Henderson Far East Income Limited

Report and Financial Statements for the year ended 31 August

2012

Objective

To seek to provide a high level of dividends as well as capital appreciation over the long term, from a diversified portfolio of investments traded on the Pacific, Australasian, Japanese and Indian stock markets ('the Asia Pacific region').

History

Henderson Far East Income Limited is a Jersey domiciled closed-end investment company which was incorporated in 2006 and is listed on the London and New Zealand Stock Exchanges. The Company has a conventional structure with a single class of ordinary shares in issue and pays quarterly dividends. The assets of Henderson Far East Income Trust plc were transferred to the Company in December 2006 to increase the amount of distributable income and to improve investment flexibility. The Board is wholly independent from the management company.

Contents

Financial Highlights

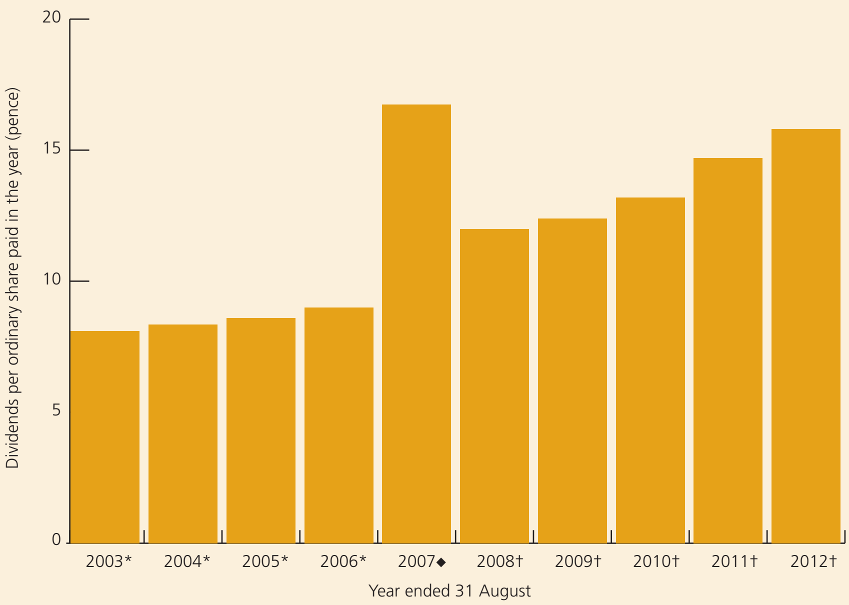
Per Ordinary Share	31 August 2012	31 August 2011	% change
Net asset value	**295.82p**	287.09p	3.0%
Market price	**290.13p**	294.50p	-1.5%
Total earnings	**24.50p**	5.74p	326.8%
Revenue earnings	**17.31p**	16.49p	5.0%

Performance
(12 months to 31 August)

	2012
Net asset value (total return)(1)	**8.8%**
Share price (total return)(2)	**4.0%**
FTSE All-World Asia Pacific ex Japan (£) (total return)(2)	**0.9%**

Sources: (1)AIC (2)Datastream

Dividend History



*Dividends paid by Henderson Far East Income Trust plc, the predecessor company.
◆Dividends paid by both companies in the year to 31 August 2007, including three interim dividends of 2.75p declared in the period 18 December 2006 to 31 August 2007 and a special dividend paid by the predecessor company.
†Dividends paid by the Company.

Directors

John Russell (Chairman) John has over 30 years' experience in investment banking. He was a member of the Australian Stock Exchange and a partner at Bain & Company. He has had 20 years' experience in London and New York as head of Bain's branches in those cities. In 1992 Bain was acquired by Deutsche Bank AG and John continued as senior director of Deutsche Bank Australia in Europe until the end of 1999. John was previously a director of Henderson Far East Income Trust plc.

David Mashiter David is currently managing director of Meridian Asset Management (C.I.) Limited. He is also a director of Northcross Capital Management Limited, Northcross Holdings Limited, RBC Regent Strategy Fund Limited and Broadwalk Select Services Fund Limited. He was formerly head of investment management with the Royal Trust Company of Canada in Jersey.

Simon Meredith Hardy Simon was formerly a partner at Wood Mackenzie & Co., stockbrokers and a director of Hill Samuel. He was subsequently a director of Natwest Securities, with responsibility for the Asia Pacific region. Simon was previously a director of Henderson Far East Income Trust plc and was chairman of Framlington Income & Capital Trust plc.

Richard Povey Richard has occupied a number of senior positions in Asia with the Swire Pacific Group, most recently being managing director of the Swire Pacific trading operations in Taiwan. He currently sits on the board of the Jersey Competition Regulatory Authority. He has been a non-executive director of a number of offshore investment companies.

David Staples David is a fellow Chartered Accountant and an associate of the Chartered Institute of Taxation, and for thirteen years until 2003 was a partner with PricewaterhouseCoopers. He is currently a non-executive director of HSBC Private Bank (C.I.) Limited, Gottex Fund Management Holdings Limited, a number of listed investment companies including MedicX Fund Limited of which he is Chairman and five private equity funds managed by Apax Partners.

All of the Directors are non-executive and are members of the Audit Committee, the Management Engagement Committee and the Nominations Committee. All of the Directors are independent of the Manager, and with the exception of David Staples who was appointed in January 2011, all the Directors were appointed to the Board in 2006, at the commencement of the Company.

Management

Michael Kerley

Sat Duhra

The portfolio is managed by Michael Kerley, supported by Sat Duhra.

The Company Secretary is BNP Paribas Securities Services Fund Administration Limited, represented by Jeremy Hamon.

Chairman's Statement

John Russell

I am pleased to report that despite the continuation of difficult market conditions our performance remains in positive territory. While it is disappointing that the strong dividend growth we expected at the beginning of the year did not materialise either from the region or the stocks we hold, we did benefit from some special dividends bolstering the Company's dividend revenue by 5%, which I am pleased to say was passed on to shareholders in the form of a 6.7% increase in the dividend.

Performance

In the year to 31 August 2012 the net asset value total return was 8.8% compared to 0.9% on the FTSE All-World Asia Pacific ex Japan Index (sterling adjusted) for the same period. The share price total return was 4.0% over the same period. Revenue earnings increased by 5.0% from 16.49p per share to 17.31p. While revenue growth has provided real benefits to shareholders the Company's NAV performance has lagged our two Asian income peers.

This has happened as a consequence of our manager's conviction to dedicate part of the portfolio to stocks with medium to long term dividend growth potential rather than to focus purely on yielding stocks with limited growth possibilities. Mike Kerley, the Portfolio Manager, believes that China offers significant opportunities in this regard. The Board recognises that the resulting overweight position in China has so far produced a more restrained NAV performance relative to our Asian income peers as investors have preferred to support companies that offer more certainty of immediate yield irrespective of value or opportunities for future dividend growth. As equity yield becomes increasingly more expensive Mike believes that a focus on value and dividend growth will provide superior capital returns in the years to come. The Board remains supportive of this strategy.

Revenue

A fourth interim dividend of 4.10p per share has been declared making a total of 16.00p for the year, an increase of 6.7% on last year. Revenue after tax remained strong and once again we have been able to add to revenue reserves. Your Board remains confident that it will be able to at least maintain the level of total dividend in the coming year.

Capital and gearing

As reported at the half year, the Company has entered into a £30 million multi-currency loan facility which enables it to borrow as and when appropriate. At the year end the amount drawn down stood at £21.4 million and net gearing was 5.1%.

In addition, your Board has continued with its policy of issuing shares when the opportunity arises. During the year 1,475,000 shares were issued for net proceeds of £4,257,000, all at a premium. The Board will continue with the policy of issuing shares which will result in a NAV enhancement for shareholders.

Asia

In May the Board spent a week in Thailand and Indonesia as part of its ongoing commitment to keeping abreast of regional developments. The region in which we invest is vast and change is constant. We observed jobs being moved from China, where wages are rising, to other Asian countries with lower wage rates and significant movement of Japanese production capacity to avoid the disadvantages of a very high Yen. These developments are having a significant social and economic impact across the region.

The other key driver we identified was the impact of rising expectations among the population. Indonesia is a case in point: 240 million people with a median age of 29 who expect a significantly better life than that of their parents. Consumption is rising rapidly but, unlike in 1998, increased living standards are not being fuelled by foreign debt but by domestic economic activity. The risk of borrowing internationally is firmly established in the minds of politicians and business people, a mindset that should be very comforting for investors. Thailand is another country undergoing significant change. The financial crisis of 1998 hit it very hard and since then considerable political and social adjustment has taken place. Politicians understand that the excessive centralisation of the country, whereby the residents of Bangkok accounting for 15% of the population, take 40% of national income is not conducive to economic progress. Regional development is now a priority and economic growth should be the beneficiary. In both countries there are of course further challenges to overcome. Cronyism, corruption and failure of infrastructure development to keep up with economic growth will need to be addressed.

We came away with a positive view of the outlook. The momentum of change is strong, the human and financial capital is present in abundance and the willingness to work hard is clear even to the casual observer.

Outlook

High levels of market volatility can be expected for quite some time yet. On a positive note political leaders in the West seem to have finally grasped the scale of the economic and social problems we are facing. It is to be hoped that this realisation will result in the formulation of a coordinated global approach. Gaining consensus and applying uniform policies will be extremely difficult to achieve but events will surely galvanise the political will to do so. From an investor point of view current difficulties do provide some opportunities. Portfolio history does demonstrate that investment in troubled and uncertain times often produces excellent and sustained returns in future years. This overall approach is valid for most markets but seems particularly appropriate in Asia where low valuations can be found and companies have excess cash, low levels of debt and significant scope to increase dividends.

Annual General Meeting

The Company's AGM will be held at 12 noon on Tuesday 18 December 2012 at Liberté House, 19-23 La Motte Street, Jersey, JE2 4SY and full details of the proposed resolutions are set out in the separate Notice of Meeting which has been issued with this report. As usual an open presentation to shareholders will be held at Henderson's offices in London the following day, Wednesday 19 December 2012, at 11.00am where Mike Kerley will make an investment presentation and he and I will be happy to answer questions. If you would like to attend please complete and return the invitation card enclosed with this report.

John Russell
Chairman
12 November 2012

Manager's Report

Michael Kerley

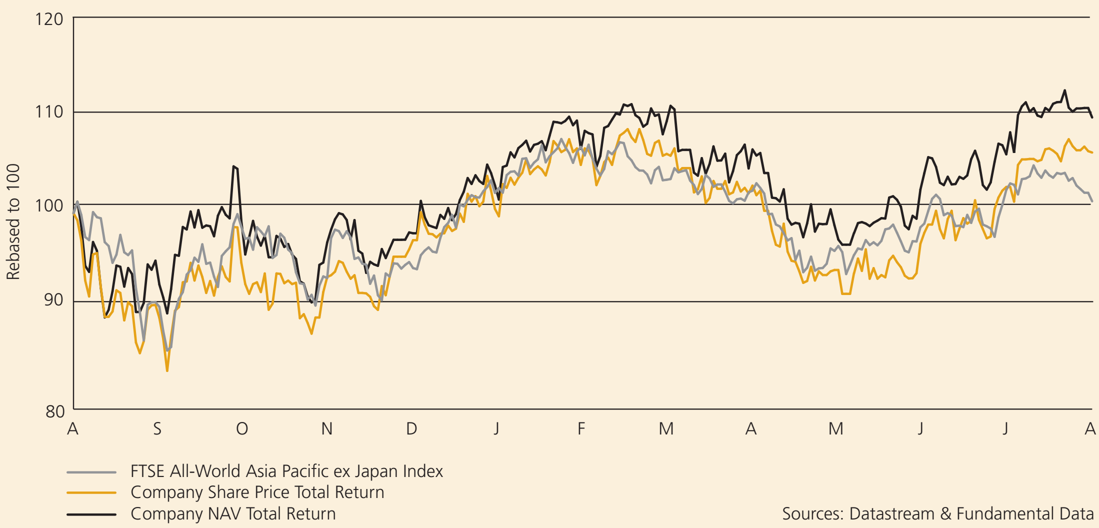
In the year under review Asian markets as measured by the FTSE All-World Asia Pacific ex Japan Index rose 0.9% in sterling terms on a total return basis. This lacklustre figure disguises the volatility that produced sharp moves both up and down throughout the year, but the end result is ultimately an accurate reflection of the stop – start nature of market drivers and the lack of conviction that investors have in the outlook for both the markets and the global economy.

The first half of the Company's financial year ended on a high as the markets rallied following the European Central Bank's ('ECB') massive injection of liquidity through the Long Term Refinancing Operation ('LTRO') initiative. Unfortunately 28 February 2012 marked the peak for the year under review and although markets traded sideways for a couple of months, uncertainty surrounding the Greek election in early May, sent equities sharply lower. The months that followed were characterised by rallies and setbacks but markets moved higher as weak economic data from both the US and Europe was offset by the expectation of further intervention from the US Federal Reserve and the European Central Bank. Global equities were rewarded in September 2012 when the ECB, The Bank of Japan and the Federal Reserve announced significant bond buyback programs and at the time of writing the markets have reacted positively to these events.

From an economic standpoint, Asian economies continue to perform better than their western counterparts although the moribund economic environment in the US and Europe has resulted in weaker sequential GDP growth in all countries with the exception of Indonesia and Malaysia. The cyclical economies of Taiwan and Korea and the city states of Singapore and Hong Kong have fared worst with all four posting GDP growth of below 2.5% in the second quarter of 2012 and in the case of Taiwan -0.2% for the same period. The trajectory of growth in China and India continues to slow. The former posted 7.6% year on year GDP growth in the second quarter of 2012 which apart from the global financial crisis was the lowest level for 10 years. India continues to struggle with inflationary pressure and high interest rates which has slowed growth to a little over 5%.

With a backdrop of slowing growth it is no surprise that earnings expectations have also been lowered. At the start of 2012 analysts were expecting earnings growth in the low teens for the full year but this was revised down to around 9% at

Company and Index returns (sterling adjusted) – year to 31 August 2012



Sources: Datastream & Fundamental Data

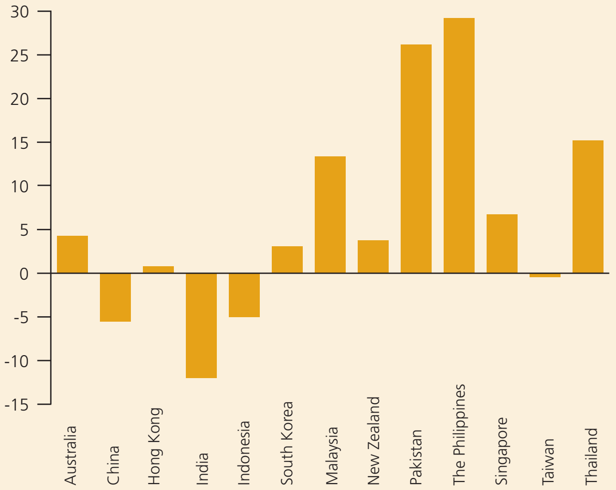
Manager's Report

continued

the half year stage and may finish the year in the 5-8% range. The significant downgrades have been confined to cyclical sectors with commodities and materials being particularly hard hit. Elsewhere, earnings have been resilient and although companies are not overly optimistic about the immediate future due to lack of visibility, there is a quiet confidence about the opportunities that could arise in the next few years.

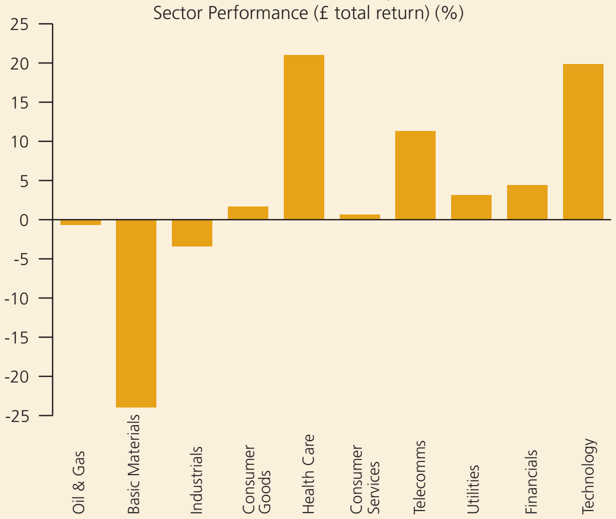
Although it has been a generally quiet period for politics in the region, the scandal involving Chinese Politburo member Bo Xilai provided an insight into the workings of the communist party and exposed the tensions that exist within it. The leadership transition in November will be closely watched to ensure that unity has been restored. Elsewhere in the region, elections are due in Indonesia and Malaysia in the last quarter

FTSE All-World Asia Pacific ex Japan Index – Country Performance (£ total return) (%)



Source: Factset

FTSE All-World Asia Pacific ex Japan Index – Sector Performance (£ total return) (%)



Source: Factset

of 2012 leading to some posturing in recent months as candidates jostle for popularity.

Although momentum across the region has slowed, the economic fundamentals remain sound which again makes it disappointing to report the underperformance of the Asian indices compared to those of the US, UK and Europe.

Performance

The popularity of yielding assets in a low interest rate environment helped the portfolio to comfortably outperform the FTSE All-World Asia Pacific ex Japan index in sterling terms. Stock selection was the greatest contributor to outperformance with companies such as Advanced Information Services in Thailand, CTCI Corporation in Taiwan, UMW Holdings in Malaysia and Fraser & Neave in Singapore all posting significant gains. Our overweight positions in Thailand and the telecoms sector were supportive, while our lack of exposure to materials, which fell by over 20%, also helped.

The performance of China was again disappointing as the slowing economy weighed heavily on investor sentiment. Despite this our China portfolio outperformed the local and regional index, adding value on a relative basis, but the returns still lagged behind those of other countries in the portfolio.

The best performing markets were The Philippines, Thailand and Malaysia which benefited from a heavy bias towards domestically focused sectors while India, China and Taiwan were the laggards. The focus on defensiveness was borne out by the strong returns in healthcare, telecommunications and utilities sectors while energy and industrials joined materials in the worst performers' list. The technology sector was surprisingly strong, although most of this was down to the performance of index weight Samsung Electronics, rather than to a broader trend.

Strategy

The portfolio retains a focus on domestically oriented industries and away from global cyclicals. Around 85% of the portfolio is exposed directly or indirectly to consumption in the Asia Pacific region and this has remained broadly unchanged throughout the year. Although we have marginally increased our weighting in materials over the period with a new position in Asia Cement we remain only lightly weighted in energy, technology and other global cyclicals.

Telecommunications remains the largest sector but following

Manager's Report
continued

the recent outperformance we have become more selective. The desire for yield has pushed some valuations in this sector to unsustainable levels especially in the more mature markets of Singapore, Taiwan and Malaysia. We have sold positions in Singapore Telecom and Chunghwa Telecom and reduced exposure to Telstra in favour of some more emerging market exposure through China Mobile and Telekom Indonesia. We also now favour Telecom Corporation of New Zealand to Telstra and while we retain a position in the latter we have trimmed this position to add the former owing to cheaper valuations and a more sustainable yield outlook.

The weightings in banks has also reduced through the sales of Mizuho in Japan, ICBC in China and Yuanta Financial in Taiwan although overall financials exposure remains broadly the same as we have added Australian insurer Suncorp and increased our exposure to property through the addition of Wharf Holdings and Cheung Kong in Hong Kong and Guangzhou R & F Properties in China. The increase in real estate exposure reflects our more positive view on the sector. Interest rates are likely to remain low for some considerable time and with economies slowing and inflation benign we expect government policy in Asia to be more accommodating in 2012 and 2013 than we have seen in previous years.

Other notable additions to the portfolio were Taiwan technology company Asustek, Chinese clothing manufacturer Bosideng and Singapore airport services company SATS. All of these companies offer compelling valuations, high yields and have sustainable or growing market positions in their relative industries.

In August we drew down £20m of the one year £30m loan facility which we entered into in the spring and we ended the financial year with 5.1% net gearing. The decision was based purely on the availability of attractive investment opportunities and we used this facility to add Asustek, Suncorp, SATS and Bosideng to the portfolio. The facility has been drawn down in US dollars which is a natural hedge against our HK dollar holdings as the HK dollar and the US dollar are pegged.

Revenue

With earnings slowing across the region we have not witnessed the strong dividend growth we expected at the beginning of the year either from the region or to a lesser extent from the stocks we own in the portfolio. Despite this we have benefited from some special dividends which have bolstered the Company's revenue and resulted in an increase in revenue per share by 5% over 2011.

Revenue derived from option writing increased from the previous year and accounted for 10.6% of the Company's total income. Although overall market volatility has fallen the opportunities to derive revenue from the selective use of options remains appealing and will allow us to once again add a significant amount to the revenue reserve.

Looking forward we are still confident that Asia and the portfolio in particular has the ability to significantly grow dividends over time. Companies have excess cash, low levels of debt and payout ratios (the percentage of net profit paid out as dividend) are at historically low levels. With a more stable earnings outlook we would expect that these factors will allow greater dividend payouts in the future.

Outlook

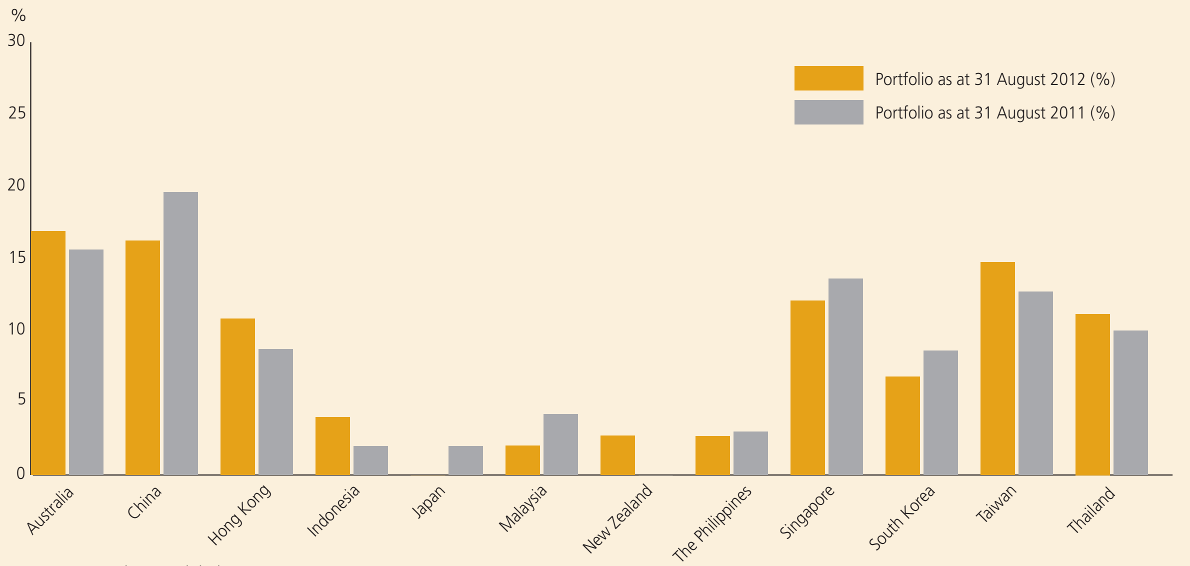
We remain positive on the long-term outlook for Asia Pacific markets. The economic fundamentals are generally favourable and valuations are attractive both relative to their own history and especially fixed interest. Despite this we expect that returns in the short term will continue to be dominated by news flow from Europe and the strength of both the US and Chinese economies.

We will continue to retain our focus on domestically oriented companies both in terms of new investment opportunities and adding to existing holdings.

Michael Kerley
Portfolio Manager
12 November 2012

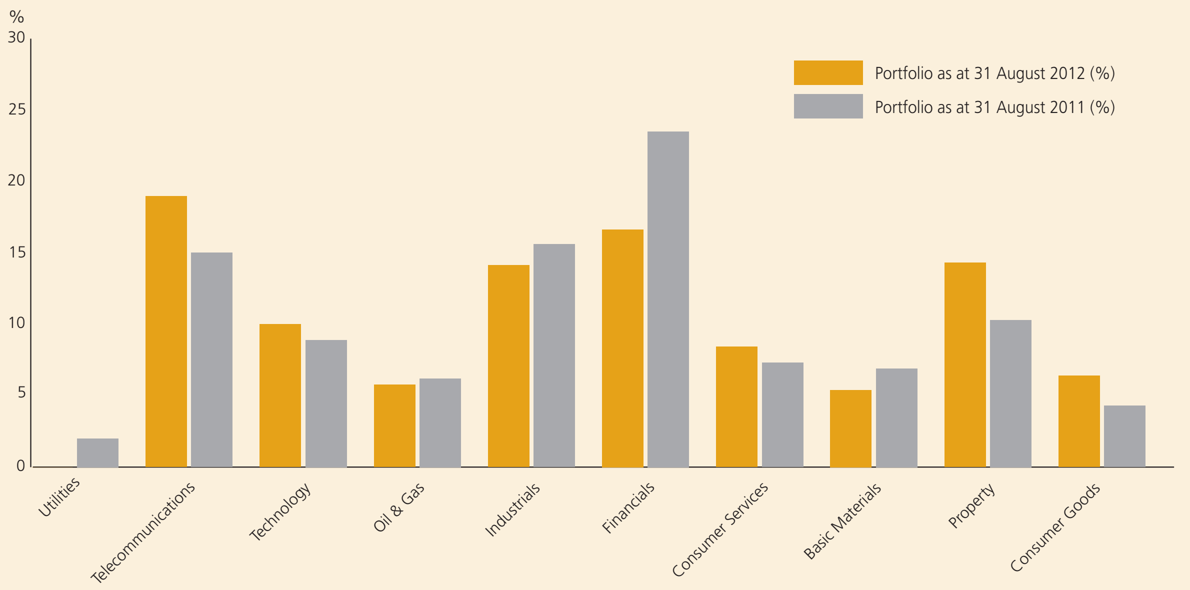
Manager's Report
continued

Geographical Analysis



Source: Henderson Global Investors

Sector Analysis



Source: Henderson Global Investors

Investment Portfolio

as at 31 August 2012

Rank 2012	Rank 2011	Company	Country	Sector	Value £'000	%
1	–	**Asustek Computer(*)**	Taiwan	Technology	9,836	3.16

The fifth largest global PC manufacturer with 7% market share. Shipments grew 38.6% in the second quarter of 2012 from a year earlier, outperforming massively the market as a whole. Valuations are attractive with a dividend yield of 5%.

