

# Annual Report and Audited Financial Statements

Legg Mason Funds (Cayman) Limited  
**Legg Mason – Hong Kong Equity Fund**

For the period ended 31 December 2010



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# Directors and General Information

## Directors of the Company

### Chan Lai Sze

Legg Mason Asset Management Hong Kong Limited  
12/F York House  
The Landmark  
15 Queen's Road Central  
Hong Kong

### Alan Deacon \*

11 The Birches  
Torquay Road  
Foxrock  
Dublin 18  
Ireland

### Richard Lee Eng Koon

Legg Mason Asset Management Singapore Pte. Limited  
1 George Street #23-02  
Singapore 049 145

### Rory Gallaher \*

Deacons  
5<sup>th</sup> Floor  
Alexandra House  
Central Hong Kong

### Manager

Legg Mason Asset Management Hong Kong Limited  
12/F York House  
The Landmark  
15 Queen's Road Central  
Hong Kong

### Registrar and Administrator

Citi Fund Services (Ireland)\*\*  
1 North Wall Quay  
Dublin 1  
Ireland

### Custodian

Citibank International Plc  
Ireland Branch  
1 North Wall Quay  
Dublin 1  
Ireland

### Independent Auditors

PricewaterhouseCoopers  
P.O. Box 258  
Strathvale House  
George Town  
Grand Cayman, KY1-1104  
Cayman Islands

### Legal Advisers

*In the Cayman Islands:*  
Maples and Calder  
P.O. Box 309 GT  
Grand Cayman, KY1-1104  
Cayman Islands  
British West Indies

### Legal Advisers

*In Hong Kong:*  
Deacons  
5<sup>th</sup> Floor  
Alexandra House  
Central Hong Kong

### Listing Agent

NCB Stockbrokers Limited  
3 George's Dock  
International Financial Services Centre  
Dublin 1  
Ireland

\* Independent non-executive director

\*\* With effect from 1 February 2010, the name of the Registrar and Administrator changed from Citibank Europe plc to Citi Fund Services (Ireland), Limited as disclosed in Note 11.

# Report of The Manager

Legg Mason Funds (Cayman) Limited

## Market Review (for the year ended 31 December 2010)

The Hong Kong equity market started with a weak first half but ended the year of 2010 with a relatively strong second half. For the full year, the Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng China-Affiliated Index registered mixed results of 5.1%, -1.0% and 2.5% respectively (in USD terms).

Three main sectors within the Hang Seng Index generated positive returns for the year of 2010, except for the Hang Seng Finance Index. The Hang Seng Commerce / Industrial sector was the best performer, returning 13% (in USD terms). Hang Seng Utilities and Property Index gained by 10.80% and 6.25% respectively while Hang Seng Finance Index lost 1.36% over the one year period. The top five performing stocks were CNOOC Ltd, BOC Hong Kong Holdings, Hutchison Whampoa, Cathay Pacific Airways and Belle International. The five worst performing stocks are Foxconn International Ltd, Esprit Holdings, China Resources Land, China Life Insurance and Aluminium Corporation of China Limited.

Hong Kong economy continued to grow by 6.8% in the third quarter while unemployment rate stabilized at around 4.1% in the three months ending November 2010. Industrial production and producer price index in Hong Kong in the third quarter rose by 5.4% and 6.5% year-on-year (Y-o-Y), up from 2.2% and 5.9% in 2Q 2010 respectively. The government raised full year growth forecast to 6.5% from a previous estimated range of between 5% and 6% and full-year inflation at 2.5%. Robust growth in China economy and more visitor arrival from the mainland is also expected to support strong retail sales this year. Hong Kong export growth rose by 16.6% (Y-o-Y), up from 13.9% in October, thanks to the strong demand in Asia.

Hong Kong continued to face inflation risks due to US monetary easing, appreciation in China's yuan resulting in more expensive imports, rising food and commodity costs, wage increases and buoyant property market. US Federal Reserve's move to buy \$600 billion of Treasury securities also contributed to inflation and increased risk of asset bubble in Hong Kong, given that Hong Kong maintained a pegged exchange rate with the US Dollar. Throughout 2010, the government introduced several measures from additional stamp duties to higher down-payments to curb speculation in the property market.

## Performance

The Fund gained by 10.56% for the year ended 31 December 2010 against the benchmark return of 8.28%.

At sector level, overweight positions in the Commerce/Industry and Finance sectors have contributed positively to the Fund's performance. At the stock level, overweight positions in Soufun Holdings, AAC Acoustic Technologies Holdings as well as underweight position in HSBC Holdings contributed positively to the Fund's performance. Overweight positions in Skyworth Digital Holdings and China Mengniu Dairy Company Ltd as well as underweight position in Hutchison Whampoa weighed down on the Fund's performance. The average cash holding during the period also detracted value.

During the first quarter, the fund subscribed to an IPO that is well placed to benefit from rising discretionary income as the company's products gain penetration. We expect the company to deliver robust earnings growth over the next 2 years. In addition, the fund accumulated positions in a consumer stock that benefits from rural consumption growth and TV replacement cycle.

During the second quarter, the fund initiated a position in a technology company. It is a leader in provision of best-in-class acoustic components to mobile and smartphone. Launch of new products, market share gain and growth in smartphone demand will provide robust support to its growth path. We took opportunities of share price weaknesses to add to the stock. In addition, we built active weight on an auto dealer given its robust earnings growth compared to the auto manufacturers. The fund also continued to build on its active weight in a consumer stock that benefits from rural consumption growth and TV replacement cycle.

# Report of The Manager

## Legg Mason Funds (Cayman) Limited (continued)

During the third quarter, the fund made relative switches within the consumer sector as we took profit on certain positions which had rallied and became quite expensive versus its own history as well as versus its peers, even after taking its growth profile into consideration. Proceeds were being deployed to other names with more reasonable valuations and potential upside to earnings. In addition, the fund participated in an IPO which is a leading real estate Internet portal in China with national brand name and a comprehensive property research database. The IPO was priced attractively at a substantial discount to its peers.

During the fourth quarter, the fund subscribed to a few IPOs and continued to accumulate positions post listing, as we believe in their medium term growth potential, coupled with reasonable valuations. In addition, the fund made switches within the property and energy sectors to favor those with more attractive valuations. The fund also added to a stock within the materials sector which we expect to deliver very positive earnings surprise.

