# Henderson Far East Income Limited

**Report and Financial Statements for the year ended 31 August**

2013

## 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

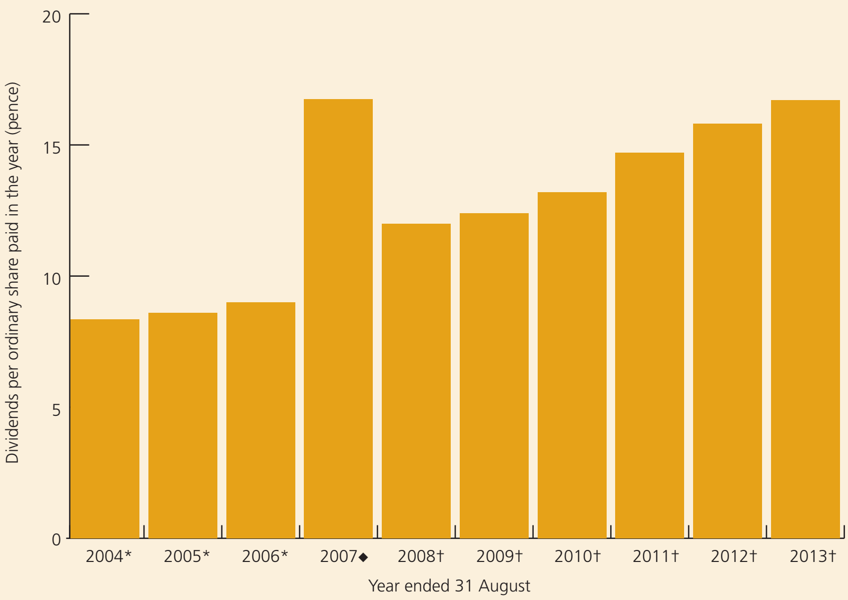
| Per Ordinary Share | 31 August 2013 | 31 August 2012 | % change |
|---|---|---|---|
| **Net asset value** | **312.23p** | 295.82p | 5.5% |
| **Market price** | **309.00p** | 290.13p | 6.5% |
| **Total earnings (income and capital)** | **31.83p** | 24.50p | 29.9% |
| **Revenue earnings** | **18.05p** | 17.31p | 4.3% |

## Performance
(12 months to 31 August)

| | 2013 |
|---|---|
| Net asset value (total return)[1] | **10.7%** |
| Share price (total return)[2] | **11.9%** |
| FTSE All-World Asia Pacific ex Japan (£) (total return)[2] | **9.9%** |

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. He is also a director of Herencia Resources plc, an AIM listed company.

**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 also sat on the board of the Jersey Competition Regulatory Authority from 2005 to 2013. 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 the following listed companies; MedicX Fund Limited and Duet Real Estate Finance Limited, both of which he Chairs, Gottex Fund Management Holdings Limited, Aberdeen Private Equity Fund Limited and Global Fixed Income Realisation Strategies Limited. His other non-executive directorships include HSBC Private Bank (C.I.) Limited 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 S.C.A. Jersey Branch, represented by Jeremy Hamon.

# Chairman's Statement

**John Russell**

Investing in companies with the capacity to raise dividends has been a central part of the Manager's strategy and in the year under review I am pleased to report that revenue from dividends increased by 13.5% over 2012. This was a creditable performance even accepting that total revenue increased by 9.1% as market conditions provided fewer opportunities to generate option premiums. This performance gave the Board confidence to raise the dividend by 6.3% year on year thus maintaining the significant yield advantage that your Company has over other Asian income investment trusts. Strong capital performance meant that shareholders enjoyed a net asset value total return of 10.7% over the year.

### Performance

In the year under review, the net asset value total return was 10.7% whilst the share price total return was 11.9%, reflecting a modest strengthening of the premium at which the shares usually trade to their net asset value. The FTSE-All World Asia Pacific ex Japan Index (sterling adjusted) returned 9.9%. Revenue earnings after taxation per ordinary share rose by 4.3% to 18.05p, compared to 17.31p in the previous year.

### Dividends

A fourth interim dividend of 4.40p has been declared making a total of 17.00p for the year, an increase of 6.3% year on year. Investment income from the portfolio has covered 96.0%* of the total dividend for the year with the remaining 4.0% coming from option premium income (2012: 94.2% dividend income and 5.8% option premium income). The remainder of the current year revenue has been added to the Company's revenue reserve, which will underpin dividends in future years. Your Board is confident that it will be able to at least maintain the level of total dividend in the coming year.

### Capital and Gearing

During the year your Company continued to enjoy consistent demand for its shares with the share price usually trading at a premium to net asset value. In view of this, your Board took the opportunity to issue further shares at premiums of 2% or above thereby enhancing the net asset value per share for shareholders. In total, 2,765,000 shares were issued in the year for net proceeds of £9.8million and a further 225,000 shares have been allotted since 31 August 2013.

As reported at the half year, the Company has renewed its one year revolving multi-currency loan facility with Commonwealth Bank of Australia and increased the maximum amount of the loan to £45 million which will be used flexibly with the objective of enhancing returns for investors. At the year end the amount drawn down stood at £31,182,000 and net gearing was 6.9%.

### Changes to Management Fee Arrangements

Since the Company moved to Jersey at the end of 2006, the level of net assets has grown significantly. This has delivered real benefits to our shareholders both in the share price and in reducing fixed costs per share. The Manager, Henderson Global Investors, has also benefited from a significant growth in management fees. I am therefore pleased to report that following a review of management fees, the annual management fee payable by Henderson Far East Income Limited to Henderson Global Investors was reduced from 1.0% to 0.9% p.a. of net assets with effect from 1 September 2013. There is no performance fee arrangement. This represents a significant saving to our shareholders and I believe demonstrates the commitment of the Board and the Manager to realising as much value for our shareholders as possible.

### Outlook

Our positive stance in Asia remains unchanged and is supported by solid fundamentals and an improving outlook in a number of areas. There are, however, concerns particularly about India and Indonesia. Chinese macroeconomic data continues its positive trend with government initiatives still focused on bringing about sustainable growth, as evidenced by the recent setting up of the Shanghai Free Trade Zone. That said, external factors in developed markets, particularly the US, could unsettle Asian markets in the short term. As always, the key focus of our Portfolio Manager is to pick those companies that are offering a favourable growth trend and sustainable and growing dividends.

### Annual General Meeting

The Company's AGM will be held at 12 noon on Wednesday 18 December 2013 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, Thursday 19 December 2013, 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
14 November 2013

*calculated as revenue post tax, less option premium income/dividends payable.

