**FMG CHINA FUND LTD.**

**Financial Statements**
(With Auditors' Report Thereon)

March 31, 2010 and 2009

KPMG

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**AUDITORS' REPORT**

To the Board of Directors and Shareholders of
FMG China Fund Ltd.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of FMG China Fund Ltd. (the "Fund") as at March 31, 2010, and the related statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As explained in Note 7, throughout a portion of the year, certain investments' fair values had been estimated by the Manager in the absence of readily ascertainable fair values. We have obtained explanations from the Manager to support the estimation of these fair values and have reviewed the underlying documentation made available to us. In our opinion the explanations obtained and information reviewed was not sufficient to be able to provide a reliable estimate of the fair values of the underlying investment company and unquoted equity security during the noted periods. Accordingly we were not able to determine whether any adjustments were necessary to the fair values of these investments or to net assets attributable to redeemable preference shares in determining the net decrease in net assets from capital share transactions during the year.

In our opinion, except for the effect of adjustments, if any, related to the valuation of investments described in the preceding paragraph, the financial statements referred to above present fairly in all material respects the financial position of FMG China Fund Ltd. as at March 31, 2010 and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in Bermuda and Canada.

As explained in Note 7, the financial statements includes an investment in an underlying investment company and an investment in an unquoted equity security with a combined value of $2,061,215 (8.57% of net assets) at March 31, 2009, whose fair values have been estimated by the Manager in the absence of readily ascertainable fair values. We obtained explanations from the Manager to support the estimation of these fair values and have reviewed the underlying documentation made available to us. In our opinion the explanations obtained and information reviewed were not sufficient to be able to provide a reliable estimate of the fair values of the underlying investment company and unquoted equity security at March 31, 2009. Accordingly we were not able to determine whether any adjustments are necessary to the fair values of these investments at March 31, 2009, or to the net decrease in net assets from operations or to the net decrease in net assets from capital share transactions during the year then ended.

KPMG

Chartered Accountants
Hamilton, Bermuda
October 13, 2010

**FMG CHINA FUND LTD.**

Statement of Assets and Liabilities

March 31, 2010
*(Expressed in United States Dollars)*

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments in other investment companies, managed account and unquoted equity securities (cost - $23,247,744; 2009 - $27,718,067) (See Schedule of Investments) (Notes 2(a), 5, 7 and 9) | $ | 27,294,287 | $ | 22,559,024 |
| Cash and cash equivalents (Note 5) | | 12,024,358 | | 1,404,250 |
| Unrealized gain on forward foreign exchange contracts (Notes 5, 7 and 9) | | – | | 44,146 |
| Receivable for investments sold | | – | | 483,403 |
| Other assets | | 31,538 | | 23,781 |
| Total assets | | 39,350,183 | | 24,514,604 |
| **Liabilities** | | | | |
| Subscriptions received in advance | | 17,500 | | 82,158 |
| Unrealized loss on forward foreign exchange contracts (Notes 5, 7 and 9) | | 34,975 | | – |
| Redemptions payable (Note 6) | | 30,987,592 | | 175,097 |
| Management and incentive fees payable (Note 3) | | 150,391 | | 98,386 |
| Administration fees payable (Note 4) | | 18,739 | | 12,480 |
| Audit fees payable | | 25,000 | | 20,000 |
| Accounts payable and accrued expenses (Note 3) | | 23,922 | | 74,611 |
| Total liabilities | | 31,258,119 | | 462,732 |
| **Net assets** | | 8,092,064 | | 24,051,872 |
| Less: attributable to 100 common shares (Note 6) | | (100) | | (100) |
| **Net assets attributable to redeemable preference shares** (Note 6) | $ | 8,091,964 | $ | 24,051,772 |
| Net assets attributable to 22,618 (2009 - 26,732) US Dollar Class A redeemable preference shares | $ | 3,205,649 | $ | 2,318,434 |
| **Net asset value per US Dollar Class A redeemable preference share** | $ | 141.73 | $ | 86.73 |
| Net assets attributable to 8,209 (2009 - 111) US Dollar Class A09 redeemable preference shares | $ | 1,299,156 | $ | 11,946 |
| **Net asset value per US Dollar Class A09 redeemable preference share** | $ | 158.26 | $ | 107.27 |

*See accompanying notes to financial statements*

**FMG CHINA FUND LTD.**

Statement of Assets and Liabilities (continued)

March 31, 2010
*(Expressed in United States Dollars)*

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Net assets attributable to 134,498 (2009 - 2,074,624) US Dollar Class B redeemable preference shares | $ | 2,157,927 | $ | 20,275,200 |
| **Net asset value per US Dollar Class B redeemable preference share** | $ | 16.04 | $ | 9.77 |
| Net assets attributable to 46,934 (2009 - nil) US Dollar Class B09 redeemable preference shares | $ | 633,609 | $ | – |
| **Net asset value per US Dollar Class B09 redeemable preference share** | $ | 13.50 | $ | – |
| Net assets of $552,366 (2009 - $nil) attributable to 3,007 (2009 - nil) EUR Class A09 redeemable preference shares | € | 399,961 | € | – |
| **Net asset value per EUR Class A09 redeemable preference share** | € | 133.01 | € | – |
| Net assets of $nil (2009 - $1,446,192) attributable to nil (2009 - 100,000) EUR Class B redeemable preference shares | € | – | € | 1,088,508 |
| **Net asset value per EUR Class B redeemable preference share** | € | – | € | 10.88 |
| Net assets of $243,257 (2009 - $nil) attributable to 14,297 (2009 - nil) EUR Class B09 redeemable preference shares | € | 176,139 | € | – |
| **Net asset value per EUR Class B09 redeemable preference share** | € | 12.32 | € | – |