### Performance Review (as at 31 December 2010)

	3 months	6 months	1 Year	Annualized 3-year return	Annualized 5-year return	Annualized Return Since Inception	Cumulative Return Since Inception
<b>Fund*</b>	2.98%	20.32%	10.56%	-3.93%	11.83%	9.77%	383.91
<b>Benchmark**</b>	3.15%	15.75%	8.28%	-2.94%	12.64%	7.55%	242.44

\* Performance is calculated net of fees in US dollars. Since inception is calculated from the first full month following the inception date (1 January 1994).

\*\* Hang Seng Index in US dollar terms.

Source: Legg Mason

### Top 5 Holdings (as at 31 December 2010)

Equity	Industry	% of NAV
China Construction Bank Corp	Banks	9.38
CNOOC Ltd	Energy	6.39
Bank of China Ltd	Banks	6.12
HSBC Holdings PLC	Banks	5.97
Sun Hung Kai Properties Ltd	Real Estate	4.74
<b>Total</b>		<b>32.60%</b>

### Top 5 Industries (as at 31 December 2010)

Industry	% of NAV
Banks	30.24
Real Estate	14.97
Energy	11.85
Insurance	8.20
Retailing	7.06
<b>Total</b>	<b>72.32%</b>

# Report of The Manager

## Legg Mason Funds (Cayman) Limited (continued)

### Outlook & Strategy

Performances of Hong Kong and China markets have softened since reaching their peak in the last three quarters of 2010. As the impact of loose domestic and external monetary conditions accelerated in the second half of 2010, so has the magnitude and policy tightening in the Mainland to fend off undesirable asset price inflation. On the contrary, developed economies are still maintaining the much needed loose monetary conditions in order to reflate their economies, business investment, employment creation and consumption confidence. Recent sovereign crisis in Ireland has further manifested into volatilities in foreign exchange rates as unsustainable national debt levels continue to plague investors.

In spite of these fluid external factors, China is taking pre-emptive policy measures and evolutionary steps to rebalance its economic growth drivers to higher reliance on domestic consumption. In the medium term, we believe such progression will create investment opportunities such as in the domestic oriented service sectors. In the near-term, Mainland policy makers will focus on combating rising inflation by using multiple measures such as interest rates, guidance on loan quota and reserve requirement ratio.

Given increasing economic integration with China, Hong Kong also has to contend with stronger than desired asset price inflation. While the USD-pegged currency regime and near-term US monetary stance will imply longer period of low interest rates environment, Hong Kong Government is expected to introduce more property-related measures in order to maintain local competitiveness. Excessive cost in housing will inevitably erode Hong Kong's value proposition as a premier financial centre. Aside from these issues, Hong Kong economy and employment confidence is expected to remain robust in 2011. With market valuations at their lower half or at the average of their historical ranges based on limited expectation on earnings growth in 2011, any earlier than expected policy loosening or stronger than expected exports may positively surprise investors.

With current price weakness, we are magnifying our active weights in our most preferred ideas as their valuations are returning to more attractive levels.

All opinions, charts, data and estimates in this document as of this date are subject to change without notice. Although Legg Mason believes data sourced from third parties is reliable, Legg Mason does not guarantee its accuracy. Investors should consult their own investment advisors and professionals before investing in any securities mentioned in this report. Investment involves risk including the possible loss of the principal amount invested. Investors investing in funds denominated in non-local currency should be aware of the risk of exchange rate fluctuations that may cause a loss of principal. This document is for information only; application for units may only be made together with forms of applications available with the prospectus. INVESTORS SHOULD READ AND UNDERSTAND THE PROSPECTUS in conjunction with this document PRIOR TO ANY SUBSCRIPTION. Distribution of this document may be restricted in certain jurisdictions; persons into whose possession this publication comes should inform themselves of and observe such restrictions. This document does not constitute the distribution of any information or the making of any offer or solicitation by anyone in any jurisdiction in which such distribution or offer is not authorized or to any person to whom it is unlawful to distribute such a booklet or make such an offer or solicitation. These mutual funds/unit trusts are not available to US citizens, residents or greencard holders and may not be available in all jurisdictions

\* Net asset values per share at 31 December in each year are as disclosed in the audited annual financial statements as at that date. These net asset values may be different to the daily net asset values per share published on the relevant date due to adjustments made for financial reporting purposes. Highest and lowest prices are as published for the date indicated.

# Report of The Directors

## Legg Mason Funds (Cayman) Limited

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2010.

### Activities

Legg Mason Funds (Cayman) Limited (the "Company") is an open-ended investment company constituted as an umbrella fund and incorporated with limited liability in the Cayman Islands on 29 December 1993 under the provisions of the Companies Law (Revised). The registered office of the Company is located at P.O. Box 309 GT, Grand Cayman, KY1-1104, Cayman Islands. The Company's shares are listed on the Irish Stock Exchange.

The Company is constituted as an umbrella fund. As at 31 December 2010 there is only one sub-fund in the umbrella fund. The business of the Company has been reviewed in the report of the Manager on pages 3 to 5.

### Share Capital

Details of the authorised and issued share capital are set out in Note 5 to the financial statements.

### Results

The statement of comprehensive income on page 10 shows an increase in net assets attributable to holders of redeemable shares for the year of US\$607,313 (2009: increase of US\$3,032,335) The Directors do not recommend the payment of a dividend for the year ended 31 December 2010 (2009: nil).

### Directors

The present Directors are set out on page 2. No Director holds or has held any shares in the Company and no Director has a contract of service with the Company.

Rory Gallaher is a partner in the law firm Deacons, which acts as legal advisers to the Company in Hong Kong and receives fees for his services in accordance with normal business practices. Apart from the aforementioned, no Director was materially interested in any contract, which was significant in relation to the Company's business at any time during the year.

Richard Lee is a Director in Legg Mason Asset Management Singapore Pte. Limited.

### Soft Commission Arrangements

There are no soft commission arrangements in place during the year ended 31 December 2010 (2009: none).

### Significant events during the year

With effect from 1 February 2010, the name of the Registrar and Administrator changed from Citibank Europe plc to Citi Fund Services (Ireland), Limited. This is disclosed in Note 11.

### Independent Auditors

PwC have expressed their willingness to continue in office.