# Manager's Report

**Michael Kerley**

## Market

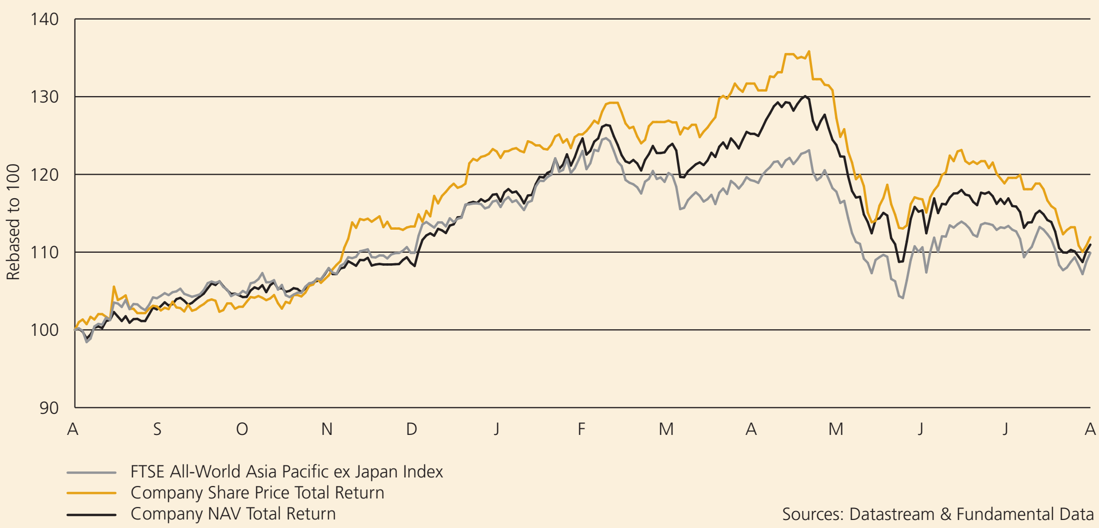
The Asian markets posted strong returns in the period under review with the FTSE All-World Asia Pacific ex Japan Index returning 9.9% in sterling terms.

The respectable return masks two distinctly different halves. At the interim stage Asian equity markets were 22% higher in sterling terms than in August 2012 and basking in a low interest rate, high liquidity environment, aided and abetted by the significant weakness of sterling. The final six months of the financial year were weaker and more volatile. An improving global growth environment raised fears of an earlier than expected withdrawal from quantitative easing, prompting a hurried and indiscriminate move away from yield towards growth. The recovery of sterling in the second half of the company's financial year also pared returns. The macro factors that have dominated market direction in the last few years combined to produce a positive backdrop for global equities. The US economy continues to show tentative signs of recovery, especially in housing and employment and the much feared 'fiscal cliff' negotiations in January 2013 passed without incident, although the recent shutdown suggests that the issue will remain in focus into 2014. The growth outlook in Europe also appears to be turning, led by a better than expected recovery in the peripheral economies and continued strength in Germany. The European political environment has also been more subdued with an inconclusive Italian election and a Cypriot bank bail-out not enough to dispel the optimism. In Japan the sweeping election of Shinzo Abe on a growth mandate of targeted inflation and aggressive quantitative easing led to renewed optimism that the world's third largest economy may at last drag itself out of its multi-year deflationary downturn.

The markets peaked in May and a period of weakness ensued through May and June prompted by the announcement that the US Federal Reserve was considering a gradual withdrawal of quantitative easing. Following a prolonged period of allocation to strategies benefiting from a low interest rate environment and with yields compressed to unsustainable levels, especially in bond markets, the resultant outflows were destabilising. India and Indonesia were particularly impacted. Overly loose monetary and fiscal policy had allowed those economies' current account deficits to worsen over the year while significant foreign ownership of bond and/or equity markets increased vulnerability. The announcement by the US Federal Reserve in September 2013 of a delay to the proposed tapering of quantitative easing has stabilised flows but uncertainty remains on how the normalisation of interest rates over time will impact bond and equity markets.

Macro data in China remains a key indicator for the region. After bottoming in the third quarter of 2012 at 7.4%, GDP growth accelerated in the fourth quarter to 7.9% and has since stabilised at around the government full year target for 2013 of 7.5%. The recent release of a better than expected third quarter GDP growth figure of 7.8% reaffirms these trends and even implies a modest improvement for the second half of 2013. The driver of growth remains fixed asset investment and consumption, although, the recent recovery in exports has also contributed reflecting an improved global growth environment. More encouragingly the rhetoric from the new government under President Xi Jinping has been much more reform orientated with a focus on the quality of growth rather than the quantity. There remains great hope

**Company and Index returns (sterling adjusted) – year to 31 August 2013**




Sources: Datastream & Fundamental Data

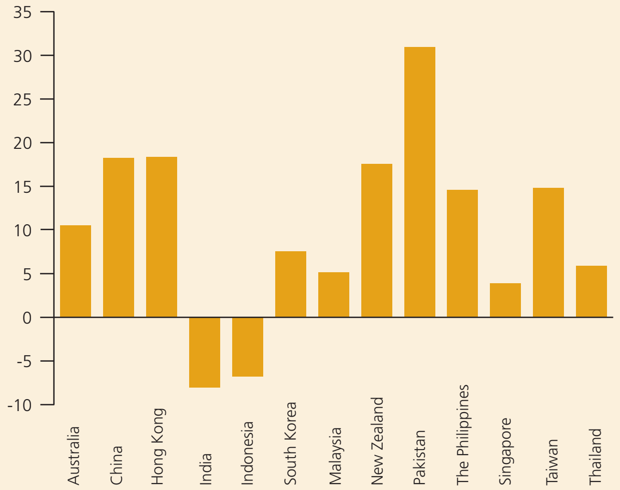
# Manager's Report

continued

that the Central Committee meeting in November 2013 will provide greater clarity on essential areas such as land reform, tax and local government fiscal reform together with a push towards a more environment friendly growth strategy.

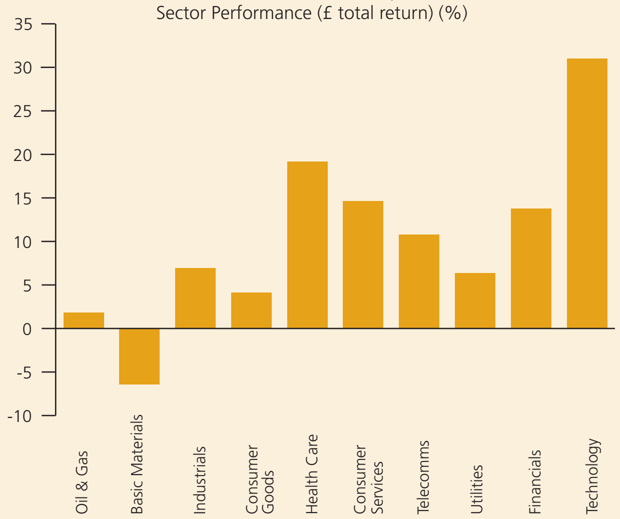
The improving outlook for the Chinese economy was reflected in share prices and China was one of the best performing markets over the period. The other notable markets were The Philippines, Hong Kong and Taiwan with the latter in particular benefiting from the strong performance of the technology sector as expectations of global demand improved. The strong performance of most ASEAN markets in the first half of the year unwound quite dramatically between May and August 2013. The statement discussing the possibility of the start of the tapering of the quantitative easing program made by the US Federal Reserve in May 2013 prompted significant outflows from the more foreign investor dominated

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

markets. Both India and Indonesia saw their currencies fall by more than 10% compounding already weak markets. The cut in Australian interest rates by 100 basis points to multi-year lows together with an unwinding of the yield carry trade resulted in considerable weakness in the Australian dollar. Although the market still marginally outperformed the index the returns were negatively impacted by a 15% fall in the currency against sterling.

From a sector perspective the returns reflected the wide disparity at the country level. The defensive sectors that had performed so well in the first half came under pressure in the second as focus moved towards cyclicality and away from bond like characteristics. Technology has gained the most from this trend with sector heavyweights Samsung and TSMC benefiting from the improving global outlook. Other cyclicals fared less well with materials and energy lagging. The less commodity intensive Chinese growth outlook kept commodity prices weak while energy stocks performed poorly as investors fretted over the impact of low cost shale gas on oil prices. Only in recent months as oil prices spiked on the possibility of more hostility in the Middle East have losses been pared.

## Performance

The portfolio outperformed over the period with the NAV total return rising 10.7% in sterling terms compared to 9.9% for the FTSE All-World Asia Pacific Index. Unfortunately we were unable to hang on to all of the relative gains made in the first half of the financial year with the final three months in particular hurting full year performance.

The significant weightings in China and Hong Kong were beneficial to returns while the ASEAN malaise was detrimental to our overweight position in Thailand. We also benefited from our relatively modest positions in Indonesia and India which were the only markets which fell over the period. High income stocks were in favour for most of the year but came under pressure in the final three months. Although we had made changes to the portfolio to a more dividend growth orientated stance, this was not enough to completely insulate us from the changing markets' focus during May, June and July.

From a stock perspective the portfolio benefited from the strong performance of individual names. Spreadtrum Communications, the Chinese mobile device chip set manufacturer, was bid for by the Chinese state backed Tsinghua Uni group at a significant premium to market. Suncorp and Amcor in Australia, SK Telecom and Grand Korea Leisure in Korea, HK property stocks Cheung Kong and Wharf and Chinese property developer Guangzhou R&F were all outperformers. We were less successful with some of our high yielding property names such as Asendas REIT and CapitaMall Trust in Singapore as well as Telecom New Zealand and China Mobile in the telecom space.

# Manager’s Report

continued

### Revenue

Unlike the prior year, the 2013 year end was a good year for income. With a backdrop of a more benign global environment Asian companies were more comfortable in embracing dividend increases. The company’s income from dividends rose by 13.5% over 2013 while overall revenue rose by 9.1% reflecting a lower contribution from option premium. A number of stocks in the portfolio posted higher dividends than both we and the market expected. New World Services, New World Development and Wharf in Hong Kong, Guangzhou R&F and MGM China, Suncorp in Australia, Telekom Indonesia and Cairn India were examples of these traits.

We are optimistic on the dividend outlook for Asia for the rest of this year and into next. Companies have the ability to continue to increase distribution or embark on other shareholder friendly strategies such as share buy backs but the magnitude will be dependent on the stability of the global macro and political environment. Earnings growth expectations are promising, at around 10%, and with companies continuing to generate high levels of cash we see no reason why dividend growth cannot match or even exceed this level. The recent fluctuation in Asia Pacific currencies makes forecasting difficult, however, and the company’s ability to generate revenue and capital returns may well be impacted by continued volatility in this area.

### Strategy

The portfolio retains its emphasis on domestically focused sectors and away from global cyclicals. We believe that the growth in world economies will be focused on emerging markets and in particular Asia in the coming years and that companies exposed to this trend are more likely to be able to deliver sustainable cash flow and income. Although commodity prices have moved higher in the last few months of the financial year it still remains difficult to forecast forward pricing for coal, iron ore, steel, copper and also energy in the immediate future and hence the portfolio tends to shy away from these sectors at this point in the cycle. The same can be said for technology stocks where a significant proportion of sales depend on western consumer demand, which in our view will be constrained by ongoing austerity measures. We do have exposure to this sector but are very selective, focusing mainly on companies that have exposure to niche areas and to emerging markets rather than developed market consumption.

The demand for yield from both international and domestic investors remains especially considering the decision by the US Federal Reserve to postpone the quantitative easing withdrawal in September 2013. Despite the recent sell off in defensive yielding sectors, some valuations remain elevated in these areas although more attractive than at the peak in May. We have taken advantage of this weakness to return to some of the REIT names we exited earlier in the year and will look to add other positions if the valuation premium continues to shrink. Of all the traditional yielding areas telecommunications offer the best combination of yield with the potential for dividend growth especially as data usage continues to grow rapidly and this remains one of our largest sector weightings.

The portfolio continues to have a bias towards dividend growth which we believe is Asia’s cyclical and structural advantage over other global equity income strategies. Valuations in this area are generally more attractive than in defensive sectors and play on the theme of growing domestic consumption leading to higher earnings and higher dividends over time. Our higher weightings in domestic cyclicals like consumer discretionary, industrials and property reflect this view.

Although the performance of Chinese shares has improved of late we still believe that the valuation discount to the region is unjustified and as a result we are finding plenty of opportunities for high yield and dividend growth in this market. The weighting in China hasn’t materially changed over the period although we have added Macau casino operator SJM and property developer Guangzhou R&F to the portfolio at the expense of China Construction Bank and Spreadtrum Communications which we sold following the takeover offer.

We also retain our positive view on Thailand despite fears of contagion from some of the other ASEAN markets. GDP growth has slowed but this has been more than discounted by the recent market weakness and as a result we have been adding to existing positions.

Although we are not positive on the outlook for Australian growth we have added a more domestic bias to our Australian portfolio. We have sold fertilizer company Incitec Pivot and added department store Myer and media company Seven West. Both of these companies are turnaround stories on improving cost efficiencies and are beneficiaries of falling interest rates. We have also added Westfield Retail Group and Dexus Property in the REIT space after prices dropped in the last few months.

For the first time in a number of years we initiated a position in India in late 2012. Overall we still believe the Indian market is expensive but individual stock weakness has presented some opportunities and we have added Cairn India to the portfolio. Cairn is an oil and gas company with a strong production profile from its Rajasthan field with some of the lowest lifting costs of any energy company globally. The company is attractively priced with strong cash flow and a growing yield.

The concerted action by the Japanese to revive their domestic economy through aggressive quantitative easing, inflation targeting and economic reform suggests that the outlook for

# Manager's Report

continued

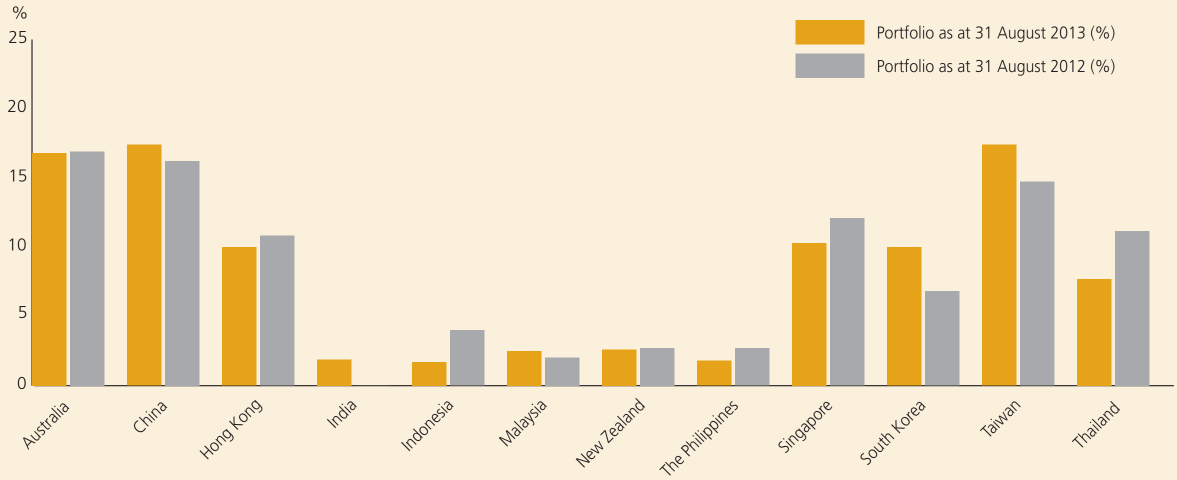
Japanese corporates is better than it has been for a number of years. Although Japan has historically only been a marginal investment for this company we will continue to look for opportunities to invest in individual companies should improving earnings trends be confirmed and valuations are attractive.

### Outlook

We remain positive on the outlook for the region in the medium to long term but recognise that market direction will be dictated by global factors in the short term. The improving growth outlook in China and the tentative signs of recovery in the US should be positive for Asian economic and equity market growth. Valuations in Asia are attractive relative to their own history and other world markets and companies are cash rich with tremendous potential to increase dividend payouts over time. We will use any market volatility as an opportunity to acquire quality high yielding or high dividend growth companies at attractive prices.

**Michael Kerley**
Portfolio Manager
14 November 2013

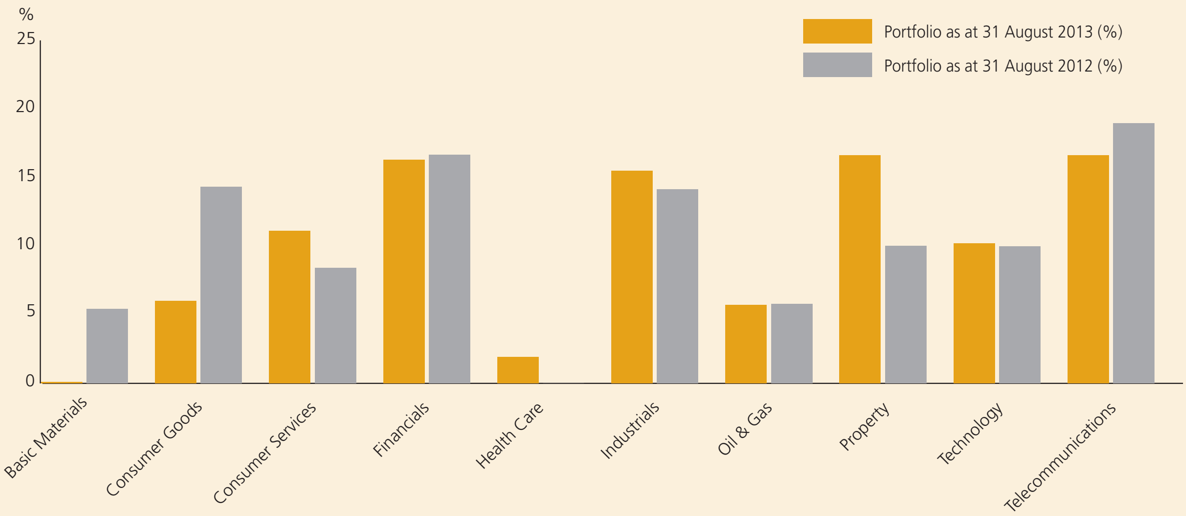
## Geographical Focus




Source: Henderson Global Investors

*Weightings are based on a company's economic exposure rather than where it is incorporated or listed.

## Sector Analysis




Source: Henderson Global Investors

# Investment Portfolio

as at 31 August 2013

| Rank 2013 | Rank 2012 | Company | Country of incorporation | Sector | Value £'000 | % |
|---|---|---|---|---|---|---|
| **1** | 33 | **Bank of China** | China | Financials | 9,689 | 2.78 |
| | | One of the largest Chinese banks, with a comprehensive offering of commercial banking products and services. This is one of the cheapest banks in the region with an attractive valuation and high yield. | | | | |
| **2** | 6 | **Telecom Corporation of New Zealand** | New Zealand | Telecommunications | 9,272 | 2.66 |
| | | 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. | | | | |
| **3** | – | **Hyundai Motor** | South Korea | Consumer Goods | 9,047 | 2.60 |
| | | South Korea's largest auto manufacturer, which is growing market share globally through brand recognition and exposure to emerging markets. A high margin manufacturer with an attractive valuation and a strong balance sheet. | | | | |
| **4** | – | **Malayan Banking** | Malaysia | Financials | 8,770 | 2.52 |
| | | Malaysia's largest bank by assets with the highest number of branches and ATMs. It has some regional exposure in Singapore and Indonesia and offers an attractive yield. | | | | |
| **5** | 15 | **Shanghai Industrial** | China | Industrials | 8,632 | 2.48 |
| | | Diversified interest in infrastructure, consumer, property and water assets. The company offers a unique exposure to quality Chinese assets at a reasonable valuation. | | | | |
| **6** | – | **Taiwan Cement** | Taiwan | Industrials | 8,628 | 2.48 |
| | | The largest cement manufacturer in Taiwan and the seventh largest in China, focusing on South East China markets. An operationally strong business with a high yield driven by strong cash flow generation. | | | | |
| **7** | 24 | **China Mobile** | China | Telecommunications | 8,432 | 2.42 |
| | | One of the largest mobile service providers globally. The company has a strong balance sheet with strong cash flow generation. Further opportunities lie in the 4G launch in China, supported by rising smartphone penetration. | | | | |
| **8** | 7 | **Advanced Information Services** | Thailand | Telecommunications | 8,111 | 2.33 |
| | | The leading provider of mobile telecommunications in Thailand. The company is the main beneficiary of increased data from the recent 3G services launch and value added service usage as smartphone penetration rises. | | | | |
| **9** | 16 | **Amcor** | Australia | Industrials | 8,104 | 2.32 |
| | | A global leader in the packaging industry, producing a wide range of packaging products with strong exposure to emerging market growth. | | | | |
| **10** | 19 | **Taiwan Semiconductor Manufacturing**(†) | Taiwan | Technology | 7,954 | 2.28 |
| | | The world's leading semiconductor foundry service provider. The company manufactures and markets integrated circuits which are used in computer, communication and consumer electronics industries. | | | | |
| **Top Ten Investments** | | | | | **86,639** | **24.87** |

The Top Ten Investments by value account for 24.87% of total investments (2012: £88,034,000 or 28.25%).

# Investment Portfolio

continued

| Rank 2013 | Rank 2012 | Company | Country of Incorporation | Sector | Value £'000 | % |
|---|---|---|---|---|---|---|
| 11 | 18 | Cheung Kong Holdings | Hong Kong | Property | 7,911 | 2.27 |
| 12 | – | SJM Holdings | Hong Kong | Consumer Services | 7,734 | 2.22 |
| 13 | 27 | Jiangsu Expressway | China | Industrials | 7,473 | 2.15 |
| 14 | 29 | Taiwan Mobile | Taiwan | Telecommunications | 7,385 | 2.12 |
| 15 | – | Westfield Retail | Australia | Property | 7,364 | 2.11 |
| 16 | – | Grand Korea Leisure | South Korea | Consumer Services | 7,276 | 2.09 |
| 17 | 39 | Wharf Holdings | Hong Kong | Property | 7,189 | 2.06 |
| 18 | 3 | Suncorp | Australia | Financials | 7,173 | 2.06 |
| 19 | 12 | NWS Holdings | Hong Kong | Industrials | 7,138 | 2.05 |
| 20 | 26 | SK Telecom(†) | South Korea | Telecommunications | 7,133 | 2.05 |
| **Top Twenty Investments** | | | | | **160,415** | **46.05** |
| 21 | 31 | Santos | Australia | Oil & Gas | 6,999 | 2.00 |
| 22 | 22 | Krung Thai Bank | Thailand | Financials | 6,842 | 1.96 |
| 23 | 2 | Digital China Holdings | China | Technology | 6,800 | 1.95 |
| 24 | – | HSBC | UK | Financials | 6,621 | 1.90 |
| 25 | – | Sonic Health Care | Australia | Health Care | 6,598 | 1.90 |
| 26 | 23 | Mega Financial(*) | Taiwan | Financials | 6,598 | 1.90 |
| 27 | 14 | CapitaMall Trust REIT | Singapore | Property | 6,570 | 1.89 |
| 28 | 5 | Charoen Pokphand Food | Thailand | Consumer Goods | 6,547 | 1.88 |
| 29 | 41 | Catcher Technology | Taiwan | Technology | 6,546 | 1.88 |
| 30 | 35 | Sembcorp Marine | Singapore | Oil & Gas | 6,444 | 1.85 |
| **Top Thirty Investments** | | | | | **226,980** | **65.16** |
| 31 | – | Quanta Computers(*) | Taiwan | Technology | 6,317 | 1.81 |
| 32 | 8 | Philippine Long Distance Telephone(†) | The Philippines | Telecommunications | 6,297 | 1.81 |
| 33 | – | Mapletree Greater China | Hong Kong | Property | 6,247 | 1.79 |
| 34 | – | Cairn India(*) | India | Oil & Gas | 6,237 | 1.79 |
| 35 | 21 | Television Broadcasts | Hong Kong | Consumer Services | 6,145 | 1.77 |
| 36 | 38 | Kangwon Land | South Korea | Consumer Services | 6,135 | 1.76 |
| 37 | 10 | Ascendas Real Estate | Singapore | Property | 5,940 | 1.71 |
| 38 | – | Seven West Media | Australia | Consumer Services | 5,935 | 1.70 |
| 39 | 40 | Guangzhou R&F Properties | China | Property | 5,845 | 1.68 |
| 40 | 9 | Telekomunikasi Indonesia | Indonesia | Telecommunications | 5,794 | 1.66 |
| **Top Forty Investments** | | | | | **287,872** | **82.64** |

# Investment Portfolio

continued

| Rank 2013 | Rank 2012 | Company | Country of Incorporation | Sector | Value £'000 | % |
|---|---|---|---|---|---|---|
| 41 | 20 | DBS Group | Singapore | Financials | 5,724 | 1.64 |
| 42 | – | Dexus Property | Australia | Property | 5,618 | 1.61 |
| 43 | – | Myer Holdings | Australia | Consumer Services | 5,533 | 1.59 |
| 44 | – | Skyworth Digital Holdings | Hong Kong | Consumer Goods | 5,467 | 1.57 |
| 45 | 47 | Macquarie Korea Infrastructure Fund | South Korea | Financials | 5,393 | 1.55 |
| 46 | – | LPN Development | Thailand | Property | 5,348 | 1.53 |
| 47 | – | Telstra Corporation | Australia | Telecommunications | 5,272 | 1.51 |
| 48 | 30 | CTCI Corporation | Taiwan | Industrials | 5,246 | 1.51 |
| 49 | 1 | Asustek Computer(*) | Taiwan | Technology | 4,936 | 1.42 |
| 50 | 46 | SATS | Singapore | Industrials | 4,871 | 1.40 |
| **Top Fifty Investments** | | | | | **341,280** | **97.97** |
| 51 | – | Cleanaway | Taiwan | Industrials | 3,882 | 1.11 |
| 52 | – | United Microelectronic | Taiwan | Technology | 3,250 | 0.93 |
| 53 | 48 | China Forestry Holdings | China | Basic Materials | 516 | 0.15 |
| 54 | – | China Communications Sep 13 Put 4.2 (Expiry 26/09/2013) | China | Industrials | (2) | – |
| 55 | – | China Communications Sep 13 Put 4.30 (Expiry 19/09/2013) | China | Industrials | (3) | – |
| 56 | – | Guangzhou R&F Properties Oct 13 Put 9.74124 (Expiry 11/10/2013) | China | Property | (7) | – |
| 57 | – | Wharf Holdings Sep 13 Put 61.5543 (Expiry 27/09/2013) | Hong Kong | Property | (59) | (0.01) |
| 58 | – | United Microelec Oct 13 Put 12.5 (Expiry 24/10/2013) | Taiwan | Technology | (168) | (0.05) |
| 59 | – | Japan Tobacco Oct 13 Put 3385.6 (Expiry 10/10/2013) | Japan | Consumer Goods | (342) | (0.10) |
| **Total Investments** | | | | | **348,347** | **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 2013. 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 2013. 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 Jersey Funds law"). 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 ('Asia Pacific region').

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 12 countries across the region, and no single country represents more than 20% of the portfolio.

### c) Financial Review

*Results for the year*

Total net assets at 31 August 2013 amounted to £325,798,000 (2012: £300,500,000) and the net asset value per ordinary share was 312.23p (2012: 295.82p).

At 31 August 2013 there were 59 (2012: 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 £18,579,000 (2012: £17,495,000). Total return was £32,765,000 (2012: £24,767,000).

*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.

For the year ended 31 August 2013 the ongoing charges were 1.29% (2012: 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.

During the year under review the Company paid a fourth interim dividend of 4.10p per share in respect of the year ended 31 August 2012, and two interim dividends each of 4.10p and a third interim dividend of 4.40p for the year ended 31 August 2013. A fourth interim dividend of 4.40p per share will be paid on 29 November 2013, to shareholders on the register of members on 8 November 2013. The shares were quoted ex-dividend on 6 November 2013.

# Report of the Directors

continued

*Payment of Creditors*

It remains the payment policy of the Company for the financial year to 31 August 2014 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 2013 (2012: none).

*Bank Facilities and Gearing*

In February 2012 the Company took out a one year revolving multi-currency loan facility which enabled it to borrow as and when appropriate. The facility was renewed for a further year in February 2013.The maximum amount drawn down under the period was £31.2 million, with borrowing costs including interest for the year totalling £392,000. Net gearing (defined as bank loans less cash as a percentage of net assets) at 31 August was 6.9% of net asset value (2012: 5.1%).

*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.

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 (equivalent to 1.0% of net assets p.a.).

Following a review of the management fee arrangement, from 1 September 2013, the annual management fee payable to Henderson Global Investors reduced from 1.0% to 0.9% p.a of net assets.

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.

Administration services and the services of the Company Secretary are provided to the Company by BNP Paribas Securities Services S.C.A., Jersey Branch ('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**

Other than the relationship between the Company, and its Directors, the provision of services by Henderson is the only related party arrangement currently in place. Other than fees

# Report of the Directors

continued

payable by the Company in the ordinary course of business, there have been no material transactions with these related parties affecting the financial position or the performance of the Company during the year under review.

**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. The Company does not employ financial instruments to mitigate 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 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

# Report of the Directors

continued

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.

The latest revision of the Code was published in 2012 and will apply to the Company from 1 September 2013.

*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. Simon Meredith Hardy and David Mashiter offer themselves for re-election at the forthcoming AGM, having previously been re-elected in 2011. 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 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 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.

# Report of the Directors

continued

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.

Simon Meredith Hardy and David Mashiter offer themselves for re-election in accordance with the Articles of Association. Simon Meredith Hardy and David Mashiter 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 2013** | 1 September 2012 |
|---|---|---|
| John Russell (Chairman) | **50,142** | 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** | 10,300 |

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 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

# Report of the Directors

continued

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 KPMG Channel Islands Limited, 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 3** | **Management Engagement Committee 1** | **Nominations Committee 1** |
|---|---|---|---|---|
| John Russell | 4 | 3 | 1 | 1 |
| David Mashiter* | 2 | 3 | 1 | 1 |
| Simon Meredith Hardy | 4 | 2 | 1 | 1 |
| Richard Povey | 4 | 3 | 1 | 1 |
| David Staples | 4 | 3 | 1 | 1 |

*Mr Mashiter missed two Board meetings during the year due to medical reasons.

In addition, five short Board meetings were held during the year to approve dividends, release the Interim Management Statements and to attend to specific items, and the Annual General Meeting was held in December 2012.

**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

# Report of the Directors

continued

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 2013, 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.

**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.

# Report of the Directors

continued

**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 101,580,564, and at the end 104,345,564, as the Company allotted 2,765,000 additional shares in the year. All new shares are issued at a premium to net asset value.

*Substantial share interests*

As at 14 November 2013 the following had declared a notifiable interest of voting rights of 3% or above in the Company's issued share capital.

| Shareholder | % of voting rights |
|---|---|
| Rathbone Brothers plc | 9.57 |
| Investec Wealth Management | 4.99 |
| 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 14 November 2013 (shareholdings being voting rights).

At 31 August 2013, 7.4% of the issued share capital was held on behalf of participants in the Halifax Share Dealing products and 0.29% 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 Thursday 19 December 2013 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 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

# Report of the Directors

continued

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.

  Henderson's corporate responsibility statement is included on the website **www.henderson.com**. For 2012 it was granted CarbonNeutral Company status which it has committed to maintain at least until the end of 2015. The Company's annual and half year reports are printed on carbon balanced paper, whereby the carbon impact of the production and distribution process has been balanced, or offset, by the World Land Trust, an international conservation charity.

## Alternative Investment Fund Manager (AIFM) Directive

The UK is currently in the process of implementing the AIFM Directive, a piece of EU legislation which is targeted at the regulation of alternative investment funds and also catches within its scope all non UCITS funds including UK authorised investment trusts and offshore domiciled investment companies managed by an EU based manager. Having taken professional advice, your Board believes shareholders' interests would be best served by fully complying with the Directive as if your Company were a UK domiciled fund. Accordingly, it is the Board's intention to appoint Henderson Global Investors Limited as its AIFM and a Depositary and to complete the authorisation process by July 2014.

## Annual General Meeting ('AGM')

The AGM will be held at the Company's registered office in Jersey on Wednesday 18 December 2013 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 18 December 2012 the Directors were granted authority to repurchase 15,277,893 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**

Having engaged Ernst & Young LLP as the company's auditor since 2006, the Board, on the recommendation of the Audit Committee, decided after the 2012 year end to put the audit out to tender. Following formal proposals from a number of audit firms, KPMG Channel Islands Limited was successful in this process and Ernst & Young LLP consequently resigned as auditor to the Company on 13 February 2013. The Board appointed KPMG Channel Islands Limited to fill the vacancy and accordingly resolutions will be proposed at the Annual General Meeting to re-appoint KPMG Channel Islands Limited as auditor of the Company and to authorise the Directors to agree their remuneration.

A description of how the Audit Committee ensures the objectivity and independence of the auditor is set out on page 16 within the Corporate Governance Statement.

## 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

Richard Povey
Director
14 November 2013

# 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 law and regulations.

Jersey Company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union . The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company at the year end and of the profit or loss of the Company for the year then ended.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for keeping accounting records that disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of 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.

**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 IFRS as adopted by the European Union, 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

Richard Povey
Director
14 November 2013

# Directors' Remuneration Report

This report meets the relevant rules of the Listing Rules of the UK's Financial Conduct 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.

From 1 September 2013, the fees paid to the Directors have increased as follows; Chairman £37,500, Audit Chairman £28,000, Director £24,000.

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

**Directors' fees (Audited information)**

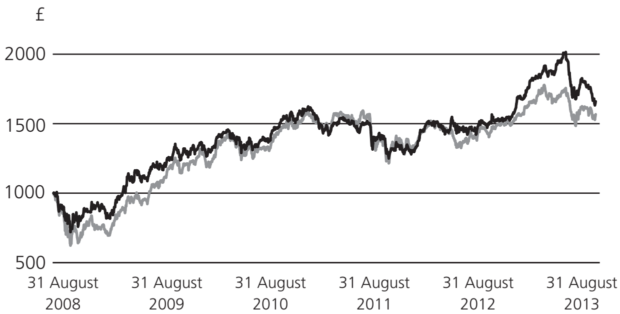
The fees payable by the Company in respect of each of the Directors who served during the year, and in the previous year, were as follows:

| Year ended 31 August | **2013** **£** | 2012 £ |
|---|---|---|
| John Russell (Chairman and highest paid director) | **35,000** | 35,000 |
| David Mashiter | **22,000** | 22,000 |
| Simon Meredith Hardy | **22,000** | 22,000 |
| Richard Povey | **22,000** | 22,000 |
| David Staples | **25,000** | 25,000 |
| Total | **126,000** | 126,000 |

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 2008 to 31 August 2013. In view of the Company's objective, this is the most appropriate index against which to measure performance.

**Share price performance graph**




Henderson Far East Income Limited share price total return, assuming the investment of £1,000 on 31 August 2008 and the reinvestment of all dividends (excluding dealing expenses).

FTSE All-World Asia Pacific ex Japan Index total return (£), assuming the notional investment of £1,000 into the Index on 31 August 2008 and the reinvestment of all income (excluding dealing expenses).

Source: Datastream

For and on behalf of the Board

Richard Povey
Director
14 November 2013

# Independent auditor's report 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 2013 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

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 Statement of Directors' Responsibilities set out 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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

**Other matters**
The financial statements for the year ended 31 August 2012 were audited by another auditor who expressed an unmodified opinion on those financial statements on 12 November 2012.

**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:

- adequate accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of the following:

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.

Heather MacCallum
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognized Auditor
14 November 2013

Notes:

- The maintenance and integrity of the **www.hendersonfareastincome.com** website is the responsibility of the Directors; the work carried out by auditors does not involve consideration of these matters and accordingly, KPMG Channel Islands Limited accepts no responsibility for any changes that may have occurred to the financial statements or our audit report since 14 November 2013. KPMG Channel Islands Limited has carried out no procedures of any nature subsequent to 14 November 2013 which in any way extends this date.
- Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the financial statements are complete and unaltered in any way.

# Statement of Comprehensive Income

for the year ended 31 August 2013

| Notes | | Year ended 31 August 2013 Revenue return £'000 | Year ended 31 August 2013 Capital return £'000 | Year ended 31 August 2013 Total £'000 | Year ended 31 August 2012 Revenue return £'000 | Year ended 31 August 2012 Capital return £'000 | Year ended 31 August 2012 Total £'000 |
|---|---|---|---|---|---|---|---|
| 3 | Investment income | **21,154** | **–** | **21,154** | 18,643 | – | 18,643 |
| 4 | Other income | **1,600** | **–** | **1,600** | 2,220 | – | 2,220 |
| 10 | Gains on investments held at fair value through profit or loss | **–** | **16,572** | **16,572** | – | 9,085 | 9,085 |
| | **Total income** | **22,754** | **16,572** | **39,326** | 20,863 | 9,085 | 29,948 |
| | **Expenses** | | | | | | |
| | Management fees | **(1,829)** | **(1,829)** | **(3,658)** | (1,423) | (1,423) | (2,846) |
| 5 | Other expenses | **(429)** | **(429)** | **(858)** | (379) | (379) | (758) |
| | **Profit before finance costs and taxation** | **20,496** | **14,314** | **34,810** | 19,061 | 7,283 | 26,344 |
| 6 | Finance costs | **(128)** | **(128)** | **(256)** | (11) | (11) | (22) |
| | **Profit before taxation** | **20,368** | **14,186** | **34,554** | 19,050 | 7,272 | 26,322 |
| 7 | Taxation | **(1,789)** | **–** | **(1,789)** | (1,555) | – | (1,555) |
| | **Profit for the year and total comprehensive income** | **18,579** | **14,186** | **32,765** | 17,495 | 7,272 | 24,767 |
| 8 | **Earnings per ordinary share – basic and diluted** | **18.05p** | **13.78p** | **31.83p** | 17.31p | 7.19p | 24.50p |

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

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

# Statement of Changes in Equity

for the year ended 31 August 2013

| Notes | **Year ended 31 August 2013** | **Stated share capital £'000** | **Distributable reserve £'000** | **Other capital reserves £'000** | **Revenue reserve £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| | **Total equity at 31 August 2012** | **67,727** | **180,471** | **37,119** | **15,183** | **300,500** |
| | **Total comprehensive income:** | | | | | |
| | **Profit for the year** | **–** | **–** | **14,186** | **18,579** | **32,765** |
| | **Transactions with owners, recorded directly to equity:** | | | | | |
| **9** | **Dividends paid** | **–** | **–** | **–** | **(17,251)** | **(17,251)** |
| **14** | **Shares issued** | **9,833** | **–** | **–** | **–** | **9,833** |
| **14** | **Share issue costs** | **(49)** | **–** | **–** | **–** | **(49)** |
| | **Total equity at 31 August 2013** | **77,511** | **180,471** | **51,305** | **16,511** | **325,798** |

| 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 |

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

# Balance Sheet

at 31 August 2013

| Notes | | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| | **Non current assets** | | |
| 10 | Investments held at fair value through profit or loss | **348,928** | 311,859 |
| | **Current assets** | | |
| 11 | Other receivables | **8,231** | 4,948 |
| | Cash and cash equivalents | **4,257** | 6,076 |
| | | **12,488** | 11,024 |
| | **Total assets** | **361,416** | 322,883 |
| | **Current liabilities** | | |
| 10 | Written options | **(581)** | (254) |
| 12(a) | Other payables | **(3,854)** | (715) |
| 12(b)&(c) | Bank loans and overdrafts | **(31,183)** | (21,414) |
| | | **(35,618)** | (22,383) |
| | **Net assets** | **325,798** | 300,500 |
| | **Equity attributable to equity shareholders** | | |
| 14 | Stated share capital | **77,511** | 67,727 |
| 15 | Distributable reserve | **180,471** | 180,471 |
| | Retained earnings: | | |
| 16 | Other capital reserves | **51,305** | 37,119 |
| | Revenue reserve | **16,511** | 15,183 |
| | **Total equity** | **325,798** | 300,500 |
| 17 | **Net asset value per ordinary share** | **312.23p** | 295.82p |

The financial statements on pages 23 to 43 were approved by the Board of Directors and authorised for issue on 14 November 2013 and were signed on its behalf by:

Richard Thomas Povey
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 2013

| Notes | | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| | **Operating activities** | | |
| | Profit before taxation | **34,554** | 26,322 |
| | Add back interest payable | **245** | 16 |
| 10 | Gains on investments held at fair value through profit or loss | **(16,572)** | (9,085) |
| 10 | Sales of investments | **259,085** | 199,661 |
| 10 | Purchase of investments | **(278,348)** | (219,659) |
| | Decrease in other receivables | **–** | 26 |
| | Decrease/(increase) in prepayments and accrued income | **1,174** | (1,554) |
| | Increase in amounts due from brokers | **(4,442)** | (954) |
| | Increase in amounts due to brokers | **3,078** | – |
| | Increase in other payables | **72** | 88 |
| | Stock dividends included in investment income | **(44)** | (66) |
| | **Net cash outflow from operating activities before interest and taxation** | **(1,198)** | (5,205) |
| | Interest paid | **(245)** | (16) |
| | Withholding tax on investment income | **(1,800)** | (1,630) |
| | **Net cash outflow from operating activities** | **(3,243)** | (6,851) |
| | **Financing activities** | | |
| | Net loans drawndown | **9,744** | 21,414 |
| 9 | Equity dividends paid | **(17,251)** | (15,972) |
| | Liquidation proceeds received from predecessor company | **–** | 59 |
| 14 | Share issue proceeds | **9,833** | 4,856 |
| 14 | Share issue costs | **(49)** | (22) |
| | **Net cash inflow from financing** | **2,277** | 10,335 |
| | **(Decrease)/increase in cash and cash equivalents** | **(966)** | 3,484 |
| | Cash and cash equivalents at the start of the year | **6,076** | 2,784 |
| | Exchange movements | **(854)** | (192) |
| | **Cash and cash equivalents at the end of the year (including bank overdrafts of £1,000 (2012: £nil))** | **4,256** | 6,076 |

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 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('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.

The following amended IFRSs have been adopted by the Company during the year:

**New Standards applied**

Amendment to IAS 1 Presentation of Items of Other Comprehensive Income

**New standards and interpretations not yet adopted**

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee has recently issued the following new standards and amendments which are effective for annual periods beginning on or after 1 January 2014, unless stated otherwise, and have not been applied in preparing these financial statements.

IFRS 9 Financial Instruments: Classification and Measurement which is the first phase of a wider project to replace IAS 39 Financial Instruments: Recognition and Measurement, replaces the current models for classification and measurement of financial instruments. Financial assets are to be classified into two measurement categories: fair value and amortised cost. Classification will depend on an entity's business model and the characteristics of contractual cash flow of the financial instrument. The standard is effective for annual periods beginning on or after 1 January 2015.

IFRS 10 Consolidated Financial Statements revises the concept of control to relate it to whether an investor has exercisable power over an investee and consequently has exposure or rights to variable returns.

IFRS 12 Disclosure of Interests in Other Entities consolidates and enhances disclosure requirements relating to interests of an entity in other entities. It includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structures.

Amendment to IAS 32 Financial instruments: Presentation provides additional guidance for offsetting financial assets and liabilities while amendments to IFRS 7 Financial instruments: Disclosures set out corresponding new disclosure requirements. The amendment is effective for annual periods beginning on or after 1 January 2013.

# Notes to the Financial Statements
continued

## 2 Accounting policies (continued)

IFRS 11 Joint Arrangements requires joint ventures to be accounted for using the equity accounting method while joint operations are accounted for based on the rights and obligations of each party in the arrangement.

IFRS 13 Fair Value Measurement aims to improve consistency and reduce complexity by providing guidance on how to measure fair value where fair value is required or permitted across IFRSs and enhances disclosures requirements (effective for annual periods beginning on or after 1 January 2013).

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. The fair values of unquoted financial instruments within the portfolio are based on their last audited net asset values discounted where necessary to arrive at a fair value.

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 are valued at £23.5 million (2012: £21.3 million). These are valued by reference to the underlying stock. The obligations relating to the options valued at £581,000 (2012: £254,000) 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 as determined by the Directors taking into account 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.

# Notes to the Financial Statements

continued

## 2 Accounting policies (continued)

**(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 Controller of Income Tax for inclusion on the list of 'International Services Entities' of its administrator BNP Paribas Securities Services S.C.A. Jersey Branch, 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.

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**

Under IFRS 8, operating segments are considered to be the components of an entity, about which separate financial information is available, that is evaluated regularly by the chief operating decision-maker (the Investment Manager, with oversight from the Board) in deciding how to allocate resources and in assessing performance. The Directors meet regularly to consider investment strategy and to monitor the Company's performance. The Portfolio Manager, who has been appointed to manage the Company's investments, attends all Board meetings at which investment strategy and performance are discussed. The Directors consider that the Company is organised into one 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.

The business is not managed on a geographical basis, however, for the convenience of investors, disclosure by geographical segment has been provided in note 3 and in the Manager's report on page 7. Further analyses of expenses, investment gains or losses, profit and other assets and liabilities by country have not been given as either it is not possible to prepare such information in a meaningful way or the results are not considered to be significant.

**(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.

# Notes to the Financial Statements

continued

| 3 | Investment income | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| | Overseas dividends | **20,499** | 18,577 |
| | Outperformance Participation Note income | **611** | – |
| | Stock dividends | **44** | 66 |
| | | **21,154** | 18,643 |

Analysis of investment income by geographical segment:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Australia | **4,553** | 3,638 |
| China | **3,830** | 3,243 |
| Hong Kong | **2,150** | 1,961 |
| India | **270** | – |
| Indonesia | **823** | 834 |
| Japan | **–** | 290 |
| Malaysia | **458** | 313 |
| New Zealand | **869** | 302 |
| The Philippines | **496** | 450 |
| Singapore | **1,503** | 1,999 |
| South Korea | **1,607** | 933 |
| Taiwan | **3,455** | 3,052 |
| Thailand | **1,140** | 1,628 |
| | **21,154** | 18,643 |

All of the above income is derived from equity investments.

| 4 | Other income | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| | Bank and other interest | **3** | 4 |
| | Option premium income | **1,597** | 2,216 |
| | | **1,600** | 2,220 |

# Notes to the Financial Statements

continued

| 5 Other expenses | 2013 Revenue return £'000 | 2013 Capital return £'000 | 2013 Total £'000 | 2012 Revenue return £'000 | 2012 Capital return £'000 | 2012 Total £'000 |
|---|---|---|---|---|---|---|
| Directors' fees (see the Directors' Remuneration Report on page 21) | **63** | **63** | **126** | 63 | 63 | 126 |
| Auditors' remuneration | | | | | | |
| – statutory audit | **15** | **14** | **29** | 16 | 16 | 32 |
| – interim accounts review | **3** | **3** | **6** | 4 | 4 | 8 |
| Bank and custody charges | **115** | **115** | **230** | