

**FMG COMBO FUND LTD.**

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

March 31, 2009 and 2008

**FMG COMBO FUND LTD.**

**ANNUAL REPORT**

March 31, 2009

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Dear Shareholders:

We are pleased to send you the annual report and audited financial statements of FMG Combo Fund Ltd. (the "Fund") for the year ending March 31, 2009. The Fund began operations on October 1, 2005 with a view to invest its assets among the various FMG funds. The Fund aims to reduce its volatility by diversifying its asset allocation among different managers in each country.

During the period, the Net Asset Value ("NAV") per US Dollar Class A Redeemable Preference Share decreased by 43.3% to \$71.73; and the NAV per US Dollar Class B Redeemable Preference Share decreased by 42.7% to \$7.65. The Fund also has Euro, GBP and NOK classes with performance ranging from -44.2% to -44.6% depending on the hedging of the currency exposure and the fee schedule.

The performance of the Fund during the year reflected the extremely challenging environment resulting from the global financial crisis that hit all economies hard. The Bio-Med exposure held up the best given the sector's more defensive nature. The Global Hedge Fund was the second most protective asset class while the Emerging markets exposure lost in the range of 46% to 74% with small to mid cap Indian stocks being the worst. All emerging markets have recovered well in 2009 while the Bio-Med exposure and the Global Hedge funds have produced negative contributions.

As FMG believes the worst is behind us at this point in time, the portfolio may shift more away from hedge fund related investments to emerging markets. The rationale being that the emerging markets FMG focus on will continue to be faster growing than the western based economies and therefore have the potential to recover more quickly from the material corrections seen in fiscal 2009.

Yours sincerely,

**FMG Fund Managers Limited**

As Manager for

**FMG Combo Fund Ltd.**

Peter Hughes  
Director



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**AUDITORS' REPORT**

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

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of FMG Combo Fund Ltd. as at March 31, 2009, and the statements of operations and changes in net assets 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.

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 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, the financial statements of the Fund include investments in FMG (EU) Africa Fund Ltd., FMG (EU) Rising 3 Fund Ltd., FMG Russia Fund Ltd. and FMG Special Opportunity Fund Ltd. These funds hold investments in underlying investment companies and unquoted equity securities whose fair values have been estimated by the manager of the funds in the absence of readily ascertainable fair values. The fair value of the Fund's indirect exposure to these underlying investments at March 31, 2009 is \$1,090,084 (6.69% of net assets). The audit reports of the financial statements of FMG (EU) Africa Fund Ltd., FMG (EU) Rising 3 Fund Ltd., FMG Russia Fund Ltd. and FMG Special Opportunity Fund Ltd. include a qualification due to the lack of audited financial statements or other information sufficient to provide a reliable estimate of the fair values of the underlying investments, or regarding the explanations and information provided by the managers of the underlying investments which are not considered to be sufficient to provide a reliable estimate of the fair values of the underlying investment companies and unquoted equity securities held at March 31, 2009. Accordingly, we were not able to determine whether any adjustments are necessary to the fair values of the Fund's investment in FMG (EU) Africa Fund Ltd., FMG (EU) Rising 3 Fund Ltd., FMG Russia Fund Ltd. and FMG Special Opportunity Fund Ltd. 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.

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 Combo Fund Ltd. as at March 31, 2009 and the results of its operations and changes in its net assets for the year then ended in conformity with accounting principles generally accepted in Bermuda and Canada.