On behalf of the Board:

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Director: Richard Lee Eng Koon  
Date: 25 March 2011

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Director: Rory Gallaher  
Date: 25 March 2011

# Independent Auditor's Report

## Legg Mason Funds (Cayman) Limited

To the Shareholders of Legg Mason - Hong Kong Equity Fund, a sub-fund of Legg Mason Funds (Cayman) Limited:

We have audited the accompanying financial statements of Legg Mason - Hong Kong Equity Fund, a sub-fund of Legg Mason Funds (Cayman) Limited (the "Fund") which comprise the statement of financial position as of 31 December 2010 and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable shares and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**PricewaterhouseCoopers**

Cayman Islands

Date: 25 March 2011

# **Report of The Custodian**

## **Legg Mason Funds (Cayman) Limited**

Custodian's Report to the Shareholders of Legg Mason Funds (Cayman) Limited as at 31 December 2010.

In our opinion, the Manager has in all material respects managed the scheme in accordance with the provisions of the Explanatory Memorandum during the year ended 31 December 2010.

Citibank International plc,  
Ireland Branch  
1 North Wall Quay  
Dublin 1  
Ireland

Date: 25 March 2011

# Statement of Comprehensive Income

For the year ended 31 December 2010

		<b>Legg Mason - Hong Kong Equity Fund</b>	
		<b>December 2010</b>	<b>December 2009</b>
		<b>US\$</b>	<b>US\$</b>
	<b>Note</b>		
<b>Income</b>			
Dividends	2(d)	151,163	198,407
Interest income	2(d)	3	5
Net gains on financial assets at fair value through profit or loss	7	672,442	3,084,062
		<hr/>	<hr/>
<b>Net Investment Income</b>		823,608	3,282,474
<b>Expenses</b>			
Management fees	4	(103,397)	(120,448)
Custodian fees	4	(34,256)	(41,924)
Audit fees		(16,439)	(27,000)
Transaction costs		(26,997)	(28,462)
Other expenses		(26,517)	(21,643)
		<hr/>	<hr/>
<b>Total Operating Expenses</b>		(207,606)	(239,477)
<b>Taxation</b>			
Withholding tax		(8,689)	(10,619)
<b>Finance Costs</b>			
Interest expense		–	(43)
		<hr/>	<hr/>
<b>Total Taxation and Finance Costs</b>		(8,689)	(10,662)
<b>Increase in Net Assets Attributable to Holders of Redeemable Shares from Operations</b>		<hr/> <b>607,313</b>	<hr/> <b>3,032,335</b>

The notes on pages 13 to 21 form part of these financial statements.

# Statement of Financial Position

As at 31 December 2010

		<i>Legg Mason - Hong Kong Equity Fund</i>	
		<i>31 December, 2010</i>	<i>31 December, 2009</i>
		<i>US\$</i>	<i>US\$</i>
	<i>Note</i>		
<b>Assets</b>			
Cash and cash equivalents	2(e)	158,366	54,128
Amounts receivable on spot foreign exchange		27,017	–
Amounts receivable on subscriptions		1,053	1,758
Dividends receivable		3,105	4,745
Investments at fair value	2(c)	6,575,946	6,440,188
Amounts receivable on sale of securities held for trading		58,562	–
Prepaid expenses		9,354	7,248
<b>Total Assets</b>		<u>6,833,403</u>	<u>6,508,067</u>
<b>Liabilities</b>			
Amounts payable on spot foreign exchange		26,993	–
Amounts payable on redemptions		–	40,544
Amounts payable on purchase of securities held for trading		94,325	–
Accrued expenses and other payables	4	<u>50,965</u>	<u>45,073</u>
<b>Total Liabilities (Excluding Net Assets Attributable to Holders of Redeemable Shares)</b>		<u>172,283</u>	<u>85,617</u>
<b>Net Assets Attributable to Holders of Redeemable Shares</b>		<u>6,661,120</u>	<u>6,422,450</u>
<b>Shares outstanding as at 31 December 2010</b>	5	142,950	
<b>Shares outstanding as at 31 December 2009</b>	5	152,375	
<b>Net asset value per share as at 31 December 2010</b>	9	46.60	
<b>Net asset value per share as at 31 December 2009</b>	9	42.15	

The notes on pages 13 to 21 form part of these financial statements.

## Statement of Changes in Net Assets Attributable To Holders of Redeemable Shares

For the year ended 31 December 2010

	Year ended 2010		Year ended 2009	
	No of shares	US\$	No of shares	US\$
Net assets attributable to holders of redeemable shares as at 1 January 2010	152,375	6,422,450	330,560	8,962,475
Increase in net assets attributable to holders of redeemable shares resulting from operations	–	607,313	–	3,032,335
Issue of redeemable shares	9,496	416,578	9,511	318,770
Redemption of redeemable shares	(18,921)	(785,221)	(187,696)	(5,891,130)
Net assets attributable to holders of redeemable shares as at 31 December 2010	<u>142,950</u>	<u>6,661,120</u>	<u>152,375</u>	<u>6,422,450</u>

The notes on pages 13 to 21 form part of these financial statements.

# Statement of Cash Flows

For the year ended 31 December 2010

	<i>Legg Mason - Hong Kong Equity Fund</i>	
	<i>December 2010</i>	<i>December 2009</i>
	<i>US\$</i>	<i>US\$</i>
<b>Cash flows from operating activities</b>		
Interest income received	3	5
Dividend income received	152,803	207,911
Withholding tax paid	(8,689)	(10,619)
Operating expenses paid	(207,606)	(239,477)
Purchase of securities held for trading	(4,614,649)	(3,310,286)
Proceeds from sale of securities held for trading	5,151,945	8,714,798
Prepaid expenses	(2,106)	(5,126)
Amounts receivable and payable on spot foreign exchange	(24)	–
Amounts receivable on sale of investments at fair value	(58,562)	–
Amounts payable on purchase of investments at fair value	94,325	–
Accrued expenses and other payables	5,892	(8,221)
<b>Net cash inflow from operating activities</b>	<u>513,332</u>	<u>5,348,985</u>
<b>Cash flows from financing activities</b>		
Interest paid	–	(43)
Proceeds from issue of redeemable shares	417,283	318,106
Redemption of redeemable shares	(825,765)	(5,876,840)
<b>Net cash outflow from financing activities</b>	<u>(408,482)</u>	<u>(5,558,777)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	104,850	(209,792)
<b>Effect of foreign exchange movements</b>	(612)	1,702
<b>Balance as at 1 January 2010</b>	<u>54,128</u>	<u>262,218</u>
<b>Balance as at 31 December 2010</b>	<u>158,366</u>	<u>54,128</u>

The notes on pages 13 to 21 form part of these financial statements.

# Notes to Financial Statements

## 1. Company information

Legg Mason Funds (Cayman) Limited (the "Company") is an open-ended investment company constituted as an umbrella fund and incorporated with limited liability in the Cayman Islands on 29 December 1993 under the provisions of the Companies Law (Revised). The Company was registered under the Mutual Funds Law of the Cayman Islands on 9 August 1994. The Company's shares are listed on the Irish Stock Exchange.

The Company offers shares in the Legg Mason - Hong Kong Equity Fund. The Legg Mason - Hong Kong Equity Fund (the "Fund") aims to provide long-term capital appreciation through active sector allocation and management of listed securities in the Hong Kong markets.

## 2. Significant accounting policies

### (a) Basis of preparation

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss. The following are the significant accounting policies adopted by the Company.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The following standards and amendments to standards are mandatory for the Company commencing with the year ended 31 December 2010, the adoption of which will not have an impact on the Company's financial position or performance.

IAS 1 (Revised) 'Presentation of financial statements' requires 'non-owner changes in equity' to be presented separately from owner changes in equity.

IAS 1 (Amendment) 'Presentation of financial statements' clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 are examples of current assets and liabilities respectively.

There are a number of minor amendments to IFRS 7 'Financial Instruments: Disclosures', IAS 8 'Accounting policies, changes in accounting estimates and errors' and IAS 10 'Events after the reporting period' none of which are likely to have a significant impact on the Fund's financial statements.

The Fund adopted the amendment to IFRS 7, effective 1 January 2009. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Fund's classification of the fair value hierarchy is disclosed in Note 6.

### (b) Functional and presentation currency

The performance of the Fund is measured and reported to the investors in United States dollars. The Board of Directors considers the United States dollars as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in United States dollars, which is the Fund's functional and presentation currency.

# Notes to Financial Statements

## 2. Significant accounting policies (continued)

(b) Functional and presentation currency (continued)

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the statement of comprehensive income within the fair value net gain or loss.

(c) Financial assets and financial liabilities at fair value through profit or loss

The Fund classifies its investments in equity securities as financial assets or financial liabilities at fair value through profit or loss. These financial assets and financial liabilities are classified as held for trading or designated by the Board of Directors at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term. Derivatives are also categorised as financial assets or financial liabilities held for trading.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Investment Manager and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information. These financial assets are expected to be realised within 12 months of the statement of financial position date.

For the purposes of the financial statements, the investments of the Fund are valued at their bid prices on the last business day of the period, as required under International Accounting Standard 39. For the purposes of the daily net asset value calculations published as at 31 December 2010 and 31 December 2009 the investments of the Fund are valued at their last traded prices on that date, as outlined in the Explanatory Memorandum.

(d) Interest income and dividend income

Interest income is recognised on a time-proportionate basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash deposited with banks, cash balances at brokers and short-term highly liquid investments with maturities of three months or less from the date of acquisition.

(f) Income tax

Dividend and interest income and gains on disposal of securities held for trading may be subject to non recoverable withholding tax imposed in the country of origin. Investment income and gains are recorded gross of applicable taxes and tax expense is recognised against the statement of comprehensive income account as incurred.

Under current laws of the Cayman Island, there is no income, estate, corporation, capital gains or other taxes payable by the Fund. As a result, no provision for the income taxes has been made in the financial statements.

The Directors do not believe that the Fund is liable to income tax under any other jurisdiction. The Directors consider that the only tax which the Fund is subject to is withholding tax on dividends and capital gains tax on profits on the sale of securities held for trading, for transactions undertaken in certain countries within Asia.

(g) Creditors

All creditors are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

## Notes to Financial Statements

### 2. Significant accounting policies (continued)

(h) Redeemable shares

The Fund issues redeemable shares, which are redeemable at the holder's option and are classified as financial liabilities. Redeemable shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value. The redeemable share is carried at the redemption amount that is payable at the statement of financial position date if the holder exercises the right to put the share back to the Fund.

Redeemable shares are issued and redeemed at prices based on the Fund's net asset value per share at the time of issue or redemption. The Fund's net asset value per share is calculated by dividing the net assets attributable to the holders of redeemable shares with the total number of outstanding redeemable shares.

(i) Amounts receivable on sale of securities

Amounts due from and to brokers represents receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date, respectively.

(j) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(k) Expenses

Expenses are accounted for on an accrual basis.

(l) Spot currency contract

Spot currency contract is the exchange of one currency for another at the current market price where the settlement generally happens within 3 to 4 working days. The fund utilises spot currency contracts for hedging purposes when trading in a currency that differs from the base currency. Gains or losses on open spot currency exchange contracts are included in the Balance Sheet.

### 3. Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

All the Fund's financial assets and financial liabilities are held for the purpose of being traded or are expected to be realised within one year.

### 4. Operating expenses

The Fund pays the fees and expenses of the Manager. These transactions have been entered into in the ordinary course of business and on normal commercial terms.

#### **Management fees**

The Manager, Legg Mason Asset Management Hong Kong Limited, is entitled to an annual fee of 1.70% of the net asset value attributable to the Fund. The management fee is paid on a monthly basis.

#### **Administration fees**

The administration fee of Citi Fund Services (Ireland) is paid out of the Manager's fees by the Manager. The Administrator is entitled to an annual fee of US\$20,000 for the Fund.

# Notes to Financial Statements

## 4. Operating expenses (continued)

### **Custodian fees**

The Custodian is entitled to an annual fee of 0.05% of the net asset value attributable to the Fund. The Custodian fees also include fees and expenses of sub-custodians appointed by the Custodian that are borne directly by the Fund. The custodian fee is paid on a monthly basis.

### **Other Expenses**

The Fund will also incur other expenses relating to its ongoing operations, the preparation and printing of annual and semi-annual reports and the Explanatory Memorandum, brokerage and other normal operating expenses.

The Fund incurs the expenses of Alan Deacon when he is required to travel to Hong Kong for board meetings. At 31 December 2010, the Fund incurred travelling expenses of US\$4,070 (2009: US\$3,609) for Alan Deacon in order for him to attend the board meeting.

At 31 December 2010, the following amounts of management and custody fees were payable:

	<b>2010</b>	<b>2009</b>
	<b>US\$</b>	<b>US\$</b>
Management fees	19,859	12,634
Custody fees	5,299	1,908

### **Directors' remuneration**

There were no fees paid or payable to Directors in respect of services rendered to the Company during the year. Rory Gallaher is a partner of Deacons, Hong Kong counsel to the Company, which receives fees from the Company in such capacity.

## 5. Share capital

	<b>2010</b>	<b>2009</b>
	<b>US\$</b>	<b>US\$</b>
<b>Authorised:</b>		
90,000,000 unclassified redeemable shares of US\$ 0.01 each	<u>900,000</u>	<u>900,000</u>

### **Issued and fully paid:**

2 nominal shares of US\$ 0.01 each	-	-
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142,950 (2009: 152,375) redeemable shares related to the Fund

The nominal shares do not carry any rights to dividends.

## 6. Financial instruments and associated risks

The Fund's investment assets are comprised of realisable securities, which can be readily sold.

### **Values of financial instruments**

The Fund's assets and liabilities include cash and cash equivalents and amounts due on open transactions which normally settle within a few days and other receivables and payables including short term instruments which are realised or settled within a short period of time. The carrying amounts of these other assets and liabilities approximate their fair values. Statement of financial position positions at the year end may not be representative of the range of balances and related risks that the Fund assumes during the year.

## Notes to Financial Statements

### 6. Financial instruments and associated risks (continued)

#### Strategy in using financial instruments

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund's objective is to achieve capital growth through investing in a selection of debt and equity securities instruments issued by companies included in the Hong Kong Total Return Index.

#### Market price risk

The Fund trades in financial instruments, taking positions in the equities. The Investment Manager moderates risk through a careful selection of securities within specified limits. Maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund's overall market positions are monitored on a daily basis by the Fund's Investment Manager and are reviewed annually by the Board of Directors. The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the instruments. The Fund's market price risk is managed through diversification of the investment portfolio ratios by exposures. At 31 December 2010, 98.72% (2009: 100.28%) of the net assets attributable to redeemable shares was invested in equity securities. The overall market exposures were as follows:

	<b>31 December 2010</b>		<b>31 December 2009</b>	
	<i>Fair value</i>	<i>% of</i>	<i>Fair value</i>	<i>% of</i>
	<i>US\$</i>	<i>net assets</i>	<i>US\$</i>	<i>net assets</i>
		<i>valued at</i>		<i>valued at</i>
		<i>bid/ask</i>		<i>bid/ask</i>
		<i>market price</i>		<i>market price</i>
<b>Assets</b>				
Financial assets at fair value through profit or loss	6,575,946	98.72%	6,440,188	100.28%
	6,575,946	98.72%	6,440,188	100.28%
<b>Net Asset Value</b>	6,661,120		6,422,450	
Net Asset Value if Hang Seng Index in US Dollar terms move by +5%	6,994,176		6,743,573	
Net Asset Value if Hang Seng Index in US Dollar terms move by -5%	6,328,064		6,101,328	

The impact of a 5% increase or decrease in Hang Seng Index in US dollar terms would have the following impact on changes in net assets attributable to holders of redeemable shares from operations (the sensitivity analysis shows the impact of a 5% increase in the Index, a 5% decrease would have a similar but opposite effect on the amounts stated).

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<i>US\$</i>	<i>US\$</i>
Increase in net assets attributable to holders of redeemable shares from operations	607,313	3,032,335
Impact of +5%/-5% Hang Seng Index in US Dollar terms movement on increase in net assets attributable to holders of redeemable shares from operations	30,366	151,617

Details of the Fund's investment portfolio at statement of financial position date are included in the schedule of investments on pages 22 and 23.

# Notes to Financial Statements

## 6. Financial instruments and associated risks (continued)

### Market price risk (continued)

At 31 December 2010, the Fund's market risk is affected by three main components: changes in actual market prices, interest rate and foreign currency movements.

The Fund's market price risk is managed through diversification of the investment portfolio ratios by exposures. Some limitations of sensitivity analysis are that the models are based on historical data and do not take into account the fact that future price movements may bear no relation to historical patterns and, that the market price information represents a hypothetical outcome and is not intended to be predictive.

### Fair value estimation

The Fund classifies its investments in equity securities as financial assets or financial liabilities at fair value through profit or loss. These financial assets and financial liabilities are classified as held for trading or designated by the Board of Directors at fair value through profit or loss at inception.

The following tables analyse within the fair value hierarchy the Fund's financial assets and liabilities, by class levels, measured at fair value at 31 December 2010:

<b>As at 31 December 2010</b>	<i>Level 1 US\$</i>	<i>Level 2 US\$</i>	<i>Level 3 US\$</i>	<i>Total US\$</i>
<b>Financial assets held for trading:</b>				
<b>Assets</b>				
Equity Securities	6,575,946	–	–	6,575,946
<b>Total assets</b>	<b>6,575,946</b>	<b>–</b>	<b>–</b>	<b>6,575,946</b>
<b>Liabilities</b>				
<b>Financial liabilities held for trading:</b>				
Equity Securities	–	–	–	–
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

<b>As at 31 December 2009</b>	<i>Level 1 US\$</i>	<i>Level 2 US\$</i>	<i>Level 3 US\$</i>	<i>Total US\$</i>
<b>Financial assets held for trading:</b>				
<b>Assets</b>				
Equity Securities	6,440,188	–	–	6,440,188
<b>Total assets</b>	<b>6,440,188</b>	<b>–</b>	<b>–</b>	<b>6,440,188</b>
<b>Liabilities</b>				
<b>Financial liabilities held for trading:</b>				
Equity Securities	–	–	–	–
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

There were no transfers between any of the levels during the year 2010 or 2009.

## Notes to Financial Statements

### 6. Financial instruments and associated risks (continued)

#### Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates. The Fund's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarises the Fund's exposure to interest rate risks. It includes the Fund's cash and cash equivalents, categorised by the earlier of contractual re-pricing or maturity dates.

#### As at 31 December 2010

	<i>Less than 1 month US\$</i>	<i>1-3 months US\$</i>	<i>Over 1 year US\$</i>	<i>Non- interest bearing US\$</i>	<i>Total US\$</i>
<b>Assets</b>					
Cash and cash equivalents	158,366	–	–	–	158,366
Total	158,366	–	–	–	158,366

At 31 December 2010, should interest rates have increased by 25 basis points with all other variables remaining constant, there would be no significant impact on the net assets attributable to holders of redeemable shares for the year.

