

Semi Annual Report and Unaudited Financial Statements

Legg Mason Funds (Cayman) Limited

Legg Mason – Hong Kong Equity Fund

For the period ended 30 June 2011

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Directors and General Information

Directors of the Company

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Custodian

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Independent Auditors

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Legal Advisers

In the Cayman Islands:
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* Independent non-executive Director

Report of The Manager

Legg Mason – Hong Kong Equity Fund

Market Review (for the 6 month period ended 30 June 2011)

After a strong first quarter with the Global and Asian indices ending well above where they were from the start of the year, the MSCI AC World Index and the MSCI Asia Pacific ex Japan Index gained by 3.38% and 0.5% respectively for the first 6 months of 2011 (both in USD terms). However, on the domestic front, the MSCI China Index and the Hang Seng Index ended the first half in negative territory, returning -0.7% and -2.8% respectively (both in USD terms) in the first half of 2011.

3 main sectors of the Hang Seng Index returned flat or negatively in the first half of 2011. The sector with the best performance is the Hang Seng Utilities Index which generated positive returns of 10.74% (in USD terms). The Hang Seng Property Index and Hang Seng Finance Index fell by -6.79% and -5.67% respectively which Hang Seng Commerce / Industrial index returned flat at 0.03%. The top five performing stocks were China Unicom, Tencent Holdings, Belle International, AIA Group and Power Assets Holdings. China Unicom led the pack with a strong gain of 41.01% (in USD terms) over the first 6 months of 2011. The five worst performing stocks were Espirit Holdings, Li & Fung Ltd, New World Development Company, China Life Insurance and Cathay Pacific Airways.

Hong Kong economy grew by 2.8% Q-o-Q in the first quarter while industrial production fell to 3.5% Y-o-Y from 5.7% in 4Q 2010. Hong Kong's inflation rose to a 34-month high of 5.2% in May, from a year ago. Meanwhile, export growth rebounded to 10.1% from a low of 4.1% in April, supported by demand from Asian countries. Hong Kong HSBC Purchasing Managers Index in June fell to 50.3 from 52.2 in May. Number of home loan transactions fell in May from a year ago, as rising mortgage rates continued to dampen buying sentiment. Retail sales continued to grow by 27.8% year-on-year, boosted by tourism spending and rising wages. Hiring demand continued to be buoyant and unemployment rate was at a 30-month low of 3.50% for the 3 months ending May.

Performance

The Fund declined by 2.90% for the first six months of 2011 against the benchmark return of -0.93%. Since inception, the Fund has gained by 369.89% against the benchmark return of 239.27%, on a cumulative basis.

The Fund benefited from its overweight position to the Property sector while its underweight exposure to Utilities weighed down on its performance during the first six months of 2011. On the stock level, overweight positions in Evergrande Real Estate Group, Anhui Conch Cement and AIA Group contributed positively to the Fund's performance. However, overweight positions in Sihuan Pharmaceutical Holdings, Top Spring International Holdings and AAC Technologies Holdings weighed down on the Fund's performance.

In the first quarter, the fund took opportunity of general market weakness to accumulate positions in preferred stocks within various sectors, which we believe were either under-researched or would deliver earnings surprise in the next 12 months. In addition, the Fund added to the energy sector favoring upstream names as they were expected to deliver higher earnings growth than their downstream peers in the base case. There was also upward earnings revision expectation in Anhui Conch post our meeting with management versus downward revision in Shanshui Cement, hence justifying our relative switch further. The geopolitical unrest across the globe could potentially create supply shock which will lead to further upside in commodity prices. The fund also sold out of its position in Xinjiang Goldwind due to expected margin compression which the consensus has not factored in yet.

During the second quarter, the portfolio made relative switches and continued to build up on specific preferred positions with the pullback in share prices. We trimmed further on AIA Group given its relative outperformance in the sector. The company re-rated to about 20% below the Chinese insurers average, but we believed further re-rating will need more substantial business exposure in high growth prospect footprint such as China. We saw limited upside given fair valuation and limited positive earnings revision. We also took opportunities to add to our existing holdings in China Unicom and Evergrande Real Estate Group, both remain to be preferred stocks within their respective sectors. In both cases, we have conviction on their operational metrics given our close follow-up with management. Evergrande Real Estate Group has proven its execution ability by delivering contract sales ahead of target. We believe the worst is over for China Unicom and expect earnings to turn around, with an acceleration in monthly subscriber net add with the launch of iPhone and other smartphones.

Report of The Manager

Legg Mason – Hong Kong Equity Fund (continued)

Outlook & Strategy

We have seen signs of further moderation of economic activities in China as shown in recent macro datasets. An optimistic way of reading into this is that the various tightening measures and credit controls that have been in place for over a year have been working and hence, we have seen a normalizing of economic activities. The bears, however would argue that the economy may be slowing down too fast or even to the extent of more recent whispers of “hard landing”. Despite much noises surrounding the local government loans at banks, the Chinese government’s debt burden is quite low compared with most other countries. The size of total fiscal revenue of local governments is strong and whilst the debt problem remains an issue, we believe China has the capability to control this. While inflation will remain elevated in the 2nd half (although peaking soon), this continues to be a near term concern and would expect policies to remain flexible for the government to strike a balance between growth and controlling inflation.

We continue to expect better market performances for 2nd half of the year as inflationary pressure peaks off, normalization of various measures such as money supply, industrial production or PMI, suggesting cooling off of the economy has been in progress. Furthermore, valuations of markets are trading below their 5-year averages, with earnings growth intact. Our current sector allocation is muted and would continue to extract investment opportunities with various stock selection. We remain cognizant of the policy developments as well as corporate earnings result season to kick-off in the coming months.

Performance Review (as at 30 June 2011)

Industry	3 months	6 months	1 Year	Annualized 3-year return	Annualized 5-year return	Annualized Return Since Inception	Cumulative Return Since Inception
Fund *	-3.46%	-2.90%	16.83%	3.87%	9.58%	9.29%	369.89%
Benchmark **	-3.23%	-0.93%	14.67%	3.82%	10.00%	7.27%	239.27%

* 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 30 June 2011)

Equity	Industry	% of NAV
China Construction Bank Corp	Banks	8.81
CNOOC Ltd	Energy	7.08
Bank of China Ltd	Banks	6.78
HSBC Holdings PLC	Banks	6.09
China Shenhua Energy Co Ltd	Energy	4.50
Total		33.26%

Top 5 Industries (as at 30 June 2011)

Industry	% of NAV
Banks	31.65
Energy	16.68
Real Estate	14.52
Telecommunication Services	7.77
Retailing	7.51
Total	78.12%

Report of The Manager

Legg Mason – Hong Kong Equity Fund (continued)

IMPORTANT INFORMATION

- **INVESTMENT INVOLVES RISKS. Past performance is not indicative of future results.**
- **The Fund may invest in a single country which may give rise to increased risk over more diversified funds.**
- **Investors should read and understand the Fund's most current offering document, including details of risk factors relevant to the Fund before making an investment in the Fund.**
- **An investment in the Fund may not be suitable for all investors. The investment decision is yours but you should not invest in the Fund unless the intermediary who sells it to you has advised you that it is suitable for you and has explained why, including how buying it would be consistent with your investment objectives.**

This document is for information only and nothing contained herein constitutes investment advice. All charts, data, opinions, estimates and other information are provided as of the date of this document and may be subject to change without notice. Investment returns are denominated in the Fund's base currency. Where the Fund's base currency is not US/HK Dollars, US/HK Dollar-based investors are exposed to exchange rate fluctuations. This document does not constitute an offer or solicitation to buy or sell any units or shares in any fund and the distribution of this document in jurisdictions other than Hong Kong may be restricted. Any person coming into possession of this document should seek advice for details of, and observe, such restrictions (if any). This document has not been reviewed by the Hong Kong Securities and Futures Commission.

Issuer of this document: Legg Mason Asset Management Hong Kong Limited.

- * Net asset values per share at 30 June in each year are as disclosed in the semi-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.

Statement of Comprehensive Income

For the year ended 30 June 2011

		<i>Legg Mason - Hong Kong Equity Fund</i>	
		<i>June 2011</i>	<i>June 2010</i>
		<i>US\$</i>	<i>US\$</i>
	<i>Note</i>		
Income			
Dividends	2(d)	116,240	104,056
Interest income	2(d)	–	2
Net gains/(losses) on financial assets at fair value through profit or loss	7	(175,097)	(505,534)
Net Investment (Loss)		<u>(58,857)</u>	<u>(401,476)</u>
Expenses			
Management fees	4	(54,031)	(49,585)
Custodian fees	4	(14,516)	(15,050)
Audit fees		(10,414)	(12,645)
Transaction costs		(8,437)	(9,679)
Other expenses	4	(13,816)	(15,826)
Total Operating Expenses		<u>(101,214)</u>	<u>(102,785)</u>
Taxation			
Withholding tax		(7,266)	(3,578)
Finance Costs			
Interest expense		(111)	–
Total Taxation and Finance Costs		<u>(7,377)</u>	<u>(3,578)</u>
Decrease in Net Assets Attributable to Holders of Redeemable Shares from Operations		<u>(167,448)</u>	<u>(507,839)</u>

The notes on pages 10 to 18 form part of these financial statements.

Statement of Financial Position

As at 30 June 2011

		Legg Mason - Hong Kong Equity Fund	
		30 June, 2011	31 December, 2010
		US\$	US\$
	Note		
Assets			
Cash and cash equivalents	2(e)	95,183	158,366
Amounts receivable on spot foreign exchange		–	27,017
Amounts receivable on subscriptions		987	1,053
Dividends receivable		33,297	3,105
Investments at fair value	2(c)	5,875,671	6,575,946
Amounts receivable on sale of securities held for trading	2(i)	23,400	58,562
Prepaid expenses		9,376	9,354
Total Assets		6,037,914	6,833,403
Liabilities			
Amounts payable on spot foreign exchange		–	26,993
Amounts payable on redemptions		–	–
Amounts payable on purchase of securities held for trading	2(i)	–	94,325
Accrued expenses and other payables	4	55,848	50,965
Total Liabilities (Excluding Net Assets Attributable to Holders of Redeemable Shares)		55,848	172,283
Net Assets Attributable to Holders of Redeemable Shares		5,982,066	6,661,120
Shares outstanding as at 30 June 2011	5	132,204	
Shares outstanding as at 31 December 2010	5	142,950	
Net asset value per share as at 30 June 2011	9	45.25	
Net asset value per share as at 31 December 2010	9	46.60	

The notes on pages 10 to 18 form part of these financial statements.

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

For the year ended 30 June 2011

	<i>Period ended 30 June 2011</i>		<i>Period ended 30 June 2010</i>	
	<i>No of shares</i>	<i>US\$</i>	<i>No of shares</i>	<i>US\$</i>
Net assets attributable to holders of redeemable shares as at 1 January 2011	142,950	6,661,120	152,375	6,422,450
(Decrease)/Increase/ in net assets attributable to holders of redeemable shares resulting from operations	–	(167,448)	–	(507,839)
Issue of redeemable shares	(2,119)	99,102	2,653	106,301
Redemption of redeemable shares	(12,865)	(610,708)	(10,853)	(437,306)
Net assets attributable to holders of redeemable shares as at 30 June 2011	<u>127,966</u>	<u>5,982,066</u>	<u>144,175</u>	<u>5,583,606</u>

The notes on pages 10 to 18 form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2011

	Legg Mason - Hong Kong Equity Fund	
	June 2011	June 2010
	US\$	US\$
Cash flows from operating activities		
Interest income received	–	2
Dividend income received	86,048	73,074
Withholding tax paid	(7,266)	(3,578)
Operating expenses paid	(101,214)	(102,785)
Purchase of securities held for trading	(1,392,989)	(1,407,355)
Proceeds from sale of securities held for trading	1,918,056	1,883,319
Prepaid expenses	(23)	1,096
Amounts receivable and payable on spot foreign exchange	24	–
Amounts receivable on sales of investments at fair value	35,162	(42,187)
Amounts payable on purchases of investments at fair value	(94,325)	16,642
Accrued expenses and other payables	4,884	18,865
Net cash inflow from operating activities	448,357	437,093
Cash flows from financing activities		
Interest paid	(111)	–
Proceeds from issue of redeemable shares	99,168	106,433
Redemption of redeemable shares	(610,708)	(477,850)
Net cash outflow from financing activities	(511,651)	(371,417)
Net (decrease)/increase in cash and cash equivalents	(63,294)	65,676
Effect of foreign exchange movements	111	(491)
Balance as at 1 January 2011	158,366	54,129
Balance as at 30 June 2011	95,183	119,314

The notes on pages 10 to 18 form part of these financial statements.

Notes to the Unaudited 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 period ended 30 June 2011. 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 the Unaudited 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 30 June 2011 and 31 December 2010 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.