2	26	**Digital China Holdings**	China	Technology	9,664	3.10

The company distributes technology products in China for all the world's leading brands. Diversification into services and software will sustain growth as PC penetration rises and will improve margins and profitability over time.

3	–	**Suncorp**	Australia	Financials	9,421	3.02

One of the leading general insurance, banking, life insurance, superannuation and investment brands in Australia. It is a top 25 Australian Stock Exchange listed company with over A$95 billion in assets. Valuations are attractive and the company has a dividend yield in excess of 6%.

4	15	**Tabcorp Holdings**	Australia	Consumer Services	9,363	3.01

A gambling and entertainment group involved in a combination of wagering, gaming, hospitality and media activities across Australia. This highly cash flow generative business provides a sustainable dividend in excess of 7%.

5	–	**Charoen Pokphand Food**	Thailand	Consumer Goods	8,825	2.83

One of the largest value added food producers in the world incorporating feed production, farming and processed foods. The company is based in Thailand but has manufacturing facilities in China and throughout South East Asia.

6	–	**Telecom Corporation of New Zealand**	New Zealand	Telecommunications	8,489	2.72

New Zealand's largest telecommunications and IT service provider by revenue, customers and assets, providing fixed, mobile and IT products and services to consumer and small, medium and large corporates.

7	12	**Advanced Information Services**	Thailand	Telecommunications	8,432	2.71

The leading provider of mobile telecommunications in Thailand with 54% revenue market share. The company has 33.5 million subscribers and is the main beneficiary of increased data and value added service usage as smartphone penetration rises.

8	3	**Philippine Long Distance Telephone(†)**	The Philippines	Telecommunications	8,416	2.70

Through its three main business groups: fixed line, wireless and information communication technology, the company offers the largest and most diversified telecommunications services across The Philippines.

9	–	**Telekomunikasi Indonesia**	Indonesia	Telecommunications	7,803	2.50

The company is majority owned by the state and is the largest provider of fixed and mobile telecommunication services in Indonesia. At the end of 2011 the company had 107 million cellular subscribers and 10.5 million broadband customers.

10	10	**Ascendas Real Estate**	Singapore	Property	7,785	2.50

Ascendas REIT is a property trust with a diverse portfolio of income producing business and industrial parks in Singapore. The company has a high quality client base and benefits from rising rents and strong demand due to Singapore's leading position as the trading hub for South East Asia.

Top Ten Investments	**88,034**	**28.25**

The Top Ten Investments by value account for 28.25% of the total investments (2011:£76,741,000 or 27.19%).

Investment Portfolio
continued

Rank 2012	Rank 2011	Company	Country	Sector	Value £'000	%
11	6	Link REIT	Hong Kong	Property	7,710	2.48
12	29	NWS Holdings	Hong Kong	Industrials	7,408	2.38
13	–	Commonwealth Bank of Australia	Australia	Financials	7,363	2.36
14	19	Capitamall Trust REIT	Singapore	Property	7,270	2.33
15	35	Shanghai Industrial	China	Industrials	7,101	2.28
16	4	Amcor	Australia	Industrials	7,053	2.26
17	2	Telstra Corporation	Australia	Telecommunications	7,036	2.26
18	–	Cheung Kong Holdings	Hong Kong	Property	6,799	2.18
19	18	Taiwan Semiconductor Manufacturing(†)	Taiwan	Technology	6,798	2.18
20	28	DBS Group	Singapore	Financials	6,678	2.15
Top Twenty Investments					**159,250**	**51.11**

Rank 2012	Rank 2011	Company	Country	Sector	Value £'000	%
21	17	Television Broadcasts	Hong Kong	Consumer Services	6,560	2.10
22	32	Krung Thai Bank	Thailand	Financials	6,504	2.09
23	–	Mega Financial(*)	Taiwan	Financials	6,503	2.09
24	–	China Mobile	China	Telecommunications	6,371	2.04
25	30	UMW Holdings	Malaysia	Consumer Goods	6,330	2.03
26	–	SK Telecom(†)	South Korea	Telecommunications	6,320	2.03
27	9	Jiangsu Expressway	China	Industrials	6,284	2.02
28	31	PTT Public Company	Thailand	Oil & Gas	6,246	2.00
29	–	Taiwan Mobile	Taiwan	Telecommunications	6,230	2.00
30	13	CTCI Corporation	Taiwan	Industrials	6,073	1.95
Top Thirty Investments					**222,671**	**71.46**

Investment Portfolio

continued

Rank 2012	Rank 2011	Company	Country	Sector	Value £'000	%
31	22	Santos	Australia	Oil & Gas	5,973	1.92
32	16	Fraser & Neave	Singapore	Industrials	5,884	1.89
33	–	Bank of China	China	Financials	5,881	1.89
34	5	Incitec Pivot	Australia	Basic Materials	5,864	1.88
35	–	Sembcorp Marine	Singapore	Oil & Gas	5,827	1.87
36	1	Korean Reinsurance	South Korea	Financials	5,629	1.80
37	–	Asia Cement	Taiwan	Basic Materials	5,547	1.78
38	7	Kangwon Land	South Korea	Consumer Services	5,458	1.75
39	–	Wharf Holdings	Hong Kong	Property	5,258	1.69
40	40	Guangzhou R & F Properties(*)	China	Property	4,951	1.59
Top Forty Investments					**278,943**	**89.52**

Rank 2012	Rank 2011	Company	Country	Sector	Value £'000	%
41	–	Catcher Technology	Taiwan	Industrials	4,893	1.57
42	–	MGM China	China	Consumer Services	4,887	1.57
43	–	Bosideng International Holdings	China	Consumer Goods	4,761	1.53
44	43	LPN Development	Thailand	Property	4,759	1.53
45	–	Indo Tambangraya Megah	Indonesia	Basic Materials	4,688	1.50
46	–	SATS	Singapore	Industrials	4,194	1.35
47	45	Macquarie Korea Infrastructure Fund	South Korea	Financials	3,988	1.28
48	44	China Forestry Holdings	China	Basic Materials	746	0.24
49	–	Sands China Oct 12 Put 21.624185 (Expiry 11/10/2012)	China	Derivatives	(16)	(0.01)
50	–	Santos Nov 12 Put 10.2201 (Expiry 01/11/2012)	Australia	Derivatives	(48)	(0.02)
Top Fifty Investments					**311,795**	**100.06**
51	–	Lenovo Group Oct 12 Put 5.3595 (Expiry 17/10/2012)	China	Derivatives	(70)	(0.02)
52	–	Korean Reinsurance Nov 12 Put10220.7 (Expiry 07/11/2012)	South Korea	Derivatives	(120)	(0.04)
Total Investments					**311,605**	**100.00**

(*)Structured products (†)American Depositary Receipts

Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year ended 31 August 2012. The Company commenced trading on the London and New Zealand Stock Exchanges in December 2006.

Business Review

The following business review seeks primarily to provide information about the Company's business, its principal risks and uncertainties and its results for the year ended 31 August 2012. It should be read in conjunction with the Chairman's Statement on page 3 and the Manager's Report on pages 4 to 7 which give a detailed review of the investment activities for the year and an outlook for the future.

a) Status

The Company is registered with limited liability in Jersey as a closed-end investment company under the Companies (Jersey) Law 1991 with registered number 95064. In addition, the Company constitutes and is certified as a collective investment fund under the Collective Investment Funds (Jersey) Law 1988. The Company has obtained a Fund Certificate under Article 7 of the Jersey Funds Law from the Jersey Financial Services Commission to operate as a Certified Fund within the Island of Jersey.

The Company is a member of the Association of Investment Companies ('AIC').

The Company intends to continue to manage its affairs so that its investments fully qualify for a stocks and shares component of an Individual Savings Account ('ISA').

b) Investment objective and policy

The Company seeks to provide investors with a high level of dividends as well as capital appreciation over the long term, from a diversified portfolio of investments traded on the Pacific, Australasian, Japanese and Indian stock markets.

Derivatives may be used for efficient portfolio management purposes, which may include the enhancement of income and the protection of the portfolio from undue risks.

The Company does not have a fixed life.

Investments are made in a diversified portfolio of securities (including debt securities) issued by companies listed on stock exchanges in, or which are based in or whose business activities are concentrated on, the Asia Pacific region or by governments in the Asia Pacific region. Investment is primarily in listed equities, but also includes preference shares, debt, convertible securities, warrants and other equity related securities including unlisted securities which are expected to list, and investment in collective investment schemes.

The Company may invest in derivatives and other instruments to protect the value of the portfolio and to reduce costs. Borrowings are permitted to employ leverage to achieve the investment objectives.

The portfolio is constructed without reference to the composition of any stockmarket index or benchmark.

The Company intends to continue to pay dividends on a quarterly basis each year. The Company holds stocks in 11 countries across the region, and no single country represents more than 20% of the portfolio. The Company invested in New Zealand for the first time during the year.

c) Financial Review

Results for the year

Total net assets at 31 August 2012 amounted to £300,500,000 (2011: £287,389,000) and the net asset value per ordinary share was 295.82p (2011: 287.09p).

At 31 August 2012 there were 52 (2011: 52) separate investments, as detailed in the Investment Portfolio on pages 8 to 10 and the Manager's Report on pages 4 to 7.

Net revenue after taxation for the year was £17,495,000 (2011: £16,303,000). Total return was £24,767,000 (2011: £5,676,000).

Ongoing charges

Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges and gains or losses arising on investments. Ongoing charges are based on actual costs incurred in the year as being the best estimate of future costs. The Board reviews the ongoing charges and monitors the expenses incurred by the Company.

The Company previously disclosed a Total Expense Ratio; under recommendation of the AIC the terminology and methodology has been changed to ensure consistency of approach and calculation across the investment company sector and UCITS funds.

For the year ended 31 August 2012 the ongoing charge was 1.21% (2011: 1.21%).

Dividends

The Company pays dividends to the extent that they are covered by income received from underlying investments, and the Company intends to distribute substantially all of its income profits arising in each accounting period.

Report of the Directors

continued

During the year under review the Company paid a fourth interim dividend of 3.90p per share in respect of the year ended 31 August 2011, and two interim dividends each of 3.90p per share and one of 4.10p for the year ended 31 August 2012. A fourth interim dividend of 4.10p per share will be paid on 30 November 2012, to shareholders on the register of members on 9 November 2012. The shares were quoted ex-dividend on 7 November 2012.

Payment of Creditors
It remains the payment policy of the Company for the financial year to 31 August 2013 to obtain the best possible terms for all business and, therefore, there is no single policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors as at 31 August 2012 (2011: none).

Bank Facilities and Gearing
Since February 2012 the Company has had in place a one year revolving multi-currency loan facility which enables it to borrow as and when appropriate. The maximum amount drawn down under the period was £21.4 million, with borrowing costs including interest for the year totalling £134,000. Net gearing (defined as bank loans less cash as a percentage of net assets) at 31 August was 5.1% of net asset value (2011: nil) .

Future developments
While the future performance of the Company will depend to some degree on macro-economic factors and on the performance of international financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined earlier. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement (on page 3) and the Manager's Report (on pages 4 to 7).

Statement of Going Concern
The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Company consist mainly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. In reviewing the position as at the date of this report, the Board has considered the going concern and liquidity risk: 'Guidance for Directors of UK Companies 2009' issued by the Financial Reporting Council in October 2009.

d) Performance measurement and key performance indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of the Manager, the Directors take into account the following key performance indicators:

- *Returns and net asset value*
  The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value, income and share price for the Company. The Company does not have a formal benchmark. It uses the FTSE All-World Asia Pacific ex Japan Index (sterling adjusted) for comparison purposes only.
- *Discount/premium to net asset value ('NAV')*
  At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium for the Company's relevant AIC sector. The Company publishes a NAV per share figure on a daily basis through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula and includes current financial year revenue; on the same basis as that calculated for the financial statements. The NAV excluding current financial year revenue is also published for historical cost comparison.
- *Yield*
  At each Board meeting, the Directors examine the revenue forecast and consider the yield on the portfolio and the amount available for distribution.
- *Performance against other Asian funds*
  The Board considers the performance of other Asian funds, particularly income funds, at each Board meeting.

e) Management, administration, custody and registration arrangements

Investment management services are provided to the Company by wholly owned subsidiary companies of Henderson Group plc ('Henderson') under a management agreement.

Until 31 December 2009 the management fee was calculated and paid quarterly in arrears at the rate of 1.0% per annum of the average value of the Company's assets under management on the last day of each of the two calendar years preceding the calculation date in respect of which the charge is determined. When the Company raised additional money by issuing shares, a supplemental fee was payable calculated at 1.0% of the amount raised net of expenses. From 1 January 2010 the fee was amended to a quarterly management charge equal to 0.25% of the total value of net assets under management on 31 March, 30 June, 30 September and 31 December in each year.