*See accompanying notes to financial statements*

Signed on behalf of the Board

_____________________________________________Director

_____________________________________________Director

**FMG CHINA FUND LTD.**

Schedule of Investments

March 31, 2010
*(Expressed in United States Dollars)*

| Other Investment Companies | | Cost | | Fair Value | % of Net Assets | Redemption Frequency |
|---|---|---|---|---|---|---|
| First State Global Umbrella Fund plc – First State China Growth Fund – Class I | $ | 7,038,274 | $ | 9,196,262 | 113.65% | Daily |
| Foundation China Opportunity Fund Limited – Restricted Class | | 2,000,000 | | 2,515,996 | 31.09% | Monthly |
| The Trophy Fund - Well Vision Investments Limited | | 435,173 | | 558,094 | 6.90% | Suspended |
| **Total investments in other investment companies** | | 9,473,447 | | 12,270,352 | 151.64% | |
| **Managed Account** | | | | | | |
| Citic Securities Brokerage (HK) Ltd. A/C No 8780200135 | | 13,774,297 | | 15,023,935 | 185.66% | Daily |
| **Total investments in managed account** | | 13,774,297 | | 15,023,935 | 185.66% | |
| **Total investments in other investment companies and managed account** | $ | 23,247,744 | $ | 27,294,287 | 337.30% | |

As at March 31, 2010, holdings in the Managed Account were comprised as follows:

| | | | |
|---|---|---|---|
| Equities: | | | |
| China All Access Holdings Ltd. | $ | 1,306,708 | 16.15% |
| Long ETFs: | | | |
| iShares A50 China Index ETF | | 13,717,227 | 169.51% |
| | $ | 15,023,935 | 185.66% |

Cash and cash equivalents include $281,301 of cash held in managed account.

*See accompanying notes to financial statements*

**FMG CHINA FUND LTD.**

Schedule of Investments

March 31, 2009
*(Expressed in United States Dollars)*

| **Other Investment Companies** | | Cost | | Fair Value | % of Net Assets | Redemption Frequency |
|---|---|---|---|---|---|---|
| First State Global Umbrella Fund plc – First State China Growth Fund – Class I | $ | 8,235,166 | $ | 5,816,037 | 24.18% | Daily |
| Golden China Fund | | 3,990,011 | | 2,356,632 | 9.80% | Monthly |
| Marco Polo Pure China Fund – Class A | | 5,911,701 | | 5,072,570 | 21.09% | Monthly |
| The Trophy Fund (Note 7) | | 2,520,690 | | 1,561,215 | 6.49% | Note 9(a) |
| Foundation China Opportunity Fund Limited – Restricted Class | | 2,000,000 | | 1,727,983 | 7.18% | Monthly |
| **Total investments in other investment companies** | | 22,657,568 | | 16,534,437 | 68.74% | |
| **Managed Account** | | | | | | |
| Citic Securities Brokerage (HK) Ltd. A/C No 8780200135 | | 4,560,499 | | 5,524,587 | 22.97% | Daily |
| **Total investments in managed account** | | 4,560,499 | | 5,524,587 | 22.97% | |
| **Unquoted Equity Investments** | | | | | | |
| China All Access Group Limited (Note 7) | | 500,000 | | 500,000 | 2.08% | Illiquid |
| **Total investments in unquoted equity investments** | | 500,000 | | 500,000 | 2.08% | |
| **Total investments in other investment companies, managed account and unquoted equity investments** | $ | 27,718,067 | $ | 22,559,024 | 93.79% | |

As at March 31, 2009, holdings in the Managed Account were comprised as follows:

| | | | |
|---|---|---|---|
| Long ETFs | $ | 5,524,587 | 22.97% |

Cash and cash equivalents include $92 of cash held in managed account.

As at March 31, 2009, the following equity securities represented more than 5% of the Fund’s net asset value:

| | | | |
|---|---|---|---|
| iShares A50 China Index ETF | $ | 4,348,704 | 18.08% |

No other ETFs were individually greater than 5% of the net assets of the Fund.

*See accompanying notes to financial statements*

**FMG CHINA FUND LTD.**

Statement of Operations

Year ended March 31, 2010
*(Expressed in United States Dollars)*

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **Investment income** | | | | |
| Interest income | $ | 4 | $ | – |
| Dividend income | | – | | 61,087 |
| Rebate income | | 48,476 | | 73,050 |
| **Total income** | | 48,480 | | 134,137 |
| **Expenses** | | | | |
| Management fees (Note 3) | | 531,283 | | 680,136 |
| Incentive fees (Note 3) | | 247,743 | | 11,443 |
| Administration fees (Note 4) | | 73,897 | | 75,670 |
| Bank charges | | 2,499 | | 2,256 |
| Audit fees | | 23,008 | | 36,786 |
| Directors' and secretarial fees | | 10,850 | | 23,514 |
| Bermuda company fees | | 3,345 | | 3,151 |
| Custodian fees (Note 5) | | 11,715 | | 23,259 |
| Miscellaneous | | 12,208 | | 17,547 |
| **Total expenses** | | 916,548 | | 873,762 |
| **Net investment loss** | | (868,068) | | (739,625) |
| **Realized and unrealized gains and losses on investments** | | | | |
| Net realized gains (losses) on sale of investments | | 6,808,957 | | (12,778,690) |
| Net realized gains (losses) on forward foreign exchange contracts | | 23,949 | | (111,090) |
| Net change in unrealized gains and losses on investments | | 9,205,586 | | (19,742,850) |
| Net change in unrealized gains and losses on forward foreign exchange contracts | | (79,121) | | 44,146 |
| Net realized and unrealized gains and losses on investments | | 15,959,371 | | (32,588,484) |
| **Net increase (decrease) in net assets from operations** | $ | 15,091,303 | $ | (33,328,109) |

*See accompanying notes to financial statements*

**FMG CHINA FUND LTD.**

Statement of Changes in Net Assets

Year ended March 31, 2010
*(Expressed in United States Dollars)*

| | 2010 | 2009 |
|---|---|---|
| **From operations** | | |
| Net investment loss | $ (868,068) | $ (739,625) |
| Net realized gains (losses) on sale of investments | 6,808,957 | (12,778,690) |
| Net realized gains (losses) on forward foreign exchange contracts | 23,949 | (111,090) |
| Net change in unrealized gains and losses on investments | 9,205,586 | (19,742,850) |
| Net change in unrealized gains and losses on forward foreign exchange contracts | (79,121) | 44,146 |
| Net increase (decrease) in net assets from operations | 15,091,303 | (33,328,109) |
| **From capital share transactions** | | |
| Proceeds from sale of 888 (2009 - 6,943) US Dollar Class A redeemable preference shares | 93,259 | 858,238 |
| Proceeds from sale of 10,411 (2009 - 111) US Dollar Class A09 redeemable preference shares | 1,455,155 | 11,136 |
| Proceeds from sale of nil (2009 - 809,915) US Dollar Class B redeemable preference shares | – | 13,538,208 |
| Proceeds from sale of 241,454 (2009 - nil) US Dollar Class B09 redeemable preference shares | 2,660,291 | – |
| Proceeds from sale of 3,375 (2009 - nil) EUR Class A09 redeemable preference shares | 620,734 | – |
| Proceeds from sale of nil (2009 - 100,000) EUR Class B redeemable preference shares | – | 1,396,900 |
| Proceeds from sale of 42,438 (2009 - nil) EUR Class B09 redeemable preference shares | 775,282 | – |
| Payment on redemption of 5,002 (2009 - 11,173) US Dollar Class A redeemable preference shares | (631,207) | (1,245,856) |
| Payment on redemption of 2,313 (2009 - nil) US Dollar Class A09 redeemable preference shares | (344,670) | – |
| Payment on redemption of 1,940,126 (2009 - 1,923,110) US Dollar Class B redeemable preference shares | (30,178,890) | (20,604,258) |
| Payment on redemption of 194,520 (2009 - nil) US Dollar Class B09 redeemable preference shares | (2,626,020) | – |
| Payment on redemption of 368 (2009 - nil) EUR Class A09 redeemable preference shares | (66,055) | – |
| Payment on redemption of 100,000 (2009 - nil) EUR Class B redeemable preference shares | (2,338,408) | – |
| Payment on redemption of 28,141 (2009 - nil) EUR Class B 9 redeemable preference shares | (470,582) | – |
| Net decrease in net assets from capital share transactions | (31,051,111) | (6,045,632) |
| **Net decrease in net assets attributable to redeemable preference shares** | (15,959,808) | (39,373,741) |
| **Net assets attributable to redeemable preference shares at beginning of year** | 24,051,772 | 63,425,513 |
| **Net assets attributable to redeemable preference shares at end of year** | $ 8,091,964 | $ 24,051,772 |

*See accompanying notes to financial statements*

**FMG CHINA FUND LTD.**

Statement of Cash Flows

Year ended March 31, 2010
*(Expressed in United States Dollars)*

| | 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net increase (decrease) in net assets from operations | $ 15,091,303 | $ (33,328,109) |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by operating activities: | | |
| Change in assets and liabilities: | | |
| Net change in investments and derivative financial instruments | (4,656,142) | 39,412,764 |
| Receivables from investments sold | 483,403 | (483,403) |
| Other assets | (7,757) | 11,682 |
| Management and incentive fees payable | 52,005 | (212,666) |
| Administration fees payable | 6,259 | (19,649) |
| Audit fees payable | 5,000 | 9,775 |
| Accounts payable and accrued expenses | (50,689) | 46,647 |
| Net cash provided by operating activities | 10,923,382 | 5,437,041 |
| **Cash flows from financing activities** | | |
| Proceeds from issue of redeemable preference shares | 5,540,063 | 15,872,174 |
| Payments on redemptions of redeemable preference shares | (5,843,337) | (22,104,919) |
| Net cash used in financing activities | (303,274) | (6,232,745) |
| **Net increase (decrease) in cash and cash equivalents** | 10,620,108 | (795,704) |
| **Cash and cash equivalents at beginning of year** | 1,404,250 | 2,199,954 |
| **Cash and cash equivalents at end of year** | $ 12,024,358 | $ 1,404,250 |
| **Supplementary cash flow information** | | |
| Interest paid | $ 405 | $ – |