Chartered Accountants  
Hamilton, Bermuda  
September 29, 2009

**FMG COMBO FUND LTD.**

## Statement of Assets and Liabilities

March 31, 2009

*(Expressed in United States Dollars)*

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	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Investments in other investment companies (cost - \$29,163,622; 2008 - \$32,351,301) (See Schedule of Investments) (Notes 8,9 and 11)	\$ 16,365,925	\$ 35,737,623
Cash and cash equivalents (Note 8)	803,370	2,141,923
Unrealized gain on forward foreign exchange contract (Note 11)	-	764,117
Advance payment for investment purchased	-	3,400,000
Subscription receivable	-	2,331,699
Rebate income receivable	68,129	153,611
Other assets	12,126	26,928
Total assets	<u>17,249,550</u>	<u>44,555,901</u>
<b>Liabilities</b>		
Unrealized loss on forward foreign exchange contract (Note 11)	42,941	-
Subscriptions received in advance	-	143,440
Redemption payable	802,159	-
Management and incentive fees payable (Note 3)	71,885	185,081
Administration fees payable (Note 4)	13,410	13,902
Audit fees payable	21,000	11,750
Accounts payable and accrued expenses	15,609	17,494
Total liabilities	<u>967,004</u>	<u>371,667</u>
<b>Net assets</b>	16,282,546	44,184,234
Less: attributable to 100 common shares (Note 6)	<u>(100)</u>	<u>(100)</u>
<b>Net assets attributable to redeemable preference shares</b> (Note 6)	\$ 16,282,446	\$ 44,184,134
Net assets attributable to 14,232 (2008 - 27,624) US Dollar Class A redeemable preference shares	<u>\$ 1,020,826</u>	<u>\$ 3,491,705</u>
<b>Net asset value per US Dollar Class A redeemable preference share</b>	<u>\$ 71.73</u>	<u>\$ 126.41</u>
Net assets attributable to 1,191,410 (2008 - 1,405,257) US Dollar Class B redeemable preference shares	<u>\$ 9,124,387</u>	<u>\$ 18,739,939</u>
<b>Net asset value per US Dollar Class B redeemable preference share</b>	<u>\$ 7.65</u>	<u>\$ 13.34</u>
Net assets of \$904,661 (2008 - \$2,283,024) attributable to 10,134 (2008 - 11,926) Euro Class A redeemable preference shares	<u>€ 680,913</u>	<u>€ 1,446,142</u>

*See accompanying notes to financial statements*

**FMG COMBO FUND LTD.**

Statement of Assets and Liabilities (continued)

March 31, 2009

*(Expressed in United States Dollars)*

	<u>2009</u>	<u>2008</u>
<b>Net asset value per Euro Class A redeemable preference share</b>	€ <u>67.19</u>	€ <u>121.26</u>
Net assets of \$3,082,245 (2008 - \$15,160,597) attributable to 323,507 (2008 - 746,521) Euro Class B redeemable preference shares	€ <u>2,319,920</u>	€ <u>9,603,216</u>
<b>Net asset value per Euro Class B redeemable preference share</b>	€ <u>7.17</u>	€ <u>12.86</u>
Net assets of \$208,187 (2008 - \$589,234) attributable to 2,706 (2008 - 3,075) GBP Class A redeemable preference shares	£ <u>145,108</u>	£ <u>296,915</u>
<b>Net asset value per GBP Class A redeemable preference share</b>	£ <u>53.62</u>	£ <u>96.56</u>
Net assets of \$112,594 (2008 - \$97,670) attributable to 14,376 (2008 - 5,035) GBP Class B redeemable preference shares	£ <u>78,479</u>	£ <u>49,216</u>
<b>Net asset value per GBP Class B redeemable preference share</b>	£ <u>5.45</u>	£ <u>9.77</u>
Net assets of \$1,811,012 (2008 - \$3,628,855) attributable to 20,316 (2008 - 17,103) NOK Class A redeemable preference shares	NOK <u>12,170,782</u>	NOK <u>18,476,678</u>
<b>Net Asset Value per NOK Class A redeemable preference share</b>	NOK <u>599.07</u>	NOK <u>1,080.32</u>
Net assets of \$18,534 (2008 - \$193,110) attributable to 198 (2008 - 871) NOK Class B redeemable preference shares	NOK <u>124,554</u>	NOK <u>983,241</u>
<b>Net Asset Value per NOK Class B redeemable preference share</b>	NOK <u>629.13</u>	NOK <u>1,128.28</u>

*See accompanying notes to financial statements*

Signed on behalf of the Board

\_\_\_\_\_  
Director\_\_\_\_\_  
Director

**FMG COMBO FUND LTD.**

## Schedule of Investments

March 31, 2009

*(Expressed in United States Dollars)*

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	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
<b><u>Other Investment Companies</u></b>				
FMG (EU) Africa Fund, Class B EUR	\$ 3,291,049	\$ 1,405,312	8.63%	Monthly
FMG Bio-Med Hedge Fund Ltd., USD Class	2,249,283	1,803,306	11.07%	Monthly
FMG (EU) Bio-Med Hedge Fund, Class B09 EUR	1,396,900	1,162,525	7.14%	Monthly
FMG Global Hedge Fund Ltd., USD Class B	7,909,283	6,135,975	37.69%	Monthly
FMG (EU) Global Hedge Fund, Class B09 EUR	1,396,900	1,316,643	8.08%	Monthly
FMG (EU) India Opportunity Fund, Class B09 EUR	1,386,223	359,459	2.21%	Monthly
FMG (EU) Middle East North Africa Fund Ltd., Class B09 EUR	3,091,303	1,201,217	7.38%	Monthly
FMG (EU) Rising 3 Fund, Class B09 EUR	4,198,835	1,319,608	8.11%	Monthly
FMG Russia Fund Ltd., USD Class B	1,995,082	565,604	3.47%	Monthly
FMG Special Opportunity Fund Ltd., USD Class B	549,011	292,076	1.79%	Monthly
FMG (EU) New Balkans, Class B09 EUR	1,699,753	804,200	4.94%	Monthly
	<hr/>	<hr/>	<hr/>	
<b>Total investments in other investment companies</b>	<b>\$ 29,163,622</b>	<b>\$ 16,365,925</b>	<b>100.51%</b>	

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*See accompanying notes to financial statements*

**FMG COMBO FUND LTD.**

## Statement of Operations

March 31, 2009

*(Expressed in United States Dollars)*

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	<u>2009</u>	<u>2008</u>
<b>Investment income</b>		
Rebate income (Note 9)	\$ 515,718	\$ 1,166,497
Total income	<u>515,718</u>	<u>1,166,497</u>
<b>Expenses</b>		
Management fees (Note 3)	522,915	608,471
Incentive fees (Note 3)	–	622,957
Administration fees (Note 4)	60,262	52,019
Bank charges	16,279	13,084
Audit fees	37,705	20,000
Directors' and secretarial fees	12,514	10,667
Bermuda company fees	3,411	2,793
Custodian fees (Note 5)	8,862	–
Miscellaneous	35,902	19,071
Total expenses	<u>697,850</u>	<u>1,349,062</u>
<b>Net investment loss</b>	<u>(182,132)</u>	<u>(182,565)</u>
<b>Realized and unrealized gains and losses on investments</b>		
Net realized gains and losses on sale of investments	(1,241,979)	692,797
Net realized gains and losses on forward foreign exchange contracts	(2,099,129)	2,309,963
Net change in unrealized gains and losses of investments	(16,184,019)	119,278
Net change in unrealized gains and losses on forward foreign exchange contacts	<u>(807,058)</u>	<u>596,171</u>
Net realized and unrealized gains and losses on investments	<u>(20,332,185)</u>	<u>3,718,209</u>
<b>Net (decrease) increase in net assets resulting from operations</b>	<u>\$ (20,514,317)</u>	<u>\$ 3,535,644</u>

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*See accompanying notes to financial statements*

