Liabilities</b>   |      |               |               |               |
| Management fee payable   |      | 353           | -             | -             |
| Interest bearing liabilities   |      | 4,302         | -             | -             |
| Other payables   |      | 343           | -             | -             |
| Redemption payable   |      | 554           | 365           | 277           |
| Distribution payable   | 6    | 2             | 2             | 96            |
| Financial liabilities held at fair value through profit or loss                |      | 165           | -             | -             |
| Net assets attributable to minority interests (redemption price of units)      |      | 12,053        | -             | -             |
| <b>Total liabilities (excluding net assets attributable to unitholders)</b>    |      | <b>17,772</b> | <b>367</b>    | <b>373</b>    |
| <b>Net assets attributable to unitholders of the parent entity - liability</b> | 5    | <b>19,182</b> | <b>19,182</b> | <b>19,425</b> |
| <b>Represented by:</b>   |      |               |               |               |
| Net assets attributable to unitholders - liability                             |      | 19,182        | 19,182        | 19,425        |

The above balance sheets should be read in conjunction with the accompanying notes.

# Macquarie Titan II Trust

## Statements of changes in equity

For the year ended 30 June 2008

|  | Consolidated | Parent |        |
|--|--------------|--------|--------|
|  | 2008         | 2008   | 2007   |
|  | \$'000       | \$'000 | \$'000 |
| <b>Total equity at the beginning of the financial year</b>           | -            | -      | -      |
| Profit/(loss) for the year   | -            | -      | -      |
| Net income/(expense) recognised directly in equity                   | -            | -      | -      |
| <b>Total recognised income and expense for the year</b>              | -            | -      | -      |
| Transactions with equity holders in their capacity as equity holders | -            | -      | -      |
| <b>Total equity at the end of the financial year</b>                 | -            | -      | -      |

Under AIFRS, net assets attributable to unitholders are classified as a financial liability rather than equity. As a result there was no equity at the start or end of the period.

The above statements of changes in equity should be read in conjunction with the accompanying notes.

# Macquarie Titan II Trust

## Cash flow statements

For the year ended 30 June 2008

|  | Note   | Consolidated    | Parent         | 2007           |
|--|--------|-----------------|----------------|----------------|
|  |        | 2008            | 2008           | \$'000         |
|  |        | \$'000          | \$'000         | \$'000         |
| <b>Cash flows from operating activities</b>  |        |                 |                |                |
| Proceeds from sale of financial instruments held at fair value through profit and loss |        | 23,287          | 1,770          | 1,708          |
| Purchase of financial instruments at fair value through profit or loss                 |        | (1,630)         | -              | -              |
| Dividend income received   |        | 94              | 94             | 96             |
| Interest income received   |        | 316             | -              | -              |
| Fee paid   |        | (3,557)         | -              | -              |
| <b>Net cash flows from operating activities</b>  | 11 (a) | <b>18,510</b>   | <b>1,864</b>   | <b>1,804</b>   |
| <b>Cash flows from financing activities</b>  |        |                 |                |                |
| Distributions to unitholders   |        | (94)            | (94)           | (96)           |
| Payments for redemptions by unitholders  |        | (55,098)        | (1,770)        | (1,707)        |
| <b>Net cash inflows/(outflows) from financing activities</b>                           |        | <b>(55,192)</b> | <b>(1,864)</b> | <b>(1,803)</b> |
| <b>Net increase/(decrease) in cash assets and cash equivalents</b>                     |        | <b>(36,682)</b> | <b>-</b>       | <b>1</b>       |
| Cash balance before consolidation  |        | 42,168          | -              | -              |
| Cash and cash equivalents at the beginning of the year                                 |        | -               | -              | (1)            |
| <b>Cash and cash equivalents assets at the end of the year</b>                         |        | <b>5,486</b>    | <b>-</b>       | <b>-</b>       |
| <b>Non-cash financing activities</b>   | 11 (b) |                 |                |                |

The above cash flow statements should be read in conjunction with the accompanying notes.

# Macquarie Titan II Trust

## Notes to the financial statements

For the year ended 30 June 2008

### 1 Summary of significant accounting policies

#### General information

The financial report covers Macquarie Titan II Trust (the "Trust") as an individual entity and the Consolidated Entity, which consists of Macquarie Titan II Trust and its subsidiaries. The Trust was registered on 14 December 2002 and is domiciled in Australia and will terminate on 31 December 2008.

The Trustee of the Trust is Macquarie Financial Products Management Limited, a wholly owned subsidiary of Macquarie Bank Limited ("MBL") who in turn is a wholly owned subsidiary of Macquarie Group Limited. The registered office of the Trustee is Level 10, 135 King Street, Sydney, NSW 2000.

The financial report is presented in the New Zealand currency.

The principal activity of the Trust is to invest into Class B shares of Macquarie Offshore Funds No. 2 Ltd, a company incorporated in Bermuda. Macquarie Offshore Funds No. 2 Ltd invests in Macquarie Offshore Master Fund Limited, a Fund of Funds company incorporated in Bermuda, which holds a portfolio of shares in offshore hedge fund companies.

The financial report was authorised for issue by the Directors on 28 November 2008. The Directors of the Trustee have the power to amend and reissue the financial report.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001 and the Trust Constitution.

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

#### Compliance with International Financial Reporting Standards

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Consolidated Entity, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

#### (b) Principles of consolidation

##### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Macquarie Titan II Trust ("Parent Entity") as at 30 June 2008 and the results of all subsidiaries for the year then ended. Macquarie Titan II Trust and its subsidiaries together are referred to in this financial report as the Consolidated Entity.

Subsidiaries are all those entities (include special purpose entities) over which the Consolidated Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Consolidated Entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Consolidated Entity.

# Macquarie Titan II Trust

## Notes to the financial statements (continued)

For the year ended 30 June 2008

### 1 Summary of significant accounting policies (continued)

#### (b) Principles of consolidation (continued)

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Unrealised gain/(losses) are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Minority interests in the results and net assets of subsidiaries are shown separately in the consolidated income statements and balance sheet respectively.

Investments in subsidiaries are accounted for at fair value in the individual financial statements of Macquarie Titan II Trust.

#### (c) Financial instruments

##### (i) Classification

The Consolidated Entity's investments are classified at fair value through profit or loss. These comprise:

- Financial instruments held for trading

These include derivative financial instruments including forward contracts. The Consolidated Entity does not designate any derivatives as hedges in a hedging relationship.

- Financial instruments designated at fair value through profit or loss

These include financial assets that are not held for trading purposes and which may be sold. These are investments in unlisted trusts.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Consolidated Entity's documented investment strategy. The Consolidated Entity's policy is for the Trustee to evaluate the information about these financial assets on a fair value basis together with other related financial information.

##### (ii) Recognition/derecognition

The Consolidated Entity recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Consolidated Entity has transferred substantially all risks and rewards of ownership.

##### (iii) Measurement

Financial assets and liabilities held at fair value through the profit or loss are measured initially at fair value. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices while financial liabilities are priced at current asking prices.

- Fair value in an inactive or unquoted market