*See accompanying notes to financial statements*

1. **Operations**

FMG China Fund Ltd. (the "Fund") was incorporated in Bermuda on February 17, 2004 as an open-ended investment fund, empowered by its bye-laws to issue, redeem and reissue its own shares at prices based on their net asset value.

The Fund invests in other open or closed-ended investment companies, limited partnerships, managed accounts and unquoted securities that are managed by fund managers with the objective of earning a return in excess of that earned on the MSCI China Index.

2. **Significant accounting policies**

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The following are the significant accounting policies adopted by the Fund:

*(a) Investment transactions and valuation*

Investments are categorized as held for trading in accordance with CICA Section 3855, *Financial Instruments – Recognition and Measurement* ("Section 3855") and therefore are recorded at fair value. Investments in other investment companies are recorded on the effective date of the subscription, and are valued at their net asset value as reported by the administrators of the other investment companies. Where net asset values are not reported on a timely basis, the Manager (Note 3) may estimate the net asset value based on information provided by the other investment companies. The other investment companies in which the Fund invests generally value securities traded on a national securities exchange or reported on a national market and securities traded in the over-the-counter market at the last reported bid price if held long and the last reported ask price if sold short on the valuation day. Realized gains or losses on sale of investments are determined on an average cost basis. Realized gains and losses and the net change in unrealized gains and losses are included in the statement of operations.

The Fund may allocate its assets to an advisor by retaining the advisor to manage a managed account for the Fund rather than investing in the advisor's investment vehicle. Unlike an investment in a fund, the Fund will not receive shares or any other form of title, but will simply rank as a creditor of the advisor. There will be no investment capable of being held by the Fund's custodian on behalf of the Fund and the Fund's custodian will not be involved in providing custody for the assets held in the managed account. The advisor for the managed account will make separate custody arrangements for the investments held therein. Any loss arising as a result of an investment in a managed account will be borne by the shareholders.

The investment in the equity securities within the managed accounts are accounted for on a trade date basis. The securities within the managed accounts that are traded on a national securities exchange are valued at the last reported bid price if held long and last reported ask price if held short. The interest income, dividend income and realized gains and losses arising from the managed account are included in the relevant line items in the statement of operations. Cash attributable to the managed accounts is included within cash and cash equivalents in the statement of assets and liabilities.

2. **Significant accounting policies** (continued)

*(b) Forward foreign exchange contracts*

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro classes of redeemable preference shares to manage the Fund's exposure to changes in the US Dollar/Euro exchange rates. The Fund also purchases such forward exchange contracts in amounts approximating the value of any assets denominated in a currency other than the base currency of the Fund to manage the Fund's exposure to changes in the exchange rates between the currency of such assets and the base currency of the Fund. Such contracts are recorded at their fair value at the reporting date. The unrealized gain or loss on open forward foreign exchange contracts on each valuation date is the difference between the contract exchange rate and the forward exchange rate at the valuation date, as reported by published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included in the statement of assets and liabilities. Realized and unrealized changes in the fair value of the forward foreign exchange contracts are included in the statement of operations in the period in which the change occurs, and are attributed entirely to the classes of redeemable preference shares to which the individual contract relates (Notes 2(c) and 9(e)).

*(c) Allocation of profits and losses*

The profit or loss of the Fund for each month before management and incentive fees is allocated at the end of each month between the US Dollar and Euro classes of redeemable preference shares (Note 6). The amount is allocated in proportion to the relative net assets of each class of shares on the first day of the month after adding subscriptions and deducting redemptions effective that day. Management and incentive fees are calculated separately for each class of redeemable preference shares (Note 3). Realized and unrealized gains or losses on forward foreign exchange contracts entered into for the purpose of hedging currency exposure on non US Dollar denominated Share class are allocated to the appropriate class of redeemable preference shares.

*(d) Foreign currency transactions*

Foreign currency investments and balances that are monetary items are translated into US dollars at the rate of exchange prevailing on the valuation date. Foreign currency transactions are translated at the rate in effect at the date of the transaction. Any realized or unrealized exchange adjustments are included in the related caption in the statement of operations.

*(e) Interest income and expense*

Interest income and expense are recognized on the accrual basis of accounting.

*(f) Rebate income*

The Fund receives partial rebates with respect to the management and incentive fees charged on those investments in other investment companies that are also managed by the Fund's Manager (Note 3), or in certain cases where an agreement was reached with investment companies not managed by the Fund's Manager. If the amount and timing of such receipts can be estimated, they are accrued; otherwise, rebate income is recorded on a cash basis.