**FMG COMBO FUND LTD.**

## Statement of Changes in Net Assets

March 31, 2009

*(Expressed in United States Dollars)*

	<u>2009</u>	<u>2008</u>
<b>From operations</b>		
Net investment loss	\$ (182,132)	\$ (182,565)
Net realized gains and losses on sale of investments	(1,241,979)	692,797
Net realized gains and losses on forward foreign exchange contracts	(2,099,129)	2,309,963
Net change in unrealized gains and losses of investments	(16,184,019)	119,278
Net change in unrealized gains and losses on forward foreign exchange contracts	<u>(807,058)</u>	<u>596,171</u>
Net (decrease) increase in net assets from operations	<u>(20,514,317)</u>	<u>3,535,644</u>
<b>From capital share transactions</b>		
Proceeds from sale of 6,305 (2008 - 14,431) US Dollar Class A redeemable preference shares	691,537	1,913,967
Proceeds from sale of 580,630 (2008 - 814,842) US Dollar Class B redeemable preference shares	6,324,399	11,291,090
Proceeds from sale of 13,197 (2008 - 6,728) Euro Class A redeemable preference shares	2,432,179	1,216,621
Proceeds from sale of 153,207 (2008 - 124,589) Euro Class B redeemable preference shares	2,820,068	2,293,486
Proceeds from sale of 914 (2008 - 3,075) GBP Class A redeemable preference shares	173,392	639,247
Proceeds from sale of 14,984 (2008 - 5,035) GBP Class B redeemable preference shares	285,451	103,022
Proceeds from sale of 7,551 (2008 - 12,544) NOK Class A redeemable preference shares	1,466,358	2,541,285
Proceeds from sale of 198 (2008 - 209) NOK Class B redeemable preference shares	30,226	47,896
Payment on redemption of 19,697 (2008 - 12,217) US Dollar Class A redeemable preference shares	(2,088,412)	(1,578,934)
Payment on redemption of 794,477 (2008 - 209,096) US Dollar Class B redeemable preference shares	(8,774,294)	(2,963,433)
Payment on redemption of 14,989 (2008 - 6,054) Euro Class A redeemable preference shares	(1,954,860)	(1,087,877)
Payment on redemption of 576,221 (2008 - 73,711) Euro Class B redeemable preference shares	(7,840,245)	(1,386,575)
Payment on redemption of 1,283 (2008 - nil) GBP Class A redeemable preference shares	(143,760)	-
Payment on redemption of 5,643 (2008 - nil) GBP Class B redeemable preference shares	(57,942)	-
Payment on redemption of 4,338 (2008 - 1,093) NOK Class A redeemable preference shares	(667,060)	(213,444)
Payment on redemption of 871 (2008 - nil) NOK Class B redeemable preference shares	<u>(84,408)</u>	<u>-</u>
Net (decrease) increase in net assets from capital share transactions	<u>(7,387,371)</u>	<u>12,816,351</u>
<b>Net (decrease) increase in net assets attributable to redeemable preference shares</b>	<u>(27,901,688)</u>	<u>16,351,995</u>
<b>Net assets attributable to redeemable preference shares at beginning of year</b>	<u>44,184,134</u>	<u>27,832,139</u>
<b>Net assets attributable to redeemable preference shares at end of year</b>	<u>\$ 16,282,446</u>	<u>\$ 44,184,134</u>

**FMG COMBO FUND LTD.**

March 31, 2009

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1. **Operations**

FMG Combo Fund Ltd. (the “Fund”) commenced operations in Bermuda on October 1, 2005 as an open-ended investment fund, empowered by its bye-laws to issue, redeem and reissue its own redeemable preference shares at prices based on their net asset value.

The Fund invests in other funds which are managed by FMG Fund Managers Limited (the “Manager”) to provide investors access to a wide variety of underlying fund managers covering a broad range of hedge fund strategies, industry sectors and geographic regions.

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. The adoption of Section 3855 does not impact the manner in which the investments in other investment companies are valued since bid prices are not available. Investments in other investment companies are recorded on the effective date of the subscription or contribution, respectively, 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.