The management agreement may be terminated by either party, but in certain events the Company would be required to pay compensation to Henderson of twelve months' management charges. No compensation is payable if notice of termination of more than twelve months is given.

Report of the Directors

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During the year the Manager used certain services provided by or paid for by various brokers. In return it placed business, which may have included transactions relating to the Company, with these brokers.

Administration services and the services of the Company Secretary are provided to the Company by BNP Paribas Securities Services Fund Administration Limited ('BNPP'). Global Custodian services are provided by JPMorgan Chase Bank N.A. and registrar services by Computershare Investor Services (Jersey) Limited.

f) Related party transactions

The contracts with Henderson and BNPP are the only related party arrangements currently in place. Other than fees payable in the ordinary course of business, there have been no material transactions with these related parties which have affected the financial position or performance of the Company in the financial year.

g) Principal risks and uncertainties

The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions appropriate to the Company's investment objective and policy, in order to mitigate risks as far as practicable. The principal risks which have been identified and the steps taken by the Board to mitigate these are as follows:

- *Investment and Strategy*
  An inappropriate investment strategy, for example, in terms of asset allocation or level of gearing, may result in under performance against the companies in the peer group, and also in the Company's shares trading on a wider discount. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Portfolio Manager operates in accordance with an investment limits and restrictions policy determined by the Board, which includes limits on the extent to which borrowings may be employed. The Board reviews the limits and restrictions on a regular basis and the Manager confirms adherence to them every month. The Manager provides the Board with management information, including performance data and reports and shareholder analyses. The Directors monitor the implementation and results of the investment process with the Portfolio Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.
- *Market*
  Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in Note 13 on pages 35 to 41.
- *Accounting, legal and regulatory*
  The Company is regulated by the Jersey Financial Services Commission and complies with the regulatory requirements in Jersey. The Company must comply with the provisions of the Companies (Jersey) Law 1991 and since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure Rules. The Company must also ensure compliance with the listing rules of the New Zealand Stock Exchange. A breach of company law could result in the Company and/or the Directors being fined or the subject of criminal proceedings and financial and reputational damage. A breach of the UKLA Rules could result in the suspension of the Company's shares. The Board relies on its Company Secretary and advisers to ensure adherence to company law and UKLA and New Zealand Stock Exchange Rules.
- *Operational*
  Disruption to, or the failure of, the Manager's or the Administrator's accounting, dealing, or payment systems or the Custodian's records could prevent the accurate reporting or monitoring of the Company's financial position. The Administrator, BNPP, sub-contracts some of the operational functions (principally relating to trade processing, investment administration and accounting) to BNP Paribas Securities Services. Details of how the Board monitors the services provided by the Manager and other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal control section of this report.
- *Financial*
  The financial risks faced by the Company include market risk (market price risk, interest rate risk and currency risk), liquidity risk and credit risk. Further details are disclosed in Note 13 on pages 35 to 41. Additional disclosures are provided in accordance with IFRS 7: Financial Instruments: Disclosures.

Corporate Governance Statement

a) Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. Paragraph 7.2 of the Disclosure and Transparency Rules of the UK Listing Authority requires all listed companies to publish a corporate governance statement, while paragraph 9.8.6 of the Listing Rules requires all listed companies to disclose how they have applied the principles and complied with the provision of the UK Corporate Governance Code (The 'Code'). As an investment company, most of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and the Directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

The Financial Reporting Council (the 'FRC') confirmed on 30 September 2010 that it remained the view of the FRC that

Report of the Directors
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by following the Corporate Governance Guide for Investment Companies produced by the Association of Investment Companies (the 'AIC Guide') published in 2010, boards of investment companies should fully meet their obligations in relation to the Code and paragraph 9.8.6 of the Listing Rules. The AIC Code of Corporate Governance (the 'AIC Code') published in October 2010, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The Board of Henderson Far East Income believes that reporting against the AIC Code by reference to the AIC Guide will provide the most appropriate information to shareholders and has therefore followed the principles and recommendations set out in the AIC Code. Copies of the AIC Code and the AIC Guide can be found on www.theaic.co.uk

The AIC Code was enhanced for Jersey companies in March 2009 to include a statement of support from the Jersey Financial Services Commission and further revised in 2010.

New Zealand listing
It should be noted that the UK Corporate Governance Code may materially differ from the New Zealand Stock Exchange's corporate governance rules and principles of the Corporate Best Practice Code.

The Company is not however required to comply with the New Zealand Stock Exchange Corporate Governance Rules and Procedures, so long as it complies with the London Stock Exchange Listing Rules.

b) Statement of compliance
The AIC Code comprises 21 principles. The Directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to the Company's business, and with the provisions of the Code except as noted below.

The Code includes provisions relating to:

- The role of the Chief Executive
- The appointment of a Senior Independent Director
- Executive directors' remuneration
- The need for an internal audit function.

As the Company delegates to third parties its day-to-day operations and has no employees, the Board does not consider these provisions to be relevant to the Company and has not reported further in respect of these provisions.

The Directors believe that this Report and Financial Statements present a balanced and understandable assessment of the Company's position and prospects.

c) Directors
The names and biographies of the Directors holding office at the date of this report are listed on page 2.

The Articles of Association require that all Directors submit themselves for election by shareholders at the first opportunity following their appointment and shall not remain in office longer than three years since their last election or re-election without submitting themselves for re-election. The Articles of Association provide that one third of the Directors retire by rotation each year. John Russell and Richard Povey offer themselves for re-election at the forthcoming AGM, having previously been re-elected in 2009. The Board considers that there is a balance of skills and experience within the Board and each of the Directors contributes effectively.

No Director has a service contract with the Company and there are no agreements between the Company and the Directors concerning compensation for loss of office.

Board independence and tenure policy
The performance of the Board is assessed annually on a self assessment basis led by the Chairman and following the principles outlined by the AIC. In particular the following areas are assessed:

- Size of the Board;
- The relevant expertise and composition of the Board;
- The performance of individual directors and the Board as a whole;
- The independence of the Directors and the Board as a whole;
- The training and development needs of each Director; and
- The frequency and effectiveness of Board meetings.

Training and development for Directors includes all aspects of the business, and incorporates such matters as environmental, social and governance issues as they affect the Company. As part of this assessment, the performance of the Chairman was assessed by the Board, with the review led by Mr Meredith Hardy. Following the review, the Board are satisfied with their performance, consider that the structure of the Board is appropriate and that there are no areas where a significant lack of expertise or experience exists.

As part of the annual assessment of the Board, the independence of each of the Directors has been reviewed in accordance with the guidelines in the AIC Code. As part of its policy, the Board does not consider that length of service will necessarily compromise the independence or effectiveness of the Directors and as such no limit has been placed on the

Report of the Directors

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overall length of service. Rather the Board considers that such continuity and experience can be of significant benefit to the Company and its shareholders. However, in accordance with best practice, the Board has determined as part of its policy that any director who has served for more than nine years will be required to stand for re-election on an annual basis.

Each Director is considered to be independent in character and judgment in general, and specifically of the Investment Manager.

The Board currently consists of five non-executive directors. All are independent of the Company's Manager. A senior non-executive Director has not been identified as the Board considers that all directors have different qualities and areas of expertise on which they may lead when issues arise and to whom concerns may be conveyed.

The Directors are conscious of the need to maintain continuity of the Board, particularly given the cyclical nature and remoteness of the Company's markets. The Board believes that retaining directors with sufficient experience of both the Company and its markets is of great benefit to shareholders. The Board believes that each of the Directors exercises independent judgement and that length of service does not diminish the contribution from a Director. Their biographies, set out on page 2, demonstrate a breadth of investment, commercial and professional experience with an international perspective.

The Directors consider that there are no factors which compromise the Directors' independence and that they all contribute to the affairs of the Company in an independent manner.

John Russell and Richard Povey offer themselves for re-election in accordance with the Articles of Association. John Russell and Richard Povey continue to provide a valuable and beneficial contribution to the Company and their experience complements the attributes of the other Directors. Accordingly, the Board supports their nomination for re-election.

Directors' conflicts of interest

The Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with a company's interests. The Codes of Practice for Certified Funds introduced in Jersey in April 2012 require that a Fund must avoid conflicts of interest arising with its fund service providers or any of their associates. Where such a conflict does arise (and disclosure of the nature of such conflict has not previously been made to shareholders), the Fund must address such conflict through internal rules of confidentiality, or by declining to act, or by disclosing the nature of the conflicts to shareholders.

Each of the Directors has provided a statement of all interests, if any, applicable to the Company. A register of conflicts of interest has been compiled and approved by the Board. The Directors have also undertaken to notify the Company Secretary as soon as they become aware of any new potential conflicts of interest that would need to be approved by the Board and added to the register, which will be reviewed quarterly by the Board.

It has also been agreed that Directors will advise the Chairman and the Company Secretary in advance of any proposed external appointment and new Directors will be asked to submit a list of potential situations falling within the conflicts of interest provisions of the Codes of Practice for Certified Funds in advance of joining the Board. Only Directors who have no material interest in the matter being considered will be able to participate in the Board approval process. In deciding whether to approve an individual Director's participation, the other Directors will act in a way they consider, to be in good faith in assessing the materiality of the conflict in accordance with the Company's Articles of Association.

The Board believes that its powers of authorisation of conflicts of interest have operated effectively. The Board also confirms that its procedure for the approval of conflicts of interest have been followed by the Directors.

Directors' Remuneration

A report on Directors' Remuneration is on page 21.

Directors' interests in shares

The Directors and their beneficial interests in the shares of the Company at the start and end of the financial year are stated below:

Ordinary Shares of no par value	**31 August 2012**	1 September 2011
John Russell (Chairman)	30,000	30,000
David Mashiter	5,000	5,000
Simon Meredith Hardy	15,000	15,000
Richard Povey	5,000	5,000
David Staples	10,300	7,000

There have been no changes in the interests of the Directors since the year end.

Directors' professional development

Training seminars held by the Manager are offered to newly appointed Directors. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes in Directors' responsibilities are advised to the Board as they arise and each Director's individual training requirements are considered by the Chairman as part of an

Report of the Directors

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annual appraisal. Directors also regularly participate in relevant training and industry seminars.

Directors' Indemnity

Directors' and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgment is given in their favour by the Court.

d) The Board

Responsibilities

The Board meets at least four times each year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary, through its representative who is responsible to the Board for ensuring that Board procedures are followed.

Board Committees

The Board has established Audit, Management Engagement and Nominations committees with defined terms of reference and duties. The terms of reference for each of the committees is available on the Company's website.

a) Audit Committee

The Board has appointed an Audit Committee, which operates within clearly defined terms of reference and which comprises the entire Board. The Audit Committee has been chaired by Mr Staples, a Chartered Accountant, since 18 January 2011. In summary, the Audit Committee's main functions are:

- to review and monitor the internal financial control systems and risk management systems on which the Company is reliant;
- to consider annually whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the half year and annual financial statements and the going concern statement of the Company by reviewing and challenging, where necessary, the actions and judgments of the Manager and the Administrator;
- to meet, if required, with the Company's auditors to review their proposed audit programme of work and the findings of their audit (the Audit Committee also uses this as an opportunity to assess the effectiveness of the audit process);
- to make recommendations to the Board in relation to the appointment of the Company's auditors and to approve their remuneration and terms of engagement; and
- to monitor and review annually the Company's auditors' independence, objectivity, effectiveness, resources and qualifications.

The Audit Committee has satisfied itself that Ernst & Young LLP, the Company's auditors, are independent. The auditors are required to rotate the audit partner every five years and this is the first year that the current partner has been in place.

b) Management Engagement Committee

The Management Engagement Committee comprises the entire Board and is responsible for reviewing the performance of the Manager and for ensuring that the Manager complies with the terms of the management agreement and that the provisions of that agreement follow industry practice and remain competitive and in the best interests of shareholders. This Committee is chaired by the Chairman of the Board.

c) Nominations Committee

The Board seeks to ensure that it is well-balanced with the skills and experience necessary. Directors must be able to demonstrate their commitment to the Company. The Board seeks to encompass their past and current experience of various areas relevant to the Company's business.

The Board has appointed a Nominations Committee, which comprises the entire Board and is chaired by the Chairman and which will be convened for the purpose of considering the appointment of additional or replacement directors and reviewing the performance of current Board members. When considering succession planning the Committee bears in mind the balance of skills, experience and diversity existing within the Board and may recommend additional recruitment. A formal job description would be drafted and external agencies may be used to assist in the process.

Board Attendance

The number of formal meetings during the year of the Board, and its Committees, and the attendance of the individual directors at those meetings, is shown in the following table:

Number of meetings in year	Board 4	Audit Committee 2	Management Engagement Committee 1	Nominations Committee 1
John Russell	4	2	1	1
David Mashiter	4	2	1	1
Simon Meredith Hardy	4	2	1	1
Richard Povey	4	2	1	1
David Staples	4	2	1	1

In addition, six short Board meetings were held during the year to approve dividends, release the Interim Management

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Statements and to attend to specific items, and the Annual General Meeting was held in December 2011.

e) Performance evaluation
The performance of the Company is considered in detail at each Board meeting. The Chairman reviews each individual Director's contribution on an annual basis. The work of the Board as a whole and its committees is reviewed annually by the Nominations Committee. The Directors also meet without the Chairman present in order to review his performance.

f) Internal Controls
The Board has established a process for identifying, evaluating and managing any major risks faced by the Company including financial reporting risks. The process is subject to regular review by the Board and accords with the Financial Reporting Council guidance. The process has been in place since 2006 and up to the date of approval of this annual report.