Notes to the Unaudited Financial Statements

2. Significant accounting policies (continued)

(g) Creditors

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

(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 assets 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.

Notes to the Unaudited Financial Statements

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.

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.

At 30 June 2011, the following amounts of management and custody fees were payable:

	30 June 2011	30 June 2010
	US\$	US\$
Management fees	17,731	15,974
Custody fees	5,929	1,142

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.

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 2011, the Fund incurred travelling expenses of US\$3,893 (2010: US\$4,070) of Alan Deacon in order for him to attend the board meeting.

Directors' remuneration

There were no fees paid or payable to Directors in respect of services rendered to the Company during the period. 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

	2011	2010
	US\$	US\$
Authorised:		
90,000,000 unclassified redeemable shares of US\$ 0.01 each	900,000	900,000

Issued and fully paid:

2 nominal shares of US\$ 0.01 each	-	-
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132,204 (2010: 142,950) redeemable shares related to the Fund

The nominal shares do not carry any rights to dividends.

Notes to the Unaudited Financial Statements

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.

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 30 June 2011, 98.22% (2010: 98.72%) of the net assets attributable to redeemable shares was invested in equity securities. The overall market exposures were as follows:

	<i>Fair value US\$</i>	<i>30 June 2011 % of net assets valued at bid/ask market price</i>	<i>Fair value US\$</i>	<i>31 December 2010 % of net assets valued at bid/ask market price</i>
Assets				
Financial assets at fair value through profit or loss	5,875,671	98.22%	6,575,946	98.72%
	5,875,671	98.22%	6,575,946	98.72%
Net Asset Value	5,982,066		6,661,120	
Net Asset Value if Hang Seng Index in US Dollar terms move by +5%	6,281,169		6,994,176	
Net Asset Value if Hang Seng Index in US Dollar terms move by -5%	5,682,963		6,328,064	

Notes to the Unaudited Financial Statements

6. Financial instruments and associated risks (continued)

Market price risk (continued)

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).

	30 June 2011	31 December 2010
	US\$	US\$
Increase/(Decrease) in net assets attributable to holders of redeemable shares from operations	(167,448)	607,313
Impact of +5%/-5% Hang Seng Index in US Dollar terms movement on increase/(decrease) in net assets attributable to holders of redeemable shares from operations	(8,372)	30,366

Details of the Fund's investment portfolio at statement of financial position date are included in the schedule of investments on pages 19 and 22.

At 30 June 2011, 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 30 June 2011:

As at 30 June 2011	Level 1	Level 2	Level 3	Total
	US\$	US\$	US\$	US\$
Financial assets held for trading:				
Assets				
Equity Securities	5,875,671	–	–	5,875,671
Total assets	5,875,671	–	–	5,875,671
Liabilities				
Financial liabilities held for trading:				
Equity Securities	–	–	–	–
Total liabilities	–	–	–	–

Notes to the Unaudited Financial Statements

6. Financial instruments and associated risks (continued)

Fair value estimation (continued)

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

There were no transfers between any of the levels during the period 1 January 2011 to 30 June 2011.

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 30 June 2011

	<1 month US\$	1-3 months US\$	>1 year US\$	Non-interest bearing US\$	Total US\$
Assets					
Cash and cash equivalents	95,183	–	–	–	95,183
Total	95,183	–	–	–	95,183

At 30 June 2011, 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 2010

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

Notes to the Unaudited Financial Statements

6. Financial instruments and associated risks (continued)

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 30 June 2011 and 31 December 2010, 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.

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.

	30 June 2011	31 December 2010
	% of NAV	% of NAV
Credit Exposure - Assets		
Cash and cash equivalents	1.59%	2.38%
Other receivables and prepayments	0.73%	0.20%

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 6 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.

Notes to the Unaudited Financial Statements

6. Financial instruments and associated risks (continued)

Liquidity risk (continued)

As at 30 June 2011

	<i>Less than 1 month US\$</i>	<i>1-3 months US\$</i>	<i>3 months to 1 year US\$</i>	<i>Over 1 Year US\$</i>
Total accrued expenses and other payables	55,848	–	–	–
Redeemable shares	5,982,066	–	–	–
Total	<u>6,037,914</u>			

As at 31 December 2010

	<i>Less than 1 month US\$</i>	<i>1-3 months US\$</i>	<i>3 months to 1 year US\$</i>	<i>Over 1 Year US\$</i>
Amount 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>			

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

	2011	2010
Net realised gain/(losses) on financial assets at fair value through profit or loss	329,755	116,220
Net unrealised gains on financial assets at fair value through profit or loss	(504,852)	(621,754)
Net gain on financial assets at fair value through profit or loss	<u>(175,097)</u>	<u>(505,534)</u>

8. Related parties

Apart from those discussed in Note 4, there were no related party transactions during the period ended 30 June 2011 (2010: none).

9. Net asset value per share

The net asset values per share as at 30 June 2011 and 31 December 2010 are detailed in the statement of financial position.

10. Soft commission arrangements

There are no soft commission arrangements in place during the period ended 30 June 2011 (2010: none).

11. Events during the Period

There were no events during the period.

Schedule of Investments

As at 30 June 2011

Legg Mason - Hong Kong Equity Fund

	<i>Holding</i> <i>31/12/2010</i>	<i>2011</i> <i>Purchases</i>	<i>2011</i> <i>Sales</i>	<i>Holding</i> <i>30/06/2011</i>	<i>Fair</i> <i>Value</i> <i>30/06/2011</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>	
Hong Kong - Equities						
Bank						
Bank of China Ltd	773,300	59,000	–	832,300	405,324	6.78
BOC Hong Kong Holdings Ltd	90,000	–	–	90,000	261,357	4.37
China Construction Bank Corp	696,570	–	(61,000)	635,570	526,752	8.81
Chongqing Rural Commercial Bank	–	221,000	–	221,000	130,059	2.17
Hang Seng Bank Ltd	8,400	–	–	8,400	134,163	2.24
HSBC Holdings PLC	38,814	–	(2,000)	36,814	364,476	6.09
Industrial & Commercial Bank of China	188,100	–	(94,000)	94,100	71,460	1.19
					<u>1,893,591</u>	<u>31.65</u>
Capital Goods						
Hutchison Whampoa Ltd	5,000	–	–	5,000	53,967	0.90
Diversified Financials						
Top Spring International Holdings Ltd	–	77,500	–	77,500	38,240	0.64
Diversified Financial Services						
Hong Kong Exchanges and Clearing Ltd	6,900	–	–	6,900	144,606	2.42
Energy						
China Petroleum & Chemical Corp	72,000	12,000	–	84,000	84,513	1.41
China Shenhua Energy Co. Ltd	–	56,500	–	56,500	269,343	4.50
CNOOC Ltd	179,500	10,000	(8,000)	181,500	423,521	7.08
PetroChina Co Ltd	74,000	–	(22,000)	52,000	76,038	1.27
Yanzhou Coal Mining Co Ltd	22,000	16,000	–	38,000	144,530	2.42
					<u>997,945</u>	<u>16.68</u>
Insurance						
AIA Group Ltd	61,000	18,000	(9,600)	69,400	240,326	4.02
China Life Insurance Co Ltd	18,000	–	–	18,000	61,523	1.03
Ping An Insurance Group Co of China Ltd	27,000	–	(18,000)	9,000	92,920	1.55
					<u>394,769</u>	<u>6.60</u>
Materials						
Anhui Conch Cement Co Ltd	2,000	26,000	(9,000)	19,000	88,866	1.48
China National Building material Co.Ltd	–	28,000	–	28,000	54,903	0.92
					<u>143,769</u>	<u>2.40</u>
Pharmaceuticals						
Sihuan Pharmaceutical Holdings Group Ltd	113,000	–	–	113,000	53,288	0.89

Schedule of Investments

As at 30 June 2011

Legg Mason - Hong Kong Equity Fund

	<i>Holding</i> <i>31/12/2010</i>	<i>2011</i> <i>Purchases</i>	<i>2011</i> <i>Sales</i>	<i>Holding</i> <i>30/06/2011</i>	<i>Fair</i> <i>Value</i> <i>30/06/2011</i> <i>US\$</i>	<i>% of</i> <i>Net</i> <i>Asset</i> <i>Value</i>
Hong Kong - Equities (continued)	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>		
Real Estate						
Cheung Kong Holdings Ltd	8,000	–	–	8,000	116,981	1.96
Evergrande Real Estate Group Ltd	305,000	–	(102,000)	203,000	132,247	2.21
Longfor Properties Co. Ltd	–	61,500	–	61,500	94,512	1.58
New World Development Ltd	53,000	35,000	–	88,000	132,976	2.22
Sino Land Co Ltd	90,000	–	–	90,000	144,093	2.41
Sun Hung Kai Properties Ltd	19,008	–	(2,000)	17,008	247,609	4.14
					<u>868,418</u>	<u>14.52</u>
Retailing						
Boshiwa International Holding Ltd	139,000	–	–	139,000	84,838	1.42
Li & Fung Ltd	44,000	80,000	(84,000)	40,000	79,666	1.33
Springland International Holdings Ltd	134,000	–	–	134,000	111,402	1.86
Zhongsheng Group Holdings Ltd	79,500	–	–	79,500	173,660	2.90
					<u>449,566</u>	<u>7.51</u>
Software & Services						
Tencent Holdings Ltd	10,400	–	(6,900)	3,500	94,983	1.59
Technology Hardware & Equipment						
AAC Acoustic Technologies Holdings Inc	82,000	–	–	82,000	190,922	3.19
Telecommunication Services						
China Mobile Ltd	27,000	–	(9,000)	18,000	166,528	2.79
China Telecom Corp Ltd	174,000	–	–	174,000	112,684	1.88
China Unicom Hong Kong Ltd	–	92,000	–	92,000	185,360	3.10
					<u>464,572</u>	<u>7.77</u>
Utilities						
Power Assets holdings Ltd	–	11,500	–	11,500	87,035	1.45
Total Investments at fair value (Cost: US\$5,004,205)					5,875,671	98.21
Cash and cash equivalents					95,183	1.59
Net Assets					11,212	0.19
Net Assets Attributable to Holders of Redeemable Shares					5,982,066	100.00

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

Schedule of Investments

As at 31 December 2010

Legg Mason - Hong Kong Equity Fund

	<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>
Hong Kong - Equities	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>US\$</i>	
Banks						
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>
Building Materials						
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>
Capital Goods						
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>
Consumer Goods						
Zhongsheng Group Holdings Ltd	–	100,500	(21,000)	79,500	172,852	2.59
Diversified Financial Services						
Hong Kong Exchanges and Clearing Ltd	8,300	1,500	(2,900)	6,900	156,503	2.35
Energy						
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>
Food Beverage & Tobacco						
China Mengniu Dairy Co Ltd	–	47,000	(22,000)	25,000	66,256	0.99
Insurance						
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>
Pharmaceuticals						
Sihuan Pharmaceutical Holdings Group Ltd	–	113,000	–	113,000	82,575	1.24

Schedule of Investments

As at 31 December 2010

Legg Mason - Hong Kong Equity Fund

	<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>	
Hong Kong - Equities (continued)						
Real Estate						
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
					<u>997,651</u>	<u>14.97</u>
Retailing						
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
					<u>470,521</u>	<u>7.06</u>
Software & Services						
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
					<u>280,899</u>	<u>4.21</u>
Technology Hardware & Equipment						
AAC Acoustic Technologies Holdings Inc	–	82,000	–	82,000	218,903	3.29
Telecommunication Services						
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
					<u>359,273</u>	<u>5.40</u>
Transportation						
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
					<u>139,557</u>	<u>2.10</u>
Utilities						
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
					<u>106,819</u>	<u>1.62</u>
Total Investments at fair value (Cost: US\$5,185,503)					6,575,946	98.72
Cash and cash equivalents					158,366	2.38
Net Liabilities					(73,192)	(1.10)
Net Assets Attributable to Holders of Redeemable Shares					6,661,120	100.00

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

Comparative Table (Unaudited)

	<i>30-Jun-11</i>	<i>30-Jun-10</i>	<i>30-Jun-09</i>	<i>30-Jun-08</i>	<i>30-Jun-07</i>	<i>30-Jun-06</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Legg Mason - Hong Kong Equity Fund						
Total Net Asset Value	5,982,066	5,583,606	8,030,750	17,480,509	21,456,218	17,592,371
Net Asset Value per share*	45.25	38.78	35.21	40.38	44.15	28.57
	<i>30-Jun-05</i>	<i>30-Jun-04</i>	<i>30-Jun-03</i>	<i>30-Jun-02</i>	<i>30-Jun-01</i>	<i>30-Jun-00</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>

Legg Mason - Hong Kong Equity Fund

Total Net Asset Value	27,434,211	35,387,799	31,011,114	35,627,639	38,651,738	13,008,509
Net Asset Value per share*	24.28	20.18	15.19	15.98	17.86	17.49

* Net asset values per share at 30 June 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.