(b) *Forward foreign exchange contracts*

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro, GBP and NOK classes of redeemable preference shares to manage its exposure against changes in the US Dollar/Euro, US Dollar/GBP and US Dollar/NOK exchange rates. Forward foreign exchange contracts are recorded at 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 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 contracts relate (Notes 2(c) and 11).

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

(c) *Allocation of profits and losses*

The profit or loss of the Fund for each month, excluding realized and unrealized gains and losses on forward foreign exchange contracts used for hedging (Notes 2(b) and 11) and before management and incentive fees, is allocated at the end of each month between the US Dollar, Euro, GBP and NOK classes of redeemable preference shares (Note 6). The amount is allocated in proportion to the relative net assets of each class of redeemable preference shares on the first day of the month after adding subscriptions and deducting redemptions effective that day. All of the realized and unrealized gains and losses on forward foreign exchange contracts used for hedging are allocated to the appropriate class of redeemable preference shares. Management and incentive fees are calculated separately for each class of redeemable preference shares (Note 3).

(d) *Foreign currency transactions*

Foreign currency investments and balances that are monetary items, predominantly cash, 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) *Statement of cash flows*

A statement of cash flows has not been included in these financial statements as the Board of Directors believes that the required information is readily apparent from the information presented, in the financial statements.

(f) *Investment income and expenses*

Investment income and expenses are recognized on an accrual basis of accounting.

(g) *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 Manager (Note 9). If the amount and timing of such receipts can be estimated, they are accrued, otherwise rebate income is recorded on a cash basis.

(h) *Cash and cash equivalents*

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

(i) *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.

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

(j) *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 and Class A09 redeemable preference shares of the Fund and 1.5% per annum of the net assets attributable to the Class B and Class B09 redeemable preference shares of the Fund, calculated on a monthly basis and payable quarterly. For the year ended March 31, 2009, this management fee was \$522,915 (2008 - \$608,471), of which \$71,885 (2008 - \$185,081) was payable at March 31, 2009.

*Incentive fees*

The Class A and Class A09 redeemable preference 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 Class A and Class A09 redeemable preference 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 Class A or Class A09 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 such share there will be no incentive fee payable with respect to such share until the amount of the net loss previously allocated to the share has been recouped. Incentive fees are only paid when the net asset value of the shares increase above a previously established “high water mark” net asset value for those shares.

In the event of either a redemption being made at a date other than the end of a Performance Period or the Management Agreement being 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 Redemption Date, was the last day of such Performance Period. Once earned, the incentive fee will be retained by the Manager regardless of the Fund's future results.

The Class B and Class B09 redeemable preference shares also pay to the Manager an incentive fee of 10% of the net profits attributable to the Class B and Class B09 redeemable preference shares, calculated monthly and payable quarterly. Net profits are defined as the amount by which cumulative profits attributable to the Class B or Class B09 redeemable preference 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 the previous years, adjusted for redemptions. However, the net profit amount, upon which incentive 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 is retained by the Manager regardless of the Fund's future results.

For the year ended March 31, 2009, the incentive fee was \$nil (2008 - \$622,957), of which \$nil (2008 - \$nil) was payable at March 31, 2009.

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

*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 redeemable preference shares in the Fund. For the year ended March 31, 2009, load fees were \$82,280 (2008 - \$231,666), of which, \$5,658 (2008 - \$13,309) 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 administration 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 ten basis points of the Fund's net assets, calculated and payable monthly. 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, 2009, administration fees were \$60,262 (2008 - \$52,019), of which \$13,410 (2008 - \$13,902) was payable at March 31, 2009.

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

5. **Custodian fees**

Effective October 16, 2006, HSBC Institutional Trust Services (Bermuda) Limited (the "Custodian") acts as custodian to the Fund. Fees for custody services are charged at the higher of \$3,000 per annum or five basis points of the gross asset value of investments held in custody (calculated monthly). In addition, custody transaction fees are chargeable on individual transactions on a sliding scale depending on the market and type of security.