The Board is responsible overall for the Company's system of internal control and for reviewing its effectiveness taking into account that the activities of the Company are outsourced to external service providers. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager and the Administrator, undertook a full review of the Company's business risks and these have been analysed and recorded in a risk map which is reviewed regularly. The Board receives each quarter from the Manager and Administrator jointly, a formal report which details the steps taken to monitor the areas of risk and which reports the details of any known internal control failures. The Board receives each year from each of the Manager and the Administrator, a report on its internal controls which includes a report from that party's auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operation and culture of the Company and its key suppliers.

The Manager and the Administrator have each established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of their clients. The effectiveness of the internal controls are assessed by the compliance and risk departments of the Manager and Administrator on a continuing basis.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 31 August 2012, and to the date of approval of this Annual Report and Financial Statements and no significant failings or weaknesses have been identified.

g) Accountability and Relationship with the Manager and the Administrator
The Statement of Directors' Responsibilities is set out on page 20, the Report of the Independent Auditors on page 22 and the Statement of Going Concern on page 12.

The Board has delegated contractually to external third parties, including the Manager and the Administrator, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day-to-day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman attends meetings of all the chairmen of the investment companies managed by the Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

The Manager takes decisions as to the purchase and sale of individual investments. The Manager and the Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager and of the Administrator attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and services of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Manager and the Administrator operate in a supportive, co-operative and open environment.

Bribery Act 2010 (UK) and Corruption (Jersey) Law 2006
The Board has reviewed the implications of the Bribery Act 2010 (UK) and Corruption (Jersey) Law 2006 and confirmed its zero tolerance to bribery and corruption in its business activities. The Directors have adopted a procedure whereby they are required to report any potential acts of bribery and corruption in respect of the Fund to the duly appointed Money Laundering Reporting Officer in Jersey.

Report of the Directors

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h) Continued Appointment of the Investment Manager

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Manager are set out on page 12.

The Board reviews investment performance at each Board meeting and a formal review of the Manager is conducted annually by the Management Engagement Committee.

As a result of their annual review, it is the opinion of the Directors that the continued appointment of the current Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

The Manager has extensive investment management resources and wide experience in managing and administering investment companies.

i) Share capital and shareholders

The Company's share capital comprises ordinary shares of no par value. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's shares or voting rights and there are no shares which carry specific rights with regard to the control of the Company. The number of shares in issue at the start of the year was 100,105,564, and at the end 101,580,564, as the Company allotted 1,475,000 additional shares in the year. All new shares are issued at a premium to net asset value.

Substantial share interests

As at 12 November 2012 the following had declared a notifiable interest in the Company's issued share capital.

Shareholder	% of voting rights
Rathbone Brothers plc	9.57
Investec Wealth & Investment	5.39
Legal & General Group plc	3.25

This represents no significant change since the year end. The above percentages are calculated by applying the shareholding as notified to the Company to the issued share capital as at 12 November 2012 (shareholdings being voting rights).

At 31 August 2012, 7.0% of the issued share capital was held on behalf of participants in the Halifax Share Dealing products and 0.3% by participants in Henderson products. These participants are given the opportunity to instruct the relevant nominee company to exercise their voting rights appertaining to their shares in respect of all general meetings of the Company. The nominee companies have undertaken to exercise the voting rights of any shares that have not been exercised by the individual participants. They will do so by voting for or against all resolutions to be put at all general meetings of the Company (or by withholding votes on such resolutions) pro rata to the aggregate voting instructions for each resolution received from those participants who have chosen to exercise their voting rights.

Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the Annual Review, the Half Year Update and the Interim Management Statements which aim to provide shareholders with a clear and informative understanding of the Company's activities and its results. This information is supplemented by the daily publication at the London Stock Exchange and New Zealand Stock Exchange of the net asset value of the Company's ordinary shares and a monthly fact sheet, the Annual Report and the Half Year Report. All documents issued by the Company can be viewed on the Company's website www.hendersonfareastincome.com

It is the intention of the Board that the Notice of the AGM be issued to shareholders so as to provide at least twenty working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so by writing to the Company Secretary at the registered office address on the inside back cover. At other times the Company responds to letters from shareholders on a range of issues.

General presentations to both institutional shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

The Board recognises that few shareholders are able to travel to Jersey to attend the AGM so a shareholder event will be held in London on Wednesday 19 December 2012 to give shareholders the chance to meet the Chairman and to view a presentation from the Portfolio Manager. Full details are set out on page 44.

j) Corporate Responsibility

- *Responsible investment (SEE Statement)*
  Responsible Investment is the term which Henderson, the Company's Manager, uses to cover its work on corporate governance and corporate responsibility (or social, environmental and ethical issues) in the companies in which it invests on its clients' behalf, across all funds. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and

Report of the Directors

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corporate governance issues into mainstream investment decision-making and ownership practices. The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is therefore considered as part of the investment risk decision.

- *Voting policy and the UK Stewardship Code*
  Henderson's Responsible Investment Policy sets out the Manager's approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients, and its policy on proxy voting. The Policy also sets out how Henderson implements the Stewardship Code. The Company has delegated responsibility for voting to the Manager. The Board will receive a report, at least annually, on the voting undertaken by the Manager on behalf of the Company.

  The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution, the Portfolio Manager and/or members of the Board will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefor are fed back to the investee company prior to voting.

  The Henderson Responsible Investment Policy and further details of Henderson's responsible investment activities can be found on the Henderson website, www.henderson.com

- *Environmental matters*
  The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible.

Annual General Meeting ('AGM')

The AGM will be held at the Company's registered office in Jersey on Tuesday 18 December 2012 at 12 noon. The Notice of Meeting is set out in a separate document which has been sent to shareholders with this report. Separate resolutions will be proposed for each substantive issue.

The Directors intend to operate an active discount management policy through the use of share buy backs, should the shares trade at a substantial discount to net asset value for a significant period. The Directors seek annual authority to allot new shares, to disapply pre-emption rights and to buy back shares for cancellation, or to hold in Treasury. At the Company's AGM on 20 December 2011 the Directors were granted authority to repurchase 15,062,036 shares for cancellation. This authority, which has not been used, will expire at the forthcoming AGM.

These powers will give the Directors additional flexibility going forward and the Board considers that it will be in the interests of the Company that such powers be available.

Independent Auditors

Our auditors, Ernst & Young LLP, have indicated their willingness to remain in office. The Directors will place a resolution before the Annual General Meeting to re-appoint them as independent auditors for the ensuing year, and to authorise the Directors to determine their remuneration.

Directors' Statement as to Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving this Report are listed on page 2. Each of those Directors confirms that:

- to the best of his knowledge and belief, there is no information relevant to the preparation of this report of which the Company's auditors are unaware; and
- he has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

For and on behalf of the Board

David Staples
Director
12 November 2012

Statement of Directors' Responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Jersey law and generally accepted accounting principles.

Jersey law requires the Directors to prepare, in accordance with generally accepted accounting principles, financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis; and
- specify which generally accepted accounting principles have been adopted in their preparation.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on a website maintained by the Company's Manager, Henderson Group plc, in the United Kingdom. The maintenance and integrity of this website is, so far as it relates to the Company, the responsibility of Henderson. The work carried out by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in their own jurisdiction.

Statement under Disclosure and Transparency Rules

The Directors, who are listed on page 2 of this Annual Report, each confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the Report of the Directors in this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

David Staples
Director
12 November 2012

Directors' Remuneration Report

This report meets the relevant rules of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration. A resolution to receive and approve this report will be proposed at the Annual General Meeting.

Consideration by the Directors of matters relating to Directors' remuneration

As the Board is comprised entirely of non-executive Directors the Board as a whole consider the Directors' remuneration. The Board has not been provided with advice or services by any outside person in respect of its consideration of the Directors' remuneration although the Directors will review the fees paid to the boards of directors of similar investment companies.

Remuneration policy

The Board consists entirely of non-executive Directors who meet regularly to deal with the important aspects of the Company's affairs. Directors are appointed with the expectation that they will initially serve for a period of three years. Directors' appointments will be reviewed formally every three years thereafter by the Board as a whole. Each of the Directors has a letter of appointment and a Director may resign by giving notice in writing to the Board at any time; there are no set notice periods. The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Director personally other than Mr Mashiter, whose fees are payable to his principal employer. There are no long term incentive schemes provided by the Company and the fees are not specifically related to the Directors' performance, or the share price. Each Director will stand for re-election every three years.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board and Chairman of the Audit Committee to be paid a higher fee than the other Directors in recognition of their more onerous roles and more time spent. The Company's Articles of Association limit the aggregate fees payable to the Directors to £150,000 per annum. From 1 September 2011, the Directors' fees were paid at the following annual rates: the Chairman £35,000; the Chairman of the Audit Committee £25,000; the other Directors £22,000. Previously, the annual rates were £27,500, £21,000 and £18,500 respectively.

Directors' and officers' liability insurance cover is in place in respect of the Directors.

Directors' fees (Audited information)

The fees payable by the Company in respect of each of the Directors who served during the year, and in the previous year, were as follows:

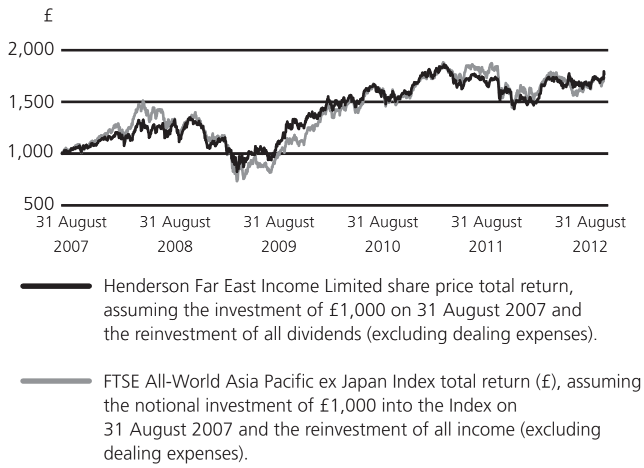
Year ended 31 August	**2012** **£**	2011 £
John Russell (Chairman and highest paid director)	**35,000**	27,500
David Mashiter	**22,000**	18,500
Simon Meredith Hardy	**22,000**	18,500
Richard Povey	**22,000**	18,500
Christopher Spencer[1]	**–**	5,231
David Staples[2]	**25,000**	13,008
Total	**126,000**	101,239

[1] Resigned 29 November 2010
[2] Appointed 18 January 2011

No other remuneration or compensation was paid or payable by the Company during the period to any of the Directors.

The graph below illustrates the total shareholder return as compared to the FTSE All-World Asia Pacific ex Japan Index (sterling adjusted) for the period from 31 August 2007 to 31 August 2012. In view of the Company's objective, this is the most appropriate index against which to measure performance.

Share price performance graph



Source: Datastream

For and on behalf of the Board

David Staples
Director
12 November 2012

Report of the Independent Auditors to the members of Henderson Far East Income Limited

We have audited the financial statements of Henderson Far East Income Limited for the year ended 31 August 2012 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Christopher James Matthews, FCA
For and on behalf of
Ernst & Young LLP
Jersey, Channel Islands 12 November 2012

The financial statements are published on websites maintained by the Company's manager, Henderson Group plc ('Henderson').

