

Xenon Alpha Plus2 are redeemable preference shares carrying a return linked to the performance of the Alpha Plus Portfolio. The shares are issued by Deutsche Xenon Alpha Plus2 Limited. The Alpha Plus Portfolio is designed to generate returns linked to the performance of two funds of hedge funds: the Ivy Rosewood Diversified Fund and the Meridian Diversified Fund.

## Performance review

Performance (to 30 June 2006)	Xenon Alpha Plus2	UBS Composite Bond Index	S&P/ASX 200 Accumulation Index	S&P 500 Accumulation in USD
One month	-1.56%	0.17%	2.11%	0.14%
Three months	-2.89%	0.01%	-0.20%	-1.44%
Six months	5.04%	0.86%	8.81%	2.71%
Annualised return since inception on 27 May 2005 <sup>(1)</sup>	15.05%	3.95%	27.00%	7.48%

(1) Represents the compound average growth rate since inception on 27 May 2005  
Source: Deutsche Bank

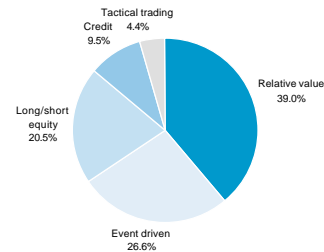
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2005						2.1%	3.9%	1.4%	1.4%	-3.7%	2.3%	3.2%	10.8%
2006	6.0%	0.1%	1.9%	3.7%	-4.9%	-1.6%							5.04%

Source: Deutsche Bank

### Ivy allocation by strategy as at 30 June 2006

	% of fund
Relative value	39.00%
Long/short equity	20.50%
Event driven	26.60%
Credit	9.50%
Tactical trading	4.40%
Total	100.0%

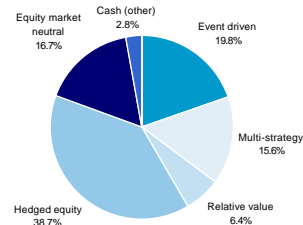
Source: Ivy Asset Management

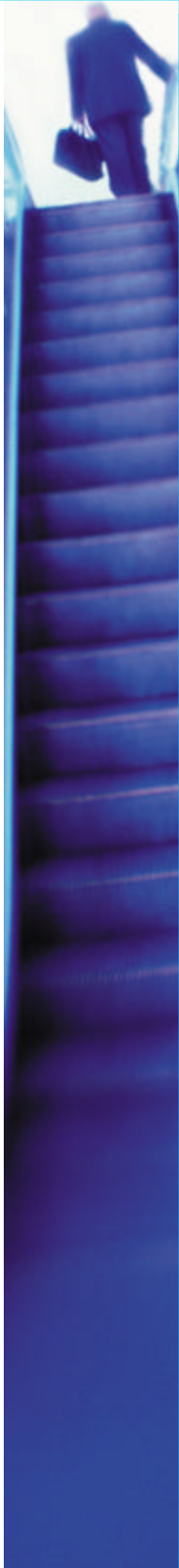


### Meridian allocation by strategy as at 30 June 2006

	% of fund
Event driven	19.80%
Multi strategy	15.60%
Relative value	6.40%
Equity market neutral	38.70%
Hedged equity	16.70%
Other (cash)	2.80%
Total	100.0%

Source: Meridian





### Portfolio performance

For the second quarter of 2006, the Xenon Alpha Plus2 Portfolio decreased by 2.89%. Combined with its performance since inception in May 2005, Xenon Alpha Plus2 has recorded an annualised return of 15.05%.

During the quarter the Meridian account has contributed -2.33 percentage points to total performance and the Ivy account has contributed -0.56 percentage points to total performance.

As a result of Additional Leverage, the total leverage employed per Xenon Alpha Plus2 share is \$2.64.

Subsequent to quarter end, Deutsche Xenon has become aware that a hedge fund, Amaranth Advisors LLC, has received attention in the international press due to media reports of significant losses incurred by it in the month of September 2006. Those reports suggest that the Amaranth fund may have suffered losses in the region of 50% (and the Ivy Fund has indicated to us that it believes the losses could be as much as 55%). We have not verified the extent of any losses Amaranth may have incurred and are not able to do so.