6. **Share capital**

The authorized share capital of the Fund is \$11,000, which is divided into 100 common shares of par value \$1 each and 10,900,000 redeemable preference shares (the "Shares"), issued in US Dollars, Euro, GBP and Norwegian Kroner for Class A and Class B of par value \$0.001 each. Effective March 2, 2009, the existing Class A and Class B shares were closed to new subscriptions. Two new classes of Shares, Class A09 and Class B09, are issued from February 2, 2009.

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 owned by the Manager. 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.

Redeemable preference 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 and Class A09 Shares may be redeemed with 10 business days written notice while Class B and B09 may be redeemed with 20 business days written notice, at their net asset value per share, subject to certain restrictions.

FMG (EU) Combo Fund, a fund also with the same manager as the Fund, held 31.80% (2008 - nil) of the EUR Class B redeemable preference shares.

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## FMG COMBO FUND LTD.

Notes to Financial Statements

March 31, 2009

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### 7. Fair value of financial instruments

The methods used to determine the fair value of investments in other investment companies and forward foreign exchange contracts are described in Notes 2(a) and 2(b). The fair values of the Fund's other assets and liabilities approximate their carrying amount due to their short term nature.

#### *Investment in FMG (EU) Africa Fund Ltd.*

The Fund has an investment in FMG (EU) Africa Fund Ltd. which has a fair value of \$1,405,312 at March 31, 2009, representing 8.63% of the net asset value of the Fund at that date. The sole investment held by FMG (EU) Africa Fund Ltd. is in FMG Africa Fund Ltd. ("FMG Africa"). The audit report of the financial statements of FMG Africa for the year ended March 31, 2009 includes a scope limitation due to the lack of audited financial statements or other information sufficient to provide a reliable estimate of the fair values of FMG Africa's investment in four underlying investment companies. At March 31, 2009, the fair value of the Fund's indirect exposure to the four underlying investments held by FMG Africa is \$851,746 (5.23% of net assets).

#### *Investment in FMG (EU) Rising 3 Fund Ltd.*

The Fund has an investment in FMG (EU) Rising 3 Fund Ltd. which has a fair value of \$1,319,608 at March 31, 2009, representing 8.10% of the net asset value of the Fund at that date. The sole investment held by FMG (EU) Rising 3 Fund Ltd is in FMG Rising 3 Fund Ltd. ("FMG Rising 3"), which in turn invests in FMG Russia Fund Ltd. and FMG China Fund Ltd. These funds, in turn, hold investments in underlying investment companies and an unquoted equity security whose fair values have been estimated by the manager of FMG Russia Fund Ltd. and FMG China Fund Ltd.

The audit reports of the financial statements of FMG Russia Fund Ltd. and FMG China Fund Ltd. for the year ended March 31, 2009 include a qualification regarding the explanations and information provided by the manager of those funds which are not considered to be sufficient to provide a reliable estimate of the fair values of the underlying investment companies and unquoted equity security held at March 31, 2009. The fair value of the Fund's indirect exposure to these underlying investments at March 31, 2009 is \$97,914 (0.60% of net assets).

#### *Investment in FMG Russia Fund Ltd.*

The Fund has an investment in FMG Russia Fund Ltd. ("FMG Russia") with a fair value of \$565,604 at March 31, 2009, representing 3.47% of the net asset value of the Fund at that date. At March 31, 2009 FMG Russia held two investments in other investment companies with a total estimated fair value of \$3,020,363, representing 15.19% of the net asset value of FMG Russia. The fair values of these investments at March 31, 2009 have been estimated by the manager of FMG Russia.

The audit report of the financial statements of FMG Russia for the year ended March 31, 2009 includes a qualification regarding the explanations and information provided by the manager of the fund which are not considered to be sufficient to provide a reliable estimate of the fair values of the underlying investment companies held at March 31, 2009. The fair value of the Fund's indirect exposure to these underlying investments at March 31, 2009 is \$85,837 (0.53% of net assets).