1. The maintenance and integrity of these websites are the responsibility of Henderson; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Comprehensive Income

for the year ended 31 August 2012

Notes		**Year ended 31 August 2012 Revenue return £'000**	**Capital return £'000**	**Total £'000**	Year ended 31 August 2011 Revenue return £'000	Capital return £'000	Total £'000
3	Investment income	**18,643**	**–**	**18,643**	18,023	–	18,023
4	Other income	**2,220**	**–**	**2,220**	1,532	–	1,532
10	Gains/(losses) on investments held at fair value through profit or loss	**–**	**9,085**	**9,085**	–	(8,754)	(8,754)
	Total income	**20,863**	**9,085**	**29,948**	19,555	(8,754)	10,801
	Expenses						
	Management fees	**(1,423)**	**(1,423)**	**(2,846)**	(1,566)	(1,566)	(3,132)
5	Other expenses	**(379)**	**(379)**	**(758)**	(293)	(293)	(586)
	Profit/(loss) before finance costs and taxation	**19,061**	**7,283**	**26,344**	17,696	(10,613)	7,083
6	Finance costs	**(11)**	**(11)**	**(22)**	(14)	(14)	(28)
	Profit/(loss) before taxation	**19,050**	**7,272**	**26,322**	17,682	(10,627)	7,055
7	Taxation	**(1,555)**	**–**	**(1,555)**	(1,379)	–	(1,379)
	Profit/(loss) for the year and total comprehensive income	**17,495**	**7,272**	**24,767**	16,303	(10,627)	5,676
8	**Earnings/(loss) per ordinary share**	**17.31p**	**7.19p**	**24.50p**	16.49p	(10.75)p	5.74p

The total column of this statement represents the Statement of Comprehensive Income, prepared in accordance with IFRS. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

Statement of Changes in Equity

for the year ended 31 August 2012

Notes	**Year ended 31 August 2012**	**Stated share capital £'000**	**Distributable reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
	Total equity at 31 August 2011	**63,470**	**180,471**	**29,788**	**13,660**	**287,389**
	Total comprehensive income:					
	Profit for the year	**–**	**–**	**7,272**	**17,495**	**24,767**
	Transactions with owners, recorded directly to equity:					
9	**Dividends paid**	**–**	**–**	**–**	**(15,972)**	**(15,972)**
14	**Shares issued**	**4,276**	**–**	**–**	**–**	**4,276**
14	**Share issue costs**	**(19)**	**–**	**–**	**–**	**(19)**
	Liquidation proceeds from predecessor company	**–**	**–**	**59**	**–**	**59**
	Total equity at 31 August 2012	**67,727**	**180,471**	**37,119**	**15,183**	**300,500**

Notes	Year ended 31 August 2011	Stated share capital £'000	Distributable reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 31 August 2010	52,146	180,471	40,390	11,909	284,916
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(10,627)	16,303	5,676
	Transactions with owners, recorded directly to equity:					
9	Dividends paid	–	–	–	(14,563)	(14,563)
	Receipt of unclaimed dividends from predecessor company	–	–	–	11	11
14	Shares issued	11,403	–	–	–	11,403
14	Share issue costs	(79)	–	–	–	(79)
	Liquidation proceeds from predecessor company	–	–	25	–	25
	Total equity at 31 August 2011	63,470	180,471	29,788	13,660	287,389

The notes on pages 27 to 43 form an integral part of these financial statements

Balance Sheet

at 31 August 2012

Notes		2012 £'000	2011 £'000
	Non current assets		
10	Investments held at fair value through profit or loss	**311,859**	283,077
	Current assets		
11	Other receivables	**4,948**	3,043
	Cash and cash equivalents	**6,076**	3,288
		11,024	6,331
	Total assets	**322,883**	289,408
	Current liabilities		
10	Written options	**(254)**	(813)
12(a)	Other payables	**(715)**	(702)
12(b) & (c)	Bank loans and overdrafts	**(21,414)**	(504)
		(22,383)	(2,019)
	Net assets	**300,500**	287,389
	Equity attributable to equity shareholders		
14	Stated share capital	**67,727**	63,470
15	Distributable reserve	**180,471**	180,471
	Retained earnings:		
16	Other capital reserves	**37,119**	29,788
	Revenue reserve	**15,183**	13,660
	Total equity	**300,500**	287,389
17	**Net asset value per ordinary share**	**295.82p**	287.09p

The financial statements on pages 23 to 43 were approved by the Board of Directors and authorised for issue on 12 November 2012 and were signed on its behalf by:

David Payne Staples
Director

The notes on pages 27 to 43 form an integral part of these financial statements

Statement of Cash Flows

for the year ended 31 August 2012

	2012 £'000	2011 £'000
Operating activities		
Profit before taxation	**26,322**	7,055
Add back interest payable	**16**	28
(Less)/add: (gains)/losses on investments held at fair value through profit or loss	**(9,085)**	8,754
Purchases of investments	**199,661**	173,238
Sales of investments	**(219,659)**	(183,287)
Decrease in other receivables	**26**	51
(Increase)/decrease in prepayments and accrued income	**(1,554)**	128
(Increase)/decrease in amounts due from brokers	**(954)**	3,201
Increase/(decrease) in other payables	**88**	(37)
Stock dividends included in investment income	**(66)**	(405)
Net cash (outflow)/inflow from operating activities before interest and taxation	**(5,205)**	8,726
Interest paid	**(16)**	(28)
Withholding tax on investment income	**(1,630)**	(1,298)
Net cash (outflow)/inflow from operating activities	**(6,851)**	7,400
Financing activities		
Net loans drawndown	**21,414**	–
Equity dividends paid	**(15,972)**	(14,563)
Unclaimed dividends received from predecessor company	**–**	11
Liquidation proceeds received from predecessor company	**59**	25
Share issue proceeds	**4,856**	10,972
Share issue costs	**(22)**	(77)
Net cash inflow/(outflow) from financing	**10,335**	(3,632)
Increase in cash and cash equivalents	**3,484**	3,768
Cash and cash equivalents at the start of the year	**2,784**	(1,180)
Exchange movements	**(192)**	196
Cash and cash equivalents at the end of the year (including bank overdrafts of £nil (2011: £504,000))	**6,076**	2,784

The notes on pages 27 to 43 form an integral part of these financial statements

Notes to the Financial Statements

1 General information

The entity is a closed-end company, registered as a no par value company under the Companies (Jersey) Law 1991, with its shares listed on the London and New Zealand Stock Exchanges.

The Company was incorporated on 6 November 2006.

2 Accounting policies

(a) Basis of preparation

These financial statements for the year ended 31 August 2012 have been prepared in accordance with International Financial Reporting Standards ('IFRS'). These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ('IASC') that remain in effect, to the extent that IFRS have been adopted.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The principal accounting policies adopted are set out below. Where consistent with IFRS, the financial statements have also been prepared in accordance with the guidance set out in the Statement of Recommended Practice ('SORP') for Investment Companies issued by the Association of Investment Companies ('AIC') as revised in January 2009.

New and amended standards and interpretations becoming effective in the current financial year:

IAS 24 *Related Party Disclosures (amendment)* effective for annual periods beginning on or after 1 January 2011 – Revision of definition of related parties

IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective for annual periods beginning on or after 1 January 2011

IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amendment)* – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – effective for annual periods beginning on or after 1 July 2011

IFRS 7 *Financial Instruments: Disclosures (Amendment)* – Additional quantitative and qualitative disclosures relating to transfers of financial assets (effective for annual periods beginning on or after 1 July 2011)

Improvements to IFRS issued in 2010:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Accounting policy changes in the year of adoption (effective for annual periods beginning on or after 1 January 2011)
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Revaluation basis as 'deemed cost' (effective for annual periods beginning on or after 1 January 2011)
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Use of 'deemed cost' for operations subject to rate regulation (effective for annual periods beginning on or after 1 January 2011)
- IFRS 7 *Financial Instruments: Disclosures* – Clarifications of disclosures (effective for annual periods beginning on or after 1 January 2011)

Notes to the Financial Statements
continued

2 Accounting policies (continued)

- IAS 1 *Presentation of Financial Statements* – Clarification of statement of changes in equity (effective for annual periods beginning on or after 1 January 2011)
- IAS 34 *Interim Financial Reporting* – Significant events and transactions (effective for annual periods beginning on or after 1 January 2011)

Standards issued but not yet effective

IAS 12 *Income Taxes (Amendment)* – Deferred Taxes: Recovery of Underlying Assets – effective for annual periods beginning on or after 1 January 2012

IFRS 9 *Financial Instruments: Classification and Measurement* – effective for annual periods beginning on or after 1 January 2015

IFRS 10 *Consolidated Financial Statements* – effective for annual periods beginning on or after 1 January 2013

IAS 27 *Separate Financial Statements* – effective for annual periods beginning on or after 1 January 2013

IFRS 11 *Joint Arrangements* – effective for annual periods beginning on or after 1 January 2013

IAS 28 *Investments in Associate* – effective for annual periods beginning on or after 1 January 2013

IFRS 12 *Disclosure of Interest in Other Entities* – effective for annual periods beginning on or after 1 January 2013

IFRS 13 *Fair Value Measurement* – effective for annual periods beginning on or after 1 January 2013

IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1* – effective for annual periods beginning on or after 1 July 2012

IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7* – effective for annual periods beginning on or after 1 January 2013

IAS 32 *Offsetting Financial Assets and Financial liabilities – Amendments to IAS 32* – effective for annual periods beginning on or after 1 January 2014

No assessment of the impact of the above standards has been made by the Directors. These standards will be adopted when they become due.

(b) Investments held at fair value through profit or loss

All investments are designated upon initial recognition as held at fair value through profit or loss. These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis. Financial assets are recognised/de-recognised at the trade date of the purchase/disposal. Proceeds will be measured at fair value, which will be regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price at the balance sheet date, without deduction of the estimated future selling costs.

Notes to the Financial Statements

continued

2 **Accounting policies** (continued)

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase.

Significant accounting judgments and estimates

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the financial statements; however, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future. As the majority of the Company's financial assets are quoted securities, in the opinion of the Directors, the amounts included as assets and liabilities in the financial statements are not subject to significant judgments, estimates or assumptions. The Company's holdings in Participation Notes is valued at £21.3 million (2011: £17.8 million). These are valued by reference to the underlying stock. The obligations relating to the options valued at £254,000 (2011: £813,000) are valued by reference to the Black-Scholes model. The valuation of China Forestry Holdings Limited is derived from the audited cash and verified assets stated in that company's last annual report and then discounted by the performance of the 'H' share market in Hong Kong, and of similar companies subject to suspension and subsequent re-listing.

(c) Income

Dividends receivable on equity shares are recognised as revenue for the period on an ex-dividend basis. Special dividends are treated as revenue return or as capital return, depending on the facts of each individual case. Income from fixed interest debt securities is recognised using the effective interest rate method. Bank interest is accounted for on an accruals basis. Option premium income is recognised upon expiration or settlement of the option contracts.

(d) Expenses

All administration expenses, including the management fee and interest payable are accounted for on an accruals basis. Expenses which are incidental to the purchase or sale of an investment are charged to the capital column of the Statement of Comprehensive Income and allocated to capital reserves. On the basis of the Board's expected long term split of returns equally between capital gains and income, the Company charges 50% of operating expenses to capital.

(e) Taxation

The Company is subject to income tax at a rate of 0%. The States of Jersey introduced a Goods & Services Tax ('GST') with effect from 1 May 2008. The Company does not suffer any irrecoverable GST as it has applied to the Comptroller of Income Tax for inclusion on the list of 'International Services Entities' of its administrator BNP Paribas Securities Services Fund Administration Limited, pursuant to the Goods & Services Tax (Jersey) Law 2007 and payment of the relevant application fees. As a result the tax charge (of the Company) consists solely of withholding tax suffered on dividend income.

(f) Foreign currency

For the purposes of the financial statements, the results and financial position of the Company is expressed in Sterling, which is the functional currency of the Company and the presentation currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates. The Company is a closed-end investment company, incorporated in Jersey, with its shares listed on the London Stock Exchange. Sterling is the currency in which the majority of the costs of the Company are incurred, capital is raised and dividends are paid.

Notes to the Financial Statements

continued

2 Accounting policies (continued)

Transactions recorded in overseas currencies during the year are translated into Sterling at the appropriate daily exchange rates. Monetary assets and liabilities denominated in overseas currencies at the balance sheet date are translated into Sterling at the exchange rates ruling at that date.

(g) Cash and cash equivalents

Cash comprises current accounts and demand deposits excluding bank loans. Cash equivalents have a term of three months or less, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risks of changes in value.

(h) Bank loans and overdrafts

Interest-bearing bank loans and overdrafts are recorded as the proceeds are received, net of direct issue costs. Loans (other than those classified as held for trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue. Loans are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans are derecognised, as well as through the amortisation process. The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

(i) Segmental reporting

For management purposes, the Company is organised into one main operating segment, which invests in equity securities, debt instruments and related derivatives. All of the Company's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

(j) Share issue costs

Issue costs incurred in respect of new ordinary shares are offset against the proceeds received and dealt with in stated capital.

3 Investment income

	2012 £'000	2011 £'000
Overseas dividends	**18,577**	17,618
Stock dividends	**66**	405
	18,643	18,023
Analysis of investment income by geographical segment:		
Australia	**3,638**	2,945
China	**3,243**	2,649
Hong Kong	**1,961**	2,167
Indonesia	**834**	320
Japan	**290**	312
Malaysia	**313**	339
New Zealand	**302**	–
The Philippines	**450**	757
Singapore	**1,999**	2,168
South Korea	**933**	1,610
Taiwan	**3,052**	2,901
Thailand	**1,628**	1,855
	18,643	18,023

All of the above income is derived from equity investments.

Notes to the Financial Statements

continued

4	**Other income**	**2012 £'000**	2011 £'000
	Bank and other interest	**4**	5
	Option premium income	**2,216**	1,527
		2,220	1,532

5	**Other expenses**	**2012 Revenue return £'000**	**2012 Capital return £'000**	**2012 Total £'000**	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
	Directors' fees (see the Directors' Remuneration Report on page 21)	**63**	**63**	**126**	51	50	101
	Auditors' remuneration						
	– statutory audit	**16**	**16**	**32**	15	15	30
	– interim accounts review	**4**	**4**	**8**	2	2	4
	Bank and custody charges	**92**	**92**	**184**	89	89	178
	Loan arrangement and non-utilisation fees	**56**	**56**	**112**	–	–	–
	Other expenses payable to the management company*	**32**	**32**	**64**	33	33	66
	Registrar's fees	**20**	**20**	**40**	18	19	37
	Printing and stationery	**13**	**13**	**26**	12	12	24
	Asia Trip expenses	**18**	**17**	**35**	–	–	–
	Other expenses	**65**	**66**	**131**	73	73	146
		379	**379**	**758**	293	293	586

*Other expenses payable to the management company relate to marketing services.