#### As at 31 December 2009

	<i>Less than 1 month US\$</i>	<i>1-3 months US\$</i>	<i>Over 1 year US\$</i>	<i>Non- interest bearing US\$</i>	<i>Total US\$</i>
<b>Assets</b>					
Cash and cash equivalents	54,128	–	–	–	54,128
Total	54,128	–	–	–	54,128

#### Currency risk

The Fund holds assets denominated in currencies other than the United States dollars (US\$), the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates.

At 31 December 2010 and 31 December 2009, the Fund had no exposure to currency risks.

#### Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Fund.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

There were no assets held by the Fund with counterparties that were past due or impaired at year end.

The Fund's exposure and the credit quality of financial assets invested in are continuously monitored by the Investment Manager. The Custodian of the Fund is Citibank International Plc, Ireland Branch.

# Notes to Financial Statements

## 6. Financial instruments and associated risks (continued)

### Credit risk (continued)

As detailed in the following table, the carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for losses, represents the Fund's maximum exposure to credit risk without taking account of the value of any collateral obtained.

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>% of NAV</b>	<b>% of NAV</b>
<b>Credit Exposure - Assets</b>		
Cash and cash equivalents	2.38%	0.84%
Other receivables and prepayments	0.20%	0.21%

### Liquidity risk

The Fund is exposed to daily cash redemptions of redeemable shares. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of; it invests only a limited proportion of its assets in investments not actively traded on a stock exchange.

The Fund's listed securities are considered readily realisable, as they are listed in active markets. The Fund has the ability to borrow in the short term to ensure settlement. No such borrowings have arisen during the year. In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis, and the Board of Directors reviews it on an annual basis.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining year at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. As Redeemable shares can be put back to the Company, they are redeemable on demand at the holder's option.

#### As at 31 December 2010

	<b>Less than 1 month US\$</b>	<b>1-3 months US\$</b>	<b>3 months to 1 year US\$</b>	<b>Over 1 Year US\$</b>
Amounts payable on spot foreign exchange	26,993	–	–	–
Total accrued expenses and other payables	50,965	–	–	–
Redeemable shares	6,661,120	–	–	–
Total	<u>6,739,078</u>			

#### As at 31 December 2009

	<b>Less than 1 month US\$</b>	<b>1-3 months US\$</b>	<b>3 months to 1 year US\$</b>	<b>Over 1 Year US\$</b>
Amounts payable on redemptions	40,544	–	–	–
Total accrued expenses and other payables	45,073	–	–	–
Redeemable shares	6,422,450	–	–	–
Total	<u>6,508,067</u>	–	–	–

## Notes to Financial Statements

### 7. Net gains on financial assets at fair value through profit or loss

	<b>2010</b>	<b>2009</b>
	<b>US\$</b>	<b>US\$</b>
Net realised gain/(losses) on financial assets at fair value through profit or loss	394,014	(1,411,115)
Net unrealised gains on financial assets at fair value through profit or loss	278,428	4,495,177
Net gain on financial assets at fair value through profit or loss	<u>672,442</u>	<u>3,084,062</u>

### 8. Related parties

Apart from those discussed in Note 4, there were no related party transactions during the year ended 31 December 2010 (2009: none).

### 9. Net asset value per share

The net asset values per share as at 31 December 2010 and 31 December 2009 are detailed in the statement of financial position.

### 10. Soft commission arrangements

There are no soft commission arrangements in place during the year ended 31 December 2010 (2009: none).

### 11. Events during the year

The Registrar and Administrator changed name from Citibank Europe plc to Citi Fund Services (Ireland), Limited effective from 1 February 2010.

### 12. Financial statements

The financial statements were approved by the Board of Directors on 25 March 2011.

# Schedule of Investments

As at 31 December 2010

Legg Mason Funds (Cayman) Limited

	<i>Holding</i> <i>31/12/2009</i>	<i>2010</i> <i>Purchases</i>	<i>2010</i> <i>Sales</i>	<i>Holding</i> <i>31/12/2010</i>	<i>Fair</i> <i>Value</i> <i>31/12/2010</i>	<i>% of</i> <i>Net</i> <i>Asset</i> <i>Value</i>
	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>US\$</i>	
<b>Hong Kong - Equities</b>						
<b>Bank</b>						
Bank of China Ltd	726,000	106,300	(59,000)	773,300	407,898	6.12
BOC Hong Kong Holdings Ltd	80,000	10,000	-	90,000	306,258	4.60
China Construction Bank Corp	660,000	83,570	(47,000)	696,570	624,622	9.38
Hang Seng Bank Ltd	-	8,400	-	8,400	138,112	2.07
HSBC Holdings PLC	40,814	-	(2,000)	38,814	397,985	5.97
Industrial & Commercial Bank of China	557,000	46,100	(415,000)	188,100	140,116	2.10
					<u>2,014,991</u>	<u>30.24</u>
<b>Building Materials</b>						
Anhui Conch Cement Co Ltd	-	2,000	-	2,000	9,379	0.15
China Shanshui Cement Group Ltd	119,000	-	(44,000)	75,000	53,552	0.81
					<u>62,931</u>	<u>0.96</u>
<b>Capital Goods</b>						
Hutchison Whampoa Ltd	7,000	3,000	(5,000)	5,000	51,461	0.78
Xinjiang Goldwind Science & Technology Co Ltd	-	28,000	-	28,000	57,997	0.87
					<u>109,458</u>	<u>1.65</u>
<b>Consumer Goods</b>						
Zhongsheng Group Holdings Ltd	-	100,500	(21,000)	79,500	172,852	2.59
<b>Diversified Financial Services</b>						
Hong Kong Exchanges and Clearing Ltd	8,300	1,500	(2,900)	6,900	156,503	2.35
<b>Energy</b>						
China Coal Energy Co Ltd	-	84,000	-	84,000	131,195	1.97
China Petroleum & Chemical Corp	146,000	72,000	(146,000)	72,000	68,917	1.03
CNOOC Ltd	162,500	37,000	(20,000)	179,500	425,839	6.39
PetroChina Co Ltd	176,000	-	(102,000)	74,000	96,726	1.45
Yanzhou Coal Mining Co Ltd	-	56,000	(34,000)	22,000	67,221	1.01
					<u>789,898</u>	<u>11.85</u>
<b>Food Beverage &amp; Tobacco</b>						
China Mengniu Dairy Co Ltd	-	47,000	(22,000)	25,000	66,256	0.99
<b>Insurance</b>						
AIA Group Ltd	-	61,000	-	61,000	171,475	2.57
China Life Insurance Co Ltd	62,000	-	(44,000)	18,000	73,525	1.10
Ping An Insurance Group Co of China Ltd	20,000	7,000	-	27,000	301,859	4.53
					<u>546,859</u>	<u>8.20</u>
<b>Pharmaceuticals</b>						
Sihuan Pharmaceutical Holdings Group Ltd	-	113,000	-	113,000	82,575	1.24