*(g) Cash and cash equivalents*

Cash and cash equivalents include cash and money market funds with an original maturity date of ninety days or less.

2. **Significant accounting policies** (continued)

*(h) Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

*(i) Changes in accounting policies*

On April 1, 2008, the Fund adopted CICA Section 3862, *Financial Instruments – Disclosures* ("Section 3862") and CICA Section 3863, *Financial Instruments – Presentation* ("Section 3863"), replacing Section 3861. Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Fund manages those risks. Section 3863 carries forward unchanged the presentation requirements of Section 3861 with respect of financial instruments.

3. **Management, incentive and load fees**

*Management fees*

The Fund pays FMG Fund Managers Limited (the "Manager") a management fee at the rate of 2.0% per annum of the net assets attributable to the Class A Shares of the Fund and 1.5% per annum of the net assets attributable to the Class B Shares of the Fund, calculated on a monthly basis and payable quarterly. For the year ended March 31, 2010, this management fee was $531,283 (2009 - $679,640), of which $150,391 (2009 - $86,943) was payable at March 31, 2010.

The Fund also pays fees to the managers of managed accounts. For the year ended March 31, 2010, the Fund incurred such management fees of $nil (2009 - $496), of which $nil (2009 - $nil) was outstanding at March 31, 2010.

*Incentive fees*

The Class A Shares also incur a quarterly incentive fee equal to 20% of the Net Profits of the Fund, if any, during each calendar quarter (each a "Performance Period"), accrued with respect to each share of the Fund. The Net Profits are computed in a manner consistent with the principles applicable to the computation of the net assets of the Fund. If a redeemable preference share has a loss chargeable to it during any Performance Period, and during a subsequent Performance Period there is a profit allocable to it, there will be no incentive fee payable with respect to such redeemable preference share until the amount of the net loss previously allocated has been recouped. Incentive fees are only paid when the net asset value of the redeemable preference shares increases above a previously established "high water mark" net asset value for that class of redeemable preference shares. In the event of either a redemption being made at a date other than the end of a Performance Period or if the Management Agreement is terminated at any time prior to the last day of a Performance Period, the incentive fee will be computed as though the termination date or the Redemption Date, as applicable, was the last day of such Performance Period. Once earned, the incentive fee is retained by the Manager regardless of the Fund's future results.

3. **Management, incentive and load fees** (continued)

*Incentive fees* (continued)

The Class B Shares also pay to the Manager an incentive fee of 10% of the net profits attributable to the Class B Shares, calculated monthly and payable quarterly. Net profits are defined as the amount by which cumulative profits attributable to the Class B Shares, before the incentive fee but after deduction of all transaction costs, management fees and expenses, exceeds a hurdle rate equal to the amount that would have been earned in that fiscal period had the assets of the Fund been invested at the USD 12-month LIBOR rate at the beginning of the fiscal period. Net profits include both realized and unrealized gains less losses on investments. If the net profit for a month is negative, it will be carried forward ("carry forward losses"). No incentive fee will be payable until the net profits in subsequent month(s) exceed carry forward losses, and the hurdle as discussed above, together with any cumulative actual losses incurred in previous fiscal year, adjusted for redemptions. However, the net profit amount, upon which performance fees are calculated, is not offset by actual losses incurred in previous fiscal years at the time the performance fee becomes payable. Once earned, the incentive fee will be retained by the Manager regardless of the Fund's future results.

For the year ended March 31, 2010, the incentive fee was $247,743 (2009 - $11,443), of which $nil (2009 - $11,443) was payable at March 31, 2010.

The Fund is charged management and incentive fees by the Manager as described above on its net assets and its performance. However, some of the other investment companies in which the Fund invests are also managed by the Manager. To ensure that the Fund is not double charged for such management and incentive fees, the Manager rebates to the Fund its proportionate share of such fees. In addition, the Fund enters into agreements with certain investment companies not managed by the Fund Manager to rebate a portion of the management and incentive fees charged to the Fund. The total of the management and incentive fees rebated to the Fund during the year amounted to $48,476 (2009 - $73,050) of which $27,040 (2009 - $21,118) is receivable at March 31, 2010.

*Load fees*

The Manager may charge load fees of up to 5% of the amount subscribed. When charged, these load fees will reduce the amount available to shareholders for the purchase of shares in the Fund. As at March 31, 2010, $19,855 (2009 - $1,735) of load fees payable were included within accounts payable and accrued expenses.

One of the directors of the Fund is also a director of the Manager.

4. **Administration fees**

Apex Fund Services Limited (the "Administrator") acts as the administrator, registrar and transfer agent for the Fund. For services provided, the Fund pays fees at the higher of $2,000 per month for net assets up to $10 million and $3,000 per month for net assets exceeding $10 million, or fifteen basis points of the Fund's net assets per annum. Effective December 1, 2008, the minimum fee was increased to $3,000 per month for net assets up to $10 million and $4,000 per month for net assets exceeding $10 million. For the year ended March 31, 2010, administration fees were $73,897 (2009 - $75,670) of which $18,739 (2009 - $12,480) was payable at March 31, 2010.