6	**Finance costs**	**2012 £'000**	2011 £'000
	On bank loans and overdrafts payable: within one year	**22**	28
	Amount allocated to capital	**(11)**	(14)
	Total allocated to revenue	**11**	14

7	**Taxation**	**2012 Revenue return £'000**	**2012 Capital return £'000**	**2012 Total £'000**	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
	The taxation charge for the period is comprised of the following:						
	Foreign withholding tax suffered	**1,555**	**–**	**1,555**	1,379	–	1,379
		1,555	**–**	**1,555**	1,379	–	1,379

Profits arising in the Company for the year ended 31 August 2012 are subject to Jersey income tax at the rate of 0% (2011: 0%).

Notes to the Financial Statements

continued

8 Earnings/(loss) per ordinary share

The earnings per ordinary share figure is based on the net gains for the year of £24,767,000 (2011: £5,676,000) and on 101,077,558 (2011: 98,873,304) being the weighted average number of ordinary shares in issue during the year.

The earnings per ordinary share figure detailed above can be further analysed between revenue and capital, as below:

	2012 £'000	2011 £'000
Net revenue profit	**17,495**	16,303
Net capital profit/(loss)	**7,272**	(10,627)
Net total profit	**24,767**	5,676
Weighted average number of ordinary shares in issue during the year	**101,077,558**	98,873,304
Revenue earnings per ordinary share	**17.31p**	16.49p
Capital earnings/(loss) per ordinary share	**7.19p**	(10.75)p
Total earnings per ordinary share	**24.50p**	5.74p

The Company has no securities in issue that could dilute the return per ordinary share. Therefore the basic and diluted earnings per ordinary share are the same.

9 Dividends

	Record Date	**Pay Date**	**2012 £'000**	2011 £'000
Fourth interim dividend 3.60p for the year ended 2010	5 November 2010	30 November 2010	**–**	3,530
First interim dividend 3.60p for the year ended 2011	4 February 2011	28 February 2011	**–**	3,562
Second interim dividend 3.60p for the year ended 2011	6 May 2011	31 May 2011	**–**	3,577
Third interim dividend 3.90p for the year ended 2011	5 August 2011	31 August 2011	**–**	3,894
Fourth interim dividend 3.90p for the year ended 2011	4 November 2011	30 November 2011	**3,919**	–
First interim dividend 3.90p for the year ended 2012	3 February 2012	29 February 2012	**3,930**	–
Second interim dividend 3.90p for the year ended 2012	4 May 2012	31 May 2012	**3,958**	–
Third interim dividend 4.10p for the year ended 2012	3 August 2012	31 August 2012	**4,165**	–
			15,972	14,563

The fourth interim dividend for the year ended 31 August 2012 has not been included as a liability in these financial statements as it was announced and paid after the year end. The table which follows sets out the total dividends paid and to be paid in respect of the financial year and the previous year. The revenue available for distribution by way of dividend for the year is £17,495,000 (2011: £16,303,000).

Notes to the Financial Statements

continued

9	**Dividends** (continued)	**2012 £'000**	2011 £'000
	First interim dividend for 2012 – 3.90p (2011: 3.60p)	**3,930**	3,562
	Second interim dividend for 2012 – 3.90p (2011: 3.60p)	**3,958**	3,577
	Third interim dividend for 2012 – 4.10p (2011: 3.60p)	**4,165**	3,894
	Fourth interim dividend for 2012 – 4.10p (2011: 3.90p) (payable 30 November 2012 based on 101,580,564 shares in issue at 12 November 2012)	**4,165**	3,919
		16,218	14,952

10	**Investments held at fair value through profit or loss**	**2012 £'000**	2011 £'000
	Cost at 31 August 2011	**272,532**	241,013
	Investment holding gain at 31 August 2011	**9,732**	39,747
	Valuation of investments and options written at 31 August 2011	**282,264**	280,760
	Movements in the period:		
	Purchases at cost	**219,725**	183,692
	Sales – proceeds	**(199,661)**	(173,238)
	– realised (losses)/gains on sales	**(9,966)**	21,065
	Movement in investment holding gains	**19,243**	(30,015)
	Closing valuation of investments and options written at 31 August 2012	**311,605**	282,264
	Cost at 31 August 2012	**282,630**	272,532
	Investment holding gain	**28,975**	9,732
	Closing valuation of investments and options written at 31 August 2012	**311,605**	282,264

As at 31 August 2012 the market value included options written of £(254,000) (2011: £(813,000)).

There is one unquoted investment valued at £746,000 (2011: £nil). The Company also holds over-the-counter options and Participation Notes valued at £21,036,000 (2011: £16,967,000).

	2012 £'000	2011 £'000
Gains/(losses) on investments held at fair value		
Realised (losses)/gains on sales of investments	**(9,966)**	21,065
Increase/(decrease) in investment holding gains	**19,243**	(30,015)
Net movement on foreign exchange	**(192)**	196
	9,085	(8,754)

Notes to the Financial Statements

continued

10 Investments held at fair value through profit or loss (continued)

Transaction costs

During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital reserve and are included within gains on investments held at fair value through profit or loss in the Statement of Comprehensive Income.

The total costs were as follows:

	2012 £'000	2011 £'000
Purchases	**517**	405
Sales	**524**	524
	1,041	929

11 Other receivables

	2012 £'000	2011 £'000
Prepayments and accrued income	**3,985**	2,431
Amounts due from brokers	**963**	9
Amounts due from shares issued	**–**	577
Other receivables	**–**	26
	4,948	3,043

12 Other payables

	2012 £'000	2011 £'000
(a) Other payables		
Foreign withholding tax payable	**11**	86
Other payables	**704**	616
	715	702

	2012 £'000	2011 £'000
(b) Bank overdrafts	**–**	504

	Loan Amount US$	Drawn	Maturity	**2012 £'000**	2011 £'000
(c) Bank loans (unsecured)					
	2,000,000	20/08/2012	04/09/2012	**1,259**	–
	23,510,201	22/08/2012	05/09/2012	**14,802**	–
	5,502,377	30/08/2012	06/09/2012	**3,464**	–
	3,000,000	28/08/2012	28/09/2012	**1,889**	–
	34,012,578			**21,414**	–

Interest rates applicable to these tranches are at a margin of 0.9% pa over LIBOR.

Notes to the Financial Statements

continued

13 Risk management policies and procedures

The Company invests in equities and other investments for the long term so as to secure its investment objective as stated in the business review. In pursuing its investment objective, the Company is exposed to a variety of financial risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends, or both.

These financial risks: market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk and the Directors' approach to the management of these risks, are set out below. The Board of Directors and the Manager coordinate the Company's risk management. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Board determines the objectives, policies and processes for managing the risks, and the methods used to manage the risks and these are set out below under the relevant risk category. The policies for the management of risk have not changed from the previous accounting period.

13.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. Market risk comprises market price risk (see note 13.1.1), currency risk (see note 13.1.2) and interest rate risk (see note 13.1.3). The Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

13.1.1 Market price risk

Market price risks (ie changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of the quoted and unquoted investments.

Management of the risk

When appropriate, the Company may buy or sell put or call options on indices and on equity investments in its portfolio to manage its exposure to price risk or to generate income. The Board of Directors manages the risks inherent in the investment portfolio by ensuring full and timely reporting of relevant information from the Manager. Investment performance is reviewed at each Board meeting. The Board monitors the Portfolio Manager's compliance with the Company's objectives, and is directly responsible for investment strategy and asset allocation, including as between countries and economies.

The Company's exposure to changes in market prices at 31 August 2012 on its investments amounted to £311,859,000 (2011: £283,077,000) in respect of 'Non current assets' and £254,000 (2011: £813,000) in respect of liabilities on derivatives.

Concentration of exposure to market price risks

An analysis of the Company's investment portfolio is shown on pages 8 to 10. There is a concentration of exposure to Australia, China, Taiwan, Singapore and Thailand, though it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Market price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and the equity to an increase or decrease of 10% (2011: 10%) in the fair values of the Company's investments. This level of change is considered to be possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities at each balance sheet date, with all other variables held constant.

Notes to the Financial Statements

continued

13 Risk Management policies and procedures (continued)

13.1.1 Market price risk (continued)

	2012		2011	
	Increase in fair value £'000	**Decrease in fair value £'000**	Increase in fair value £'000	Decrease in fair value £'000
Statement of Comprehensive Income – profit after tax				
Revenue return	**(156)**	**156**	(141)	141
Capital return	**31,005**	**(31,005)**	28,085	(28,085)
Impact on total return after tax for the year and shareholders' funds	**30,849**	**(30,849)**	27,944	(27,944)

13.1.2 Currency risk

A proportion of the Company's assets, liabilities and income are denominated in currencies other than Sterling (the Company's functional currency, and presentational currency). As a result, movements in exchange rates may affect the Sterling value of those items.

Management of the risk

The Investment Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board at each Board meeting. The Investment Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and total return of a movement in the exchange rate to which the Company's assets, liabilities, income and expenses are exposed.

Investment income denominated in foreign currencies is converted into Sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Foreign currency exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31 August are shown below. Where the Company's equity investments which are not monetary items are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

2012	**AUS$ £'000**	**TW$ £'000**	**KRW £'000**	**HK$ £'000**	**S$ £'000**	**US$ £'000**	**Other £'000**
Receivables (due from brokers, dividends and other income receivable)	**1,502**	**420**	**–**	**308**	**129**	**782**	**1,780**
Cash at bank and on deposit less short term overdrafts	**199**	**–**	**126**	**–**	**145**	**4,669**	**677**
Payables (due to brokers, accruals and other creditors)	**–**	**(11)**	**–**	**–**	**–**	**(6)**	**–**
Borrowings under multi-currency loan facility	**–**	**–**	**–**	**–**	**–**	**(21,414)**	**–**
Total foreign currency exposure on net monetary items	**1,701**	**409**	**126**	**308**	**274**	**(15,969)**	**2,457**
Investments at fair value through profit or loss that are equities	**52,025**	**22,743**	**14,955**	**84,295**	**37,638**	**37,873**	**62,076**
Total net foreign currency exposures	**53,726**	**23,152**	**15,081**	**84,603**	**37,912**	**21,904**	**64,533**

Notes to the Financial Statements

continued

13 Risk Management policies and procedures (continued)

13.1.2 Currency risk (continued)

2011	AUS$ £'000	TW$ £'000	KRW £'000	HK$ £'000	S$ £'000	US$ £'000	Other £'000
Receivables (due from brokers, dividends and other income receivable)	1,482	319	–	67	126	195	248
Cash at bank and on deposit less short term overdrafts	–	990	80	(26)	–	(479)	464
Payables (due to brokers, accruals and other creditors)	–	(18)	–	–	–	(68)	–
Total foreign currency exposure on net monetary items	1,482	1,291	80	41	126	(352)	712
Investments at fair value through profit or loss that are equities	43,975	11,733	18,711	82,433	35,815	38,050	51,547
Total net foreign currency exposures	45,457	13,024	18,791	82,474	35,941	37,698	52,259

The above amounts are not necessarily representative of the exposure to risk during the year as levels of monetary foreign currency exposure change significantly throughout the year.

Foreign currency sensitivity

The following table illustrates the sensitivity of the total return after tax for the year and the net assets in regard to movements in the Company's foreign currency financial assets and financial liabilities caused by changes in the exchange rates for Sterling against the Australian Dollar, Taiwanese Dollar, Korean Won, Hong Kong Dollar, Singapore Dollar and US Dollar.

It assumes the following changes in exchange rates:

Sterling/Australian Dollar +/- 10% (2011: 10%). Sterling/Taiwanese Dollar +/- 10% (2011: 10%).
Sterling/Korean Won +/- 10% (2011: 10%). Sterling/Hong Kong Dollar +/- 10% (2011: 10%).
Sterling/Singapore Dollar +/- 10% (2011: 10%). Sterling/US Dollar +/- 10% (2011: 10%).

These percentages are deemed reasonable based on the average market volatility in exchange rates in the previous twelve months. The sensitivity analysis is based on the Company's foreign currency financial assets and financial liabilities held at each balance sheet date.