#### *Investment in FMG Special Opportunity Fund Ltd.*

The Fund has an investment in FMG Special Opportunity Fund Ltd. ("FMG SOF") which has a fair value of \$292,076 at March 31, 2009, representing 1.79% of the net asset value of the Fund at that date. At March 31, 2009 FMG SOF held three investments in other investment companies and an investment in unquoted equity securities with a total estimated fair value of \$2,662,197, representing 25.09% of the net asset value of FMG SOF. The fair value of the fund's investment in the other investment companies and unquoted equity securities at March 31, 2009 has been estimated by the manager of FMG SOF.

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

*Investment in FMG Special Opportunity Fund Ltd. (continued)*

The audit report of the financial statements of FMG SOF for the year ended March 31, 2009 includes a qualification regarding the explanations and information provided by the manager of the fund which are not considered to be sufficient to provide a reliable estimate of the fair values of the underlying investment companies and unquoted equity securities held at March 31, 2009. The fair value of the Fund's indirect exposure to these underlying investments at March 31, 2009 is \$54,587 (0.34% of net assets).

There is a significant amount of uncertainty as to the fair value of the investments held in FMG (EU) Africa Fund Ltd., FMG (EU) Rising 3 Fund Ltd., FMG Russia Fund Ltd. and FMG Special Opportunity Fund Ltd. at March 31, 2009. There could be significant differences between the realizable values of these investments upon their eventual sale and the fair value amounts estimated by the Manager at March 31, 2009, and such differences could be material to the Fund's financial statements.

8. **Overdraft facility**

The Fund has an overdraft facility in the amount of \$2,500,000 (2008 - \$500,000) with The Bank of Bermuda Limited (the "Bank"). Collateral for the overdraft facility is a fixed and floating charge over the investment portfolio and deposits held in the Fund's restricted account with the Bank. Aggregate drawings on the facility are limited to the lesser of \$2,500,000 (2008 - 500,000) or 10% of the net asset value of the Fund. Borrowings bear interest at LIBOR plus 1.5% per annum which is payable monthly. At March 31, 2009, the limit available on the overdraft facility was \$1,618,001 and the amount outstanding under this overdraft facility was \$nil (2008 - \$nil).

9. **Related party transactions**

For the year end March 31, 2009, rebate income was \$515,718 (2008 - \$1,166,497), of which \$68,129 (2008 - \$153,611) was receivable at March 31, 2009. As at March 31, 2009 and 2008, all of the Fund's investments were in other investment companies managed by the Manager.

10. **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.

11. **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.

(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 in other investment companies 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.

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

(a) *Liquidity risk* (continued)

The Schedule of Investments summarize the redemption frequencies of the Fund's investments in other investment companies at March 31, 2009.

The liabilities of the Fund are comprised of accrued expenses and redemptions payable and these are due within 3 months of the date of Statement of Assets and Liabilities

At March 31, 2009, there was no redemption restrictions on any of the investments in other investment companies held by the Fund.

(b) *Interest rate risk*

Interest rate risk arises when a fund 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. Borrowings obtained at variable rates (Note 8) expose the Fund to interest rate risk.

(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 and derivative transactions with a major bank of high quality credit standing. As the Fund invests in other investment companies, the Fund is exposed to the credit risk of each of those underlying funds. 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 bank or custodian may cause the Fund's rights to be delayed with respect to the cash and cash equivalents and securities held in the custodial relationship. The Manager monitors the credit quality and financial position of the bank and custodians and should it decline significantly, the Manager will move cash holdings and custodial relationships to another institution.

(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 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.

At March 31, 2009, if the price of the investments increased by 5%, this would have increased the net assets attributable to holders of redeemable preference shares by \$818,296 (2008 - \$1,786,881); an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable preference shares by an equal amount. Actual results will differ from this sensitivity analysis and the differences could be material.