We understand from the Ivy Fund that it had an allocation of approximately 8% of its portfolio to the Amaranth fund. The Ivy Fund, together with the Meridian Fund, are included in the Alpha Plus Portfolio (being a leveraged portfolio). At this stage, it is not possible to estimate the impact this will have on the net asset value and early exit price of Xenon Alpha Plus2. Updated information on this matter will be posted to the Xenon website, [www.deutschexenon.db.com](http://www.deutschexenon.db.com), as it becomes available.

### Macro review

The second quarter of 2006 generally saw a global tightening of liquidity and 'normalisation' of global interest rates, which is a departure from the market environment over the past several years.

In the US, the Federal Reserve raised the federal funding rate for the 17th consecutive time. In Europe, the European Central Bank lifted its benchmark rate to the highest level in three years. In Japan, increased business confidence led to the Bank of Japan raising interest rates shortly after quarter end, signalling the official end of its zero interest rate policy.

Over the quarter the UBS Composite Bond Index moved 0.01% higher, the S&P 500 Accumulation Index was 1.44% lower in US dollar terms and the S&P/ASX 200 Accumulation Index was down 0.20% in Australian dollar terms.

Overall the environment for hedge fund managers was more challenging in the second quarter of 2006 compared with the first.

At the end of the quarter, Meridian removed two underperforming managers from its portfolio. Five new managers were added to the portfolio at the end of the quarter (focusing on hedged equity, event driven and long short strategies).

Ivy has largely continued with its current strategy of adding non-correlated return sources to the Ivy Fund's portfolio and allocating away from strategies with potentially higher levels of equity beta.

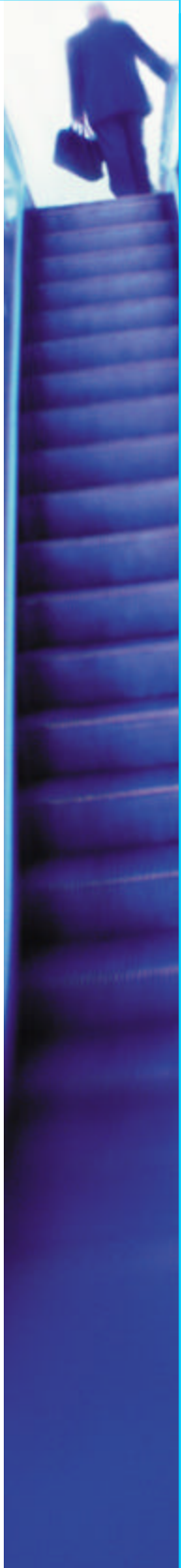
### Strategy review

**Long/short.** Many managers focused on equity strategies struggled to produce absolute returns during the quarter as a sharp drop in global markets negatively impacted managers who were at the high end of their historical net exposure levels.

**Event driven.** In general, event driven managers recorded modest gains, particularly those with specific exposure to special situations where valuations are often impacted by specific company news rather than general market movements.

**Credit.** Managers focused on credit strategies generally recorded flat or modestly positive results as positive carry appeared to overcome the effects of a modest widening of credit spreads and a tightening in liquidity.

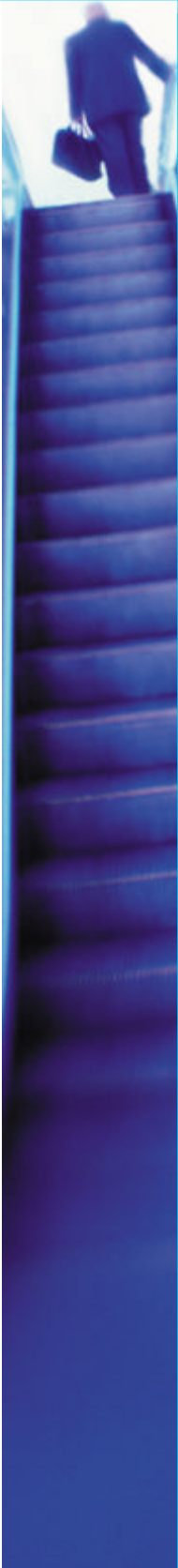




**Relative value.** Relative value managers were the better performers in the hedge fund markets with many managers recording profits for the quarter resulting from their lower sensitivity to movements in equity markets.

**Tactical trading.** The results of tactical trading managers were mixed as trend

following managers with short US dollar exposure struggled and equity market volatility created difficulties for many managers with long equity index positions in Asia.



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