One of the directors of the Fund is also the Managing Director of the Administrator.

## 5. Custodian fees

Effective August 14, 2009, Credit Suisse AG (the "Custodian") acts as custodian to the Fund. Fees for custody services are charged a fee of 7 basis points per annum of the value of the net assets of the Fund under custody subject to an annual minimum of CHF 5,500. In addition, a set up fee of US$1,500 will be payable together with all responsible disbursement and out-of-pocket expenses. Prior to August 14, 2009, HSBC Institutional Trust Services (Bermuda) Limited was the custodian for the Fund. Fees for custody services prior to August 14, 2009 were charged at the higher of $3,000 per annum or five basis points of the gross asset value of custodial investments held in custody (calculated monthly). In addition custody transaction fees were chargeable on individual transactions on a sliding scale, depending on the market and type of security.

Effective August 26, 2009, the Custodian has a right of lien against all currency accounts and investments in other investment companies held by the Custodian on the Fund's behalf. The purpose of the right of lien is to secure any and all claims of the Custodian against the Fund from any agreement or contracts as well as claims on other legal grounds resulting from business operations with the Fund.

## 6. Share capital

The authorized share capital of the Fund is $11,000, which is divided into 100 common shares of par value of $1 each and 10,900,000 redeemable preference shares (the "Shares"), issued in US Dollars and Euro with a par value of $0.001 each. Redeemable preference shares are issued as Class A and Class A09 shares (collectively, the "Class A Shares") and Class B and Class B09 shares (collectively, the "Class B Shares"). Effective February 2, 2009, Class A09 and Class B09 shares are offered for sale. Effective March 2, 2009, the existing Class A and Class B shares were closed for new subscriptions, except in situations where approved by the Board of Directors and the Manager.

The holder of the common shares is not entitled to receive dividends, may not redeem their holding and is only entitled to be repaid the par value of the common shares upon a winding-up or distribution of capital. The common shares are entitled to one vote per share at a general meeting. All the common shares are held by the Manager (Note 4). Each of the redeemable preference shares carries no preferential or pre-emptive rights upon the issue of new shares and has no voting rights at general meetings of the Fund.

Shares may be purchased and redeemed on a Dealing Day, which is generally the first business day of each calendar month. Shares may be purchased at the net asset value per share calculated at the immediately preceding Valuation Day, generally the last business day of the preceding month. Class A Shares and Class B Shares may be redeemed with 10 and 20 business days' written notice, respectively, at their net asset value per share, subject to certain restrictions as described in the Prospectus.

If on any Valuation Day, any shareholder wishes to redeem Shares totaling more than 5% of the issued capital of the Fund or several shareholders wish to redeem Shares totaling more than 15% of the issued capital of the Fund, the Directors may defer redemption of such Shares, and the calculation of the redemption price, to a subsequent Dealing Day being not later than the fifth Dealing Day following receipt of the application for redemption. In such cases, suspended redemption requests shall be carried out on the basis of the next Net Asset Value.

At March 31, 2010, redemptions payable include $25,190,478 and $2,764,839 payable to FMG Rising 3 Fund Ltd. and FMG (EU) China Fund Ltd., respectively. FMG Rising 3 Fund Ltd. and FMG (EU) China Fund Ltd. are managed by the same Manager as the Fund.

At March 31, 2009, FMG Rising 3 Fund Ltd. held 86.59% of the outstanding USD Class B Shares of the Fund and FMG (EU) China Fund Ltd. held 100% of the EUR Class B redeemable preference shares.

## 7. Fair value of financial instruments

The methods used to determine the fair value of investments in other investment companies, managed accounts unquoted equity investments and unrealized gains and losses on forward foreign exchange contracts are described in Notes 2(a) and 2(b). The fair value of the Fund's other financial assets and financial liabilities approximate their carrying amount due to their short term nature.

CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The following is a summary of the inputs used as of March 31, 2010 in valuing the Fund's investments and derivatives carried at fair value:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equities | $ 15,023,935 | $ – | $ – | $ 15,023,935 |
| Investments in other investment companies | 9,196,262 | 2,515,996 | 558,094 | 12,270,352 |
| Total | $ 24,220,197 | $ 2,515,996 | $ 558,094 | $ 27,294,287 |
| Derivative liabilities | $ – | $ (34,975) | $ – | $ (34,975) |

7. **Fair value of financial instruments** (continued)

During the year ended March 31, 2010, the reconciliation of the change in investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

| | Investments in other investment companies |
|---|---|
| Beginning balance | $ 2,061,215 |
| Purchases | 435,193 |
| Sales | (6,057,199) |
| Net transfers out of Level 3 | (500,000) |
| Realized gains | 3,536,489 |
| Change in unrealized appreciation | 1,082,396 |
| Ending balance | $ 558,094 |
| Total change in unrealized appreciation during the year for assets held at March 31, 2010 | $ 122,921 |

For investments in other investment companies the Fund has used the reported net asset value per share as provided by the administrator of each respective investment company to arrive at fair value. The Fund has not identified any other reasonable possible alternatives for valuing its Level 3 financial instruments.