Notes to the Financial Statements

continued

13 Risk Management policies and procedures (continued)

13.1.2 Currency risk (continued)

If Sterling had depreciated against the currencies shown, the impact on total return and net assets would have been as follows:

	2012						2011					
	AUS$ £'000	**TW$ £'000**	**KRW £'000**	**HK$ £'000**	**S$ £'000**	**US$ £'000**	AUS$ £'000	TW$ £'000	KRW £'000	HK$ £'000	S$ £'000	US$ £'000
Statement of Comprehensive Income – return after tax												
Revenue return	**383**	**285**	**47**	**400**	**209**	**109**	300	98	50	431	220	260
Capital return	**5,750**	**2,513**	**1,653**	**9,317**	**4,160**	**4,186**	4,860	1,297	2,068	9,111	3,958	4,205
Total return after tax for the year	**6,133**	**2,798**	**1,700**	**9,717**	**4,369**	**4,295**	5,160	1,395	2,118	9,542	4,178	4,465

If Sterling had appreciated against the currencies shown, this would have had the following effect:

	2012						2011					
	AUS$ £'000	**TW$ £'000**	**KRW £'000**	**HK$ £'000**	**S$ £'000**	**US$ £'000**	AUS$ £'000	TW$ £'000	KRW £'000	HK$ £'000	S$ £'000	US$ £'000
Statement of Comprehensive Income – return after tax												
Revenue return	**(313)**	**(233)**	**(38)**	**(327)**	**(171)**	**(89)**	(245)	(80)	(41)	(353)	(180)	(213)
Capital return	**(4,704)**	**(2,056)**	**(1,353)**	**(7,623)**	**(3,404)**	**(3,425)**	(3,976)	(1,061)	(1,692)	(7,454)	(3,239)	(3,441)
Total return after tax for the year	**(5,017)**	**(2,289)**	**(1,391)**	**(7,950)**	**(3,575)**	**(3,514)**	(4,221)	(1,141)	(1,733)	(7,807)	(3,419)	(3,654)

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the currency risk management process used to meet the Company's objectives.

13.1.3 Interest rate risk

Interest rate movements may affect the level of interest receivable from cash at bank and on deposit, and the interest payable on the Company's short term borrowings.

Management of the risk

The majority of the Company's financial assets are non-interest bearing. As a result, the Company's financial assets are not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The Company finances part of its activities through borrowings at levels approved and monitored by the Board.

Derivative contracts are not used to hedge against the exposure to interest rate risk.

Interest rate exposure

The exposure at 31 August 2012 of financial assets can be found on the Balance Sheet under the heading 'Cash and cash equivalents' and the financial liabilities exposure to interest rate risk to floating interest rates is shown under notes 12(b) and 12(c).

Notes to the Financial Statements

continued

13 Risk Management policies and procedures (continued)

13.1.3 Interest rate risk (continued)

The Company does not have any fixed interest rate exposure.

Interest received on cash balances, or paid on bank overdrafts and loans, is at a margin over LIBOR or its foreign currency equivalent (2011: same).

The above year end amounts are not representative of the exposure to interest rates during the year, as the level of exposure changes as investments are made, borrowings are drawn down and repaid, and the mix of borrowings subject to floating or to fixed interest rates changes.

Interest rate sensitivity

Based on the Company's financial instruments at each balance sheet date, an increase or decrease of 100 basis points in interest rates would decrease or increase revenue return after tax by £46,000 (2011: £30,000), capital return after tax by £107,000 (2011: £2,000), and total profit after tax and shareholders' funds by £153,000 (2011: £28,000).

This level of change is considered to be reasonably possible based on observation of current market conditions. This is not representative of the year as a whole, since the exposure changes as investments are made. In the context of the Company's balance sheet, the outcome is not considered to be material.

13.2 Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Management of the risk

Liquidity risk is monitored by the Manager on a daily basis to ensure that financial liabilities can be paid as they fall due. The majority of the Company's assets are investments in quoted securities that are readily realisable. The Company has an overdraft facility with a sub custodian the extent of which is determined by the custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company. The facility is subject to regular review.

The Company has a one year multi-currency loan facility of £30 million (2011: £nil) of which £21,414,000 (2011: £nil) was drawn down at the year end. This facility is under regular review and unless renewed will expire on 27 February 2013.

The Board gives guidance to the Manager as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should generally remain fully invested and that short term borrowings be used to manage short term cash requirements.

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 31 August, based on the earliest date on which payment could be required was as follows:

	2012		2011	
Current liabilities	**Due within 3 months £'000**	**Due between 3 months and one year £'000**	Due within 3 months £'000	Due between 3 months and one year £'000
Bank loans and overdrafts	**21,423**	**–**	504	–
Written put options at fair value	**254**	**–**	813	–
Amounts to brokers and accruals	**715**	**–**	697	5
	22,392	**–**	2,014	5

Notes to the Financial Statements

continued

13 Risk Management policies and procedures (continued)

13.3 Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss. Details of the portfolio are shown on pages 8 to 10.

Management of the risk

Credit risk is managed as follows:

- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of approved brokers, whose credit-standard is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker; and
- cash at banks is held only with reputable banks with high quality external credit ratings and which are reviewed regularly by the Manager's Credit Risk Committee.

None of the Company's financial assets or liabilities are secured by collateral or other credit enhancements.

The Company has not been materially exposed to credit risk throughout the year. In summary, the exposure to credit risk at 31 August 2012 was to cash and cash equivalents £6,076,000 (2011: £3,288,000) and to other receivables of £4,948,000 (2011: £3,043,000).

Amounts due from brokers and accrued income of £4,921,000 had been received at 12 November 2012, the date of printing this report.

13.4 Fair values of financial assets and financial liabilities

Financial assets and financial liabilities, are either carried in the balance sheet at their fair value (investments and derivatives) or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank and bank overdrafts).

13.5 Fair value hierarchy disclosures

The table below sets out fair value measurements using the IFRS 7 fair value hierarchy.

Financial assets at fair value through profit or loss at 31 August 2012	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity investments	**289,823**	**21,290**	**746**	**311,859**
OTC derivatives (put options)	**–**	**(254)**	**–**	**(254)**
	289,823	**21,036**	**746**	**311,605**

Level 3 investments at fair value through profit or loss	**£'000**
Opening balance	–
China Forestry Holdings transferred into Level 3	3,284
Capital distribution	(48)
	3,236
Total losses included in gains on investments in the Statement of Comprehensive Income – on assets held at year end	(2,490)
Closing balance	746

Notes to the Financial Statements

continued

13 Risk Management policies and procedures (continued)

13.5 Fair value hierarchy disclosures (continued)

Financial assets at fair value through profit or loss at 31 August 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	265,297	17,780	–	283,077
OTC derivatives (put options)	–	(813)	–	(813)
	265,297	16,967	–	282,264

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – value using quoted prices in active markets for identical assets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1. The Company's holdings in over-the-counter options and Participation Notes are included within Level 2.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Company are explained in the accounting policies note on pages 28 and 29.

The net fair value movement on written options during the year was a gain of £2,775,000 (2011: £1,062,000).

13.6 Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise the income and capital return to its equity shareholders

through an appropriate balance of equity capital and debt.

The portfolio includes one unquoted investment valued at £746,000 (2011: £nil). The Company does, however, hold over-the-counter options and Participation Notes with a value of £21,036,000 (2011: £16,967,000).

The Company's capital at 31 August comprises its equity share capital, reserves and debt that are shown in the balance sheet as a total of £321,914,000 (2011: £287,893,000).

The Board with the assistance of the Manager monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the need to buy back equity shares for cancellation, which takes account of the difference between the net asset value per share and the share price (ie the level of share price discount or premium);
- the need for new issues of equity shares; and
- the extent to which revenue should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

Notes to the Financial Statements

continued

14	Stated share capital	Authorised	2012 Issued and fully paid	2012 £'000	2011 Issued and fully paid	2011 £'000
	Opening balance at 1 September					
	Ordinary shares of no par value	Unlimited	**100,105,564**	**63,470**	96,580,564	52,146
	Issued during the year		**1,475,000**	**4,276**	3,525,000	11,403
	Share issue costs		**–**	**(19)**	–	(79)
	Closing balance at 31 August		**101,580,564**	**67,727**	100,105,564	63,470

The holders of Ordinary shares are entitled to all the capital growth in the Company and all the income from the Company that is resolved by the Directors to be distributed. Each shareholder present at a general meeting has one vote on a show of hands and on a poll every member present in person or by proxy has one vote for each share held.

During the year, the Company issued 1,475,000 (2011: 3,525,000) shares for proceeds of £4,257,000 (2011: £11,324,000) net of costs.

15	Distributable reserve	2012 £'000	2011 £'000
	At 31 August	**180,471**	180,471

The Royal Court of Jersey confirmed the reduction of Capital account in the Company by an amount of £180,982,993 less issue costs of £511,000 on 23 January 2007 being the issue proceeds from the issue of 77,622,619 shares in the Company on 15 December 2006.

16	Other capital reserves	2012 Capital reserve arising on investments sold £'000	2012 Capital reserve arising on revaluation of investments held £'000	2012 Total capital reserves £'000	2011 Capital reserve arising on investments sold £'000	2011 Capital reserve arising on revaluation of investments held £'000	2011 Total capital reserves £'000
	At 1 September	**20,056**	**9,732**	**29,788**	643	39,747	40,390
	Foreign exchange (losses)/gains	**(192)**	**–**	**(192)**	196	–	196
	Movement in investment holding gains	**–**	**19,243**	**19,243**	–	(30,015)	(30,015)
	(Losses)/gains on investments	**(9,966)**	**–**	**(9,966)**	21,065	–	21,065
	Costs charged to capital	**(1,813)**	**–**	**(1,813)**	(1,873)	–	(1,873)
	Liquidation proceeds from predecessor company	**59**	**–**	**59**	25	–	25
	At 31 August	**8,144**	**28,975**	**37,119**	20,056	9,732	29,788

This reserve reflects any gains or losses on investments realised in the period, together with any increases or decreases in the fair value of investments held that have been recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements

continued

17 Net asset value per share

The basic net asset value per ordinary share and the net asset value attributable to ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	Net asset value per share 2012 pence	**Net asset value attributable 2012 £'000**	Net asset value per share 2011 pence	Net asset value attributable 2011 £'000
Ordinary shares	**295.82**	**300,500**	287.09	287,389

The basic net asset value per ordinary share is based on 101,580,564 (2011: 100,105,564) ordinary shares, being the number of ordinary shares in issue.

18 Contingent liabilities

There were no contingent liabilities as at 31 August 2012 (2011: £nil).

19 Related party disclosure

Under the terms of an agreement dated 13 November 2006 as amended, the Company appointed wholly owned subsidiary companies of Henderson Group plc ('Henderson') to provide investment management services.

Details of the fee arrangements for these services are given in the Report of the Directors on page 12. The total of the fees paid or payable under this agreement to Henderson in respect of the year ended 31 August 2012 was £2,846,000 (31 August 2011: £3,132,000) of which £501,000 was outstanding at 31 August 2012 (2011: £479,000).

In addition to the above services, Henderson has provided the Company with marketing services. The total fees paid or payable for these services for the year ended 31 August 2012 amounted to £64,000 (31 August 2011: £66,000), of which £11,000 was outstanding at 31 August 2012 (2011: £11,000).

The related party transactions with the Directors are set out in the Directors' Report on pages 14 and 15 and in the Directors' Remuneration Report on page 21.

Investor Information

Financial calendar

Financial period end	31 August 2012
Annual General Meeting	18 December 2012
Shareholder Event (see below)	19 December 2012
4th Interim dividend 2012	30 November 2012
Ex dividend date	7 November 2012
Record date	9 November 2012
1st Interim dividend 2013	28 February 2013
2nd Interim dividend 2013	31 May 2013
3rd Interim dividend 2013	31 August 2013

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services). Mandate forms for this purpose are available on request from the Company's Registrars.

Shareholder Event

All General Meetings of the Company are held in Jersey. The Board recognises that many shareholders are unable to travel to Jersey, but would like to meet a member of the Board and hear from the Portfolio Manager on a regular basis.

Henderson has therefore arranged a Shareholder Event to be held at Henderson's offices at 201 Bishopsgate, London EC2M 3AE on Wednesday 19 December 2012 at 11 a.m. The event will provide the opportunity for the Portfolio Manager, Michael Kerley, to give a presentation on the investment strategy and performance. The event will include light refreshments. If you wish to attend, please return the yellow card which is enclosed with this Report.

ISIN/SEDOL number

The market price of the Company's ordinary shares can be found in the Financial Times and the New Zealand Herald.

The London Stock Exchange Daily Official List (SEDOL) code is: B1GXH751. The International Security Identification Number (ISIN) is: JE00B1GXH751. The EPIC code is HFEL.

New Zealand listing

The Company's shares are also listed on the New Zealand Stock Exchange so that New Zealand shareholders can trade their shares more easily and, in addition, receive dividends in New Zealand Dollars. A New Zealand shareholder may transfer shares to the Auckland register by contacting the registrars in New Zealand, Computershare Investor Services Limited.

New Zealand holders may view details of the Company on the New Zealand Stock Exchange website, www.nzx.com, under the Main Board with mnemonic HFL.

Shareholder information

Copies of this Report or other documents issued by the Company are available from the Company Secretary.

If needed, copies can be made available in a variety of formats, either Braille or larger type as appropriate.

Nominee share code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at meetings when invited to do so by the Chairman.

Investors in Halifax Share Dealing Limited products and Henderson ISAs receive all shareholder communications, including a copy of the Annual Review, in lieu of this Annual Report. A form of instruction is provided to facilitate voting at general meetings of the Company.

Keeping up to date with Henderson Far East Income

Website

Details of the Company's share price and net asset value, together with other information about the Company, can be found on the Henderson website. The address is:
www.hendersonfareastincome.com

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Investor Information

continued

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Henderson Global Investors Limited
is authorised and regulated by the Financial Services Authority

Secretary
BNP Paribas Securities Services Fund Administration Limited
represented by Jeremy Hamon

BNP Paribas Securities Services Fund Administration Limited is regulated by the Jersey Financial Services Commission.

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