## Schedule of Investments

As at 31 December 2010

Legg Mason Funds (Cayman) Limited (continued)

	<i>Holding</i> <i>31/12/2009</i>	<i>2010</i> <i>Purchases</i>	<i>2010</i> <i>Sales</i>	<i>Holding</i> <i>31/12/2010</i>	<i>Fair</i> <i>Value</i> <i>31/12/2010</i> <i>US\$</i>	<i>% of</i> <i>Net</i> <i>Asset</i> <i>Value</i>
	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>		
<b>Hong Kong - Equities</b>						
<b>Real estate</b>						
Cheung Kong Holdings Ltd	7,000	3,000	(2,000)	8,000	123,404	1.85
Evergrande Real Estate Group Ltd	-	398,000	(93,000)	305,000	148,324	2.23
Kerry Properties Ltd	8,500	15,500	(8,500)	15,500	80,762	1.21
New World Development Ltd	-	53,000	-	53,000	99,552	1.49
Sino Land Co Ltd	60,000	68,000	(38,000)	90,000	168,355	2.53
Sun Hung Kai Properties Ltd	15,008	4,000	-	19,008	315,706	4.74
Wharf Holdings Ltd	-	17,000	(9,000)	8,000	61,548	0.92
					<hr/> 997,651	<hr/> 14.97
<b>Retailing</b>						
Boshiwa International Holding Ltd	-	139,000	-	139,000	107,475	1.61
Li & Fung Ltd	46,000	20,000	(22,000)	44,000	255,299	3.83
Springland International Holdings Ltd	-	134,000	-	134,000	107,747	1.62
					<hr/> 470,521	<hr/> 7.06
<b>Software &amp; Services</b>						
SouFun Holdings Ltd	-	4,900	(4,100)	800	54,912	0.82
Tencent Holdings Ltd	13,000	6,700	(9,300)	10,400	225,987	3.39
					<hr/> 280,899	<hr/> 4.21
<b>Technology Hardware &amp; Equipment</b>						
AAC Acoustic Technologies Holdings Inc	-	82,000	-	82,000	218,903	3.29
<b>Telecommunications Services</b>						
China Mobile Ltd	27,500	16,000	(16,500)	27,000	268,164	4.03
China Telecom Corp Ltd	-	174,000	-	174,000	91,109	1.37
					<hr/> 359,273	<hr/> 5.40
<b>Transportation</b>						
China Merchants Holdings International Co Ltd	20,000	12,000	(10,000)	22,000	86,892	1.30
China Southern Airlines Co Ltd	222,000	24,000	(160,000)	86,000	52,665	0.80
					<hr/> 139,557	<hr/> 2.10
<b>Utilities</b>						
CLP Holdings Ltd	-	9,500	-	9,500	77,121	1.16
Hong Kong & China Gas Co Ltd	16,000	1,600	(5,000)	12,600	29,698	0.46
					<hr/> 106,819	<hr/> 1.62
<b>Total Investments at fair value (Cost: US\$5,185,503)</b>					<b>6,575,946</b>	<b>98.72</b>
Cash and cash equivalents					158,366	2.38
Net Liabilities					(73,192)	(1.10)
<b>Net Assets Attributable to Holders of Redeemable Shares</b>					<b>6,661,120</b>	<b>100.00</b>

All investments are listed on a recognised stock exchange or market.

# Schedule of Investments

As at 31 December 2009

Legg Mason Funds (Cayman) Limited

	<i>Holding</i> <i>31/12/2008</i>	<i>2009</i> <i>Purchases</i>	<i>2009</i> <i>Sales</i>	<i>Holding</i> <i>31/12/2009</i>	<i>Fair</i> <i>Value</i> <i>31/12/2009</i>	<i>% of</i> <i>Net</i> <i>Asset</i> <i>Value</i>
	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>US\$</i>	
<b>Hong Kong - Equities</b>						
<b>Automobiles &amp; Components</b>						
Denway Motors Ltd	-	164,000	(44,000)	120,000	76,447	1.19
<b>Banks</b>						
Bank of China Ltd	426,000	638,000	(338,000)	726,000	393,222	6.12
BOC Hong Kong Holdings Ltd	44,000	60,000	(24,000)	80,000	181,574	2.83
China Construction Bank Corporation	1,223,000	257,000	(820,000)	660,000	567,703	8.84
HSBC Holdings Plc	79,163	49,651	(88,000)	40,814	470,542	7.33
Industrial and Commercial Bank of China	1,259,000	103,000	(805,000)	557,000	462,586	7.20
					<u>2,075,627</u>	<u>32.32</u>
<b>Capital Goods</b>						
Beijing Enterprises Holdings Ltd	29,000	-	(24,000)	5,000	36,270	0.57
China State Construction International Holdings Ltd	654,396	64,158	(608,079)	110,475	47,014	0.73
Hutchison Whampoa Ltd	26,000	-	(19,000)	7,000	48,205	0.75
					<u>131,489</u>	<u>2.05</u>
<b>Diversified Financials</b>						
Hong Kong Exchanges and Clearing Ltd	17,300	-	(9,000)	8,300	149,208	2.32
<b>Energy</b>						
China Petroleum & Chemical Corp	474,000	144,000	(472,000)	146,000	130,102	2.03
China Shenhua Energy Co Ltd	92,500	18,000	(61,500)	49,000	240,122	3.74
CNOOC Ltd	445,500	22,000	(305,000)	162,500	255,661	3.98
PetroChina Co Ltd	390,000	76,000	(290,000)	176,000	211,534	3.29
					<u>837,419</u>	<u>13.04</u>
<b>Food &amp; Staples Retailing</b>						
Lianhua Supermarket Holdings Co Ltd	-	42,000	-	42,000	126,741	1.97
<b>Insurance</b>						
China Life Insurance Co Ltd	179,000	11,000	(128,000)	62,000	306,626	4.77
China Pacific Insurance Group Co Ltd	-	23,200	-	23,200	92,448	1.44
Ping An Insurance Group Co of China Ltd	33,500	15,500	(29,000)	20,000	175,384	2.73
					<u>574,458</u>	<u>8.94</u>
<b>Materials</b>						
China Shanshui Cement Group Ltd	-	154,000	(35,000)	119,000	86,859	1.35
<b>Real Estate</b>						
Cheung Kong Holdings Ltd	29,000	-	(22,000)	7,000	90,542	1.41
China Overseas Land & Investment Ltd	206,000	8,240	(188,000)	26,240	55,496	0.86
China Resources Land Ltd	56,000	-	(32,000)	24,000	54,596	0.85
Guangzhou R&F Properties Co Ltd	-	64,800	(31,200)	33,600	59,362	0.92
Hang Lung Properties Ltd	26,000	12,000	(13,000)	25,000	98,654	1.54
Henderson Land Development Co Ltd	-	18,000	(2,000)	16,000	120,499	1.88
Kerry Properties Ltd	-	16,500	(8,000)	8,500	43,298	0.67
Sino Land Co Ltd	68,000	38,000	(46,000)	60,000	116,837	1.82
Sun Hung Kai Properties Ltd	44,008	-	(29,000)	15,008	225,089	3.50
					<u>864,373</u>	<u>13.45</u>