*Investment in The Trophy Fund*

The Fund had an investment in The Trophy Fund (“Trophy”) which had an estimated fair value of $1,561,215 at March 31, 2009, representing 6.49% of the net asset value of the Fund at that date.

The investment manager of Trophy officially suspended redemptions during the period from October 2008 until August 2009. The Manager of FMG China Fund Ltd. estimated the fair value of the Fund’s investment in Trophy based upon information about Trophy’s investment portfolio provided by its investment manager, the illiquidity of those investments, and the overall movements in the investment markets where Trophy’s investments are located in the period from October 2008 to August 2009. Subsequently the value of the investment was based on the net asset value reported by Trophy’s administrator. The position in Trophy was sold for proceeds of $6,057,178 in January 2010.

*Investment in China All Access Group Limited*

The Fund had an investment in China All Access Group Limited (“China All Access”) which had an estimated fair value of $500,000 at March 31, 2009, representing 2.08% of the net asset value of the Fund at that date. The investment in China All Access represented an unquoted equity security in a Chinese telecommunications company. The fair value of the security had been estimated by the Manager as being approximate to its original cost, in the absence of observable transactions in the marketplace and continued to be carried at cost until September 2009 whereby the investment in China All Access was sold in exchange for shares in China All Access Holdings Ltd. which had undergone an IPO. The value of the shares received in exchange for the China all Access shares were $1,275,750 based on the IPO price.

7. **Fair value of financial instruments** (continued)

The fair valuations carried for Trophy for the period from October 2008 until August 2009 and China All Access for the period from January 2008 to September 2009 were based on estimates made by the Fund's Manager. There were significant amounts of uncertainty as to the fair value of the investments during those dates since Trophy's redemptions had been suspended and a ready market for the China All Access securities did not exist. There could have been significant differences between the realizable values of the investments upon their eventual sale and the fair value amounts estimated by the Fund's Manager during these dates, and such differences could be material to the Fund's financial statements.

8. **Taxation**

Under current Bermuda laws, the Fund is not required to pay any taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda exempting it from any such taxes at least until the year 2016.

It is management's belief that the Fund is not engaged in a United States trade or business and will not be subject to United States income or withholding taxes in respect of the profits and losses of the Fund other than the 30% withholding tax on U.S. source dividends.

As a result, management has made no provision for income taxes in these financial statements.

9. **Financial instruments and risk management**

The Fund's investment activities expose it to a variety of financial risks. The schedule of investments presents the investments held by the Fund as at the end of the year.

The Fund invests in other investment companies, managed accounts and unquoted equity securities that are focused on China. China is an emerging market which is experiencing significant economic growth and change. Consequently, operations in China involve risks which do not typically exist in other markets. Such risks include, but are not limited to, the Fund's investments in China which may prove difficult to sell in times of forced liquidity, risks involved estimating the valuation of the underlying businesses, potential adverse changes to the legal, regulatory and taxation environments that could adversely affect the underlying businesses, currency fluctuations, changes in interest rates, institutional, settlement and custodial risks, and other risks generally associated with investing in immature emerging markets.

*(a) Liquidity risk*

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investments in other investment companies are not traded in an organized public market. As a result, the Fund may not be able to quickly liquidate its investments at their stated fair value in order to meet its liquidity requirements, including redemption requests from its shareholders. The Fund's exposure to liquidity risk is managed by the Manager.

Some of the other investment companies in which the Fund invests may deal or trade in derivative financial instruments as their principal investment activity or use these instruments as part of their investment strategy. This may result in market and credit risks to those other investment companies in excess of the amount invested in these instruments. However, the Fund's risk is limited to the net asset value of its investments in those other investment companies.

The schedule of investments summarizes the redemption frequencies of the Fund's investments in other investment companies at March 31, 2010. This information has been obtained by the Manager from the offering memoranda or similar information provided by the manager of the underlying investment fund.

9. **Financial instruments and risk management** (continued)

(a) *Liquidity risk* (continued)

The liabilities of the Fund are comprised of accrued expenses and these fall due within 3 months of the date of the statement of assets and liabilities.

At March 31, 2009, investment companies held by the Fund had implemented the following redemption restrictions:

| | Fair value at March 31, 2009 | % of Net Assets |
|---|---|---|
| Underlying investment holdings which have suspended redemptions and the calculation of NAV | $ 1,561,215 | 6.49% |

(b) *Interest rate risk*

Interest rate risk arises when an entity invests in interest-bearing financial instruments. The Fund does not hold investments which are sensitive to interest rates but is indirectly exposed to the interest rate risk of the investments held by the investment companies in which the Fund invests.

(c) *Credit risk*

Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Fund has cash and cash equivalents, derivative financial instruments and investments held in the custody of a major bank with a long term credit rating of Aa2 issued by Moody's. As the Fund invests in other investment companies, the Fund is exposed to the credit risk of each of those underlying investment companies. The maximum amount of credit exposure is represented by the carrying amounts of the investments listed on the schedule of investments.