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**FMG COMBO FUND LTD.**

Notes to Financial Statements

March 31, 2009

**11. Financial instruments and risk management (continued)***(e) Currency risk*

The Fund may invest in other investment companies 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:

	<u>Monetary Assets</u>	<u>Monetary Liabilities</u>	<u>Net assets attributable to non-USD share classes</u>	<u>Forward FX Contracts</u>	<u>Net Exposure</u>
March 31, 2009					
EUR	\$ 7,568,964	\$ -	\$ -	\$ (7,253,215)	\$ 315,749
EUR	-	(97,714)	(3,986,906)	3,928,665	(155,955)
NOK	-	(31,861)	(1,829,546)	1,790,789	(70,618)
GBP	-	-	(320,781)	322,938	2,157
	<u>\$ 7,568,964</u>	<u>\$ (129,575)</u>	<u>\$ (6,137,233)</u>	<u>\$ (1,210,823)</u>	<u>\$ 91,333</u>
March 31, 2008					
NOK	\$ 2,380,644	\$ -	\$ -	\$ -	\$ 2,380,644
GBP	52,572	-	-	-	52,572
EUR	-	-	(17,443,621)	18,516,496	1,072,875
NOK	-	-	(3,821,965)	3,748,847	(73,118)
GBP	-	-	(686,904)	821,672	134,768
	<u>\$ 2,433,216</u>	<u>\$ -</u>	<u>\$ (21,952,490)</u>	<u>\$ 23,087,015</u>	<u>\$ 3,567,741</u>

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 in to 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.

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 income statement. 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 income statement, but are allocated specifically to the non-USD denominated share classes to which the hedging activities, and resultant gains and losses, relate.

**FMG COMBO FUND LTD.**

Notes to Financial Statements

March 31, 2009

**11. Financial instruments and risk management (continued)***(e) Currency risk (continued)*

At March 31, 2009, had the US Dollar strengthened by 5% in relation to the other currencies, there would be an approximate net impact of \$(15,787) (2008 - \$(121,661)) on the Statement of Operations and net assets of the Fund arising from the change in the carrying value of monetary assets, net of the effect of hedging instruments. There would also be an approximate net impact of \$11,221 (2008 - \$(56,726)) 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 other currencies would have resulted in an approximate equal but opposite effect.

Actual results will differ from this sensitivity analysis and the difference could be material to the financial statements.

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

	<u>Currency to be bought</u>		<u>Currency to be sold</u>		<u>Contract due date</u>		<u>Fair value</u>	
	EUR 3,132,407		USD 3,928,665		April 2, 2009	\$	233,051	
	USD 7,253,215		EUR 5,783,141		April 2, 2009		(430,266)	
	NOK 13,019,929		USD 1,790,789		April 2, 2009		146,577	
	GBP 230,456		USD 322,938		April 2, 2009		<u>7,697</u>	
	Unrealized loss on open forward foreign exchange contracts						\$	<u>(42,941)</u>

At March 31, 2008, the Fund had the following open forward foreign exchange contracts:

	<u>Currency to be bought</u>		<u>Currency to be sold</u>		<u>Contract due date</u>		<u>Fair value</u>	
	EUR 12,169,095		USD 18,516,496		April 2, 2008	\$	694,855	
	NOK 19,437,772		USD 3,748,847		April 2, 2008		68,769	
	GBP 414,289		USD 821,672		April 2, 2008		<u>493</u>	
	Unrealized gain on open forward foreign exchange contracts						\$	<u>764,117</u>

**12. Subsequent events**

The Custodian Agreement with HSBC Institutional Trust Services (Bermuda) Limited was terminated effective August 31, 2009. Credit Suisse was subsequently appointed as Custodian.

**BOARD OF DIRECTORS**

James Keyes\*  
William Woods\*  
Peter Hughes\*

\*These Directors are independent  
non-executive directors as defined  
under ISE Listing Requirement  
and Procedure 2.20

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