## Schedule of Investments

As at 31 December 2009

Legg Mason Funds (Cayman) Limited (continued)

	<i>Holding</i>	<i>2009</i>	<i>2009</i>	<i>Holding</i>	<i>Fair</i>	<i>% of</i>
	<i>31/12/2008</i>	<i>Purchases</i>	<i>Sales</i>	<i>31/12/2009</i>	<i>Value</i>	<i>Net</i>
<b>Hong Kong - Equities</b>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>US\$</i>	<i>Asset</i>
						<i>Value</i>
<b>Retailing</b>						
Belle International Holdings Ltd	117,000	120,000	(149,000)	88,000	102,816	1.60
China Resources Enterprise Ltd	-	16,000	(6,000)	10,000	36,560	0.58
Esprit Holdings Ltd	13,500	-	(7,900)	5,600	37,372	0.59
Golden Eagle Retail Group Ltd	-	39,000	-	39,000	79,666	1.24
Li & Fung Ltd	34,000	50,000	(38,000)	46,000	191,311	2.98
PCD Stores Ltd	-	206,000	-	206,000	79,962	1.25
					<u>527,687</u>	<u>8.24</u>
<b>Software &amp; Services</b>						
Tencent Holdings Ltd	47,400	-	(34,400)	13,000	282,485	4.40
<b>Technology Hardware &amp; Equipment</b>						
ZTE Corporation	24,200	-	(8,320)	15,880	98,298	1.53
<b>Telecommunication Services</b>						
China Mobile Ltd	88,000	7,500	(68,000)	27,500	258,353	4.02
China Unicom Hong Kong Ltd	274,748	-	(238,000)	36,748	48,717	0.76
					<u>307,070</u>	<u>4.78</u>
<b>Transportation</b>						
China Merchants Holdings International Co Ltd	-	26,000	(6,000)	20,000	65,124	1.01
China Southern Airlines Co Ltd	-	284,000	(62,000)	222,000	69,282	1.08
Orient Overseas International Ltd	-	12,000	-	12,000	56,175	0.87
					<u>190,581</u>	<u>2.96</u>
<b>Utilities</b>						
China Longyuan Power Group Corp	-	55,000	-	55,000	71,211	1.11
Hong Kong & China Gas Co Ltd	-	16,000	-	16,000	40,235	0.63
					<u>111,446</u>	<u>1.74</u>
<b>Total Investments at fair value (Cost: US\$5,312,573)</b>					<b>6,440,188</b>	<b>100.28</b>
Cash and cash equivalents					54,128	0.84
Net Liabilities					(71,866)	(1.12)
<b>Net Assets Attributable to Holders of Redeemable Shares</b>					<b>6,422,450</b>	<b>100.00</b>

All investments are listed on a recognised stock exchange or market.

## Comparable Table (Unaudited)

	<b>31-Dec-10</b> <b>US\$</b>	<b>31-Dec-09</b> <b>US\$</b>	<b>31-Dec-08</b> <b>US\$</b>	<b>31-Dec-07</b> <b>US\$</b>	<b>31-Dec-06</b> <b>US\$</b>	<b>31-Dec-05</b> <b>US\$</b>
<b>Legg Mason - Hong Kong Equity Fund</b>						
Total Net Asset Value	6,661,120	6,422,450	8,962,475	26,014,169	18,671,659	19,242,835
Net Asset Value per share*	46.60	42.15	27.11	52.56	37.55	26.54
Highest price	50.55	43.77	52.15	61.62	37.56	26.92
Date	11-Nov-10	16-Nov-09	09-Jan-08	30-Oct-07	29-Dec-06	21-Dec-05
Lowest price	36.12	22.17	22.84	34.70	26.87	22.39
Date	25-May-10	09-Mar-09	22-Oct-08	05-Mar-07	03-Jan-06	24-Jan-05
	<b>31-Dec-04</b> <b>US\$</b>	<b>31-Dec-03</b> <b>US\$</b>	<b>31-Dec-02</b> <b>US\$</b>	<b>31-Dec-01</b> <b>US\$</b>	<b>31-Dec-00</b> <b>US\$</b>	<b>31-Dec-99</b> <b>US\$</b>
<b>Legg Mason - Hong Kong Equity Fund</b>						
Total Net Asset Value	25,143,909	33,054,457	31,724,285	36,045,266	17,957,334	10,185,803
Net Asset Value per share*	23.94	20.31	13.97	16.27	18.23	16.18
Highest price	24.03	20.37	17.98	19.18	20.39	16.21
Date	31-Dec-04	31-Dec-03	17-May-02	01-Feb-01	17-Aug-00	24-Dec-99
Lowest price	17.79	12.86	13.22	12.95	14.93	8.65
Date	17-May-04	24-Apr-03	10-Oct-02	21-Sep-01	06-Jan-00	10-Feb-99

\* Net asset values per share at 31 December in each year are as disclosed in the audited annual financial statements as at that date. These net asset values may be different to the daily net asset values per share published on the relevant date due to adjustments made for financial reporting purposes. Highest and lowest prices are as published for the date indicated.