Bankruptcy or insolvency of the Custodian may cause the Fund's rights to be delayed with respect to the cash and cash equivalents and investments held in the custodial relationship. The Manager monitors the credit quality and financial position of the Custodian and should it decline significantly, the Manager will move cash holdings and custodial relationships to another institution.

The Fund has an investment with a fair value of $15,023,935 in a managed account. Citic Securities Brokerage (HK) Limited, acts as the advisor for the managed account. Unlike an investment in an investment company, the Fund will not receive shares or any other form of title for its investment, but will simply rank as a creditor of the advisor. The advisor for the managed account will make separate custody arrangements for the investments held therein. The amount of exposure to the advisor is represented by the carrying amount of the managed account.

9. **Financial instruments and risk management** (continued)

*(d) Market risk*

Market risk is the risk that the changes in interest rates, foreign exchange rates or securities prices will affect the fair value of the financial instruments held by the Fund.

The Fund is indirectly exposed to the market risk of the investments held by the other investment companies and managed accounts in which the Fund invests. Some of those other investment companies may deal or trade derivative financial instruments as their principal investment activity or use these instruments as part of their investment strategy. This may result in market risk to those other investments companies in excess of the amount invested in these securities. However, the Fund's risk is limited to the net asset value of its investments in those other investment companies and managed accounts.

At March 31, 2010, if the price of the investments increased by 5%, this would have increased the net assets attributable to holders of redeemable preference shares by $1,364,714 (2009 - $1,127,951); an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable preference shares by an equal but opposite amount. Actual results will differ from this sensitivity analysis and the difference could be material.

*(e) Currency risk*

The Fund may invest in other investment companies and limited partnerships and enter into transactions denominated in currencies other than the US dollar. Consequently, the Fund is exposed to risks that the exchange rate of the US dollar relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the US dollar.

The following table sets out the Fund's total exposure to foreign currency risk split between monetary assets and liabilities, net assets attributable to non-USD denominated share classes, forward foreign exchange contracts and the resulting net exposure to foreign currencies:

| | Monetary Assets | Monetary Liabilities | Net assets attributable to Non-USD denominated Share Classes | Forward FX Contracts | Net Exposure |
|---|---|---|---|---|---|
| March 31, 2010 | | | | | |
| EUR | $ – | $ (446) | $ (795,623) | $ 3,534,813 | $ 2,738,744 |
| March 31, 2009 | | | | | |
| EUR | $ – | $ – | $ (1,446,192) | $ 1,313,637 | $ (132,555) |

The amounts in the above table are based on the carrying value of monetary assets and liabilities, net assets attributable to non-USD denominated share classes and the underlying notional amounts of forward foreign exchange contracts.

Forward foreign exchange contracts are entered into by the Fund to hedge exposure to monetary assets and liabilities denominated in currencies other than USD and to hedge the exposure of certain share classes denominated in currencies other than USD.

9. **Financial instruments and risk management** (continued)

*(e) Currency risk* (continued)

The gains and losses on forward foreign exchange contracts entered into for the purpose of hedging the exposure to monetary assets and liabilities are recorded in gains and losses on forward foreign exchange contracts in the statement of operations. The gains and losses on contracts entered into for the purpose of hedging the exposure of share classes denominated in currencies other than USD are also recorded in gains and losses on forward foreign exchange contracts in the statement of operations, but are allocated specifically to the non-USD denominated share classes to which the hedging activities, and resultant gains and losses, relate.

At March 31, 2010, had the US Dollar strengthened by 5% in relation to the Euro, there would be an approximate net impact of $(136,937) (2009: $6,628) on the statement of operations and on the net assets attributable to the hedged non-USD denominated share classes. A 5% weakening of the US Dollar against the Euro would have resulted in an approximate equal but opposite effect. Actual results may differ from this sensitivity analysis and the difference could be material to the financial statements.

At March 31, 2010, the Fund had the following open forward foreign exchange contracts:

| Currency to be sold | Currency to be bought | Contract due date | Fair value |
|---|---|---|---|
| USD 3,534,813 | EUR 2,590,746 | April 7, 2010 | $ (34,975) |

At March 31, 2009, the Fund had the following open forward foreign exchange contracts:

| Currency to be sold | Currency to be bought | Contract due date | Fair value |
|---|---|---|---|
| USD 1,313,637 | EUR 1,047,391 | April 2, 2009 | $ $44,146 |

*(f) Capital management*

The Fund's objectives in managing the redeemable preference shares are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions. The Fund's management of the liquidity risk arising from redeemable preference shares is discussed in Note 9(a).

The Fund is not subject to any externally imposed capital requirements.

10. **Subsequent events**

Subsequent to year-end, certain investments of the Fund were transferred to FMG (EU) China Fund Ltd., a sub-fund of FMG Funds SICAV Ltd which is a regulated Malta entity managed by FMG Malta Ltd. In exchange for these investments, the Fund received shares in FMG (EU) China Fund Ltd. Class B09 USD for the same value.

Effective April 1, 2010, the redemption notice period changed from being 10 and 20 business days written notice for Class A and Class B shares respectively, to providing notice by at least the 20$^{th}$ day of the month prior to the Dealing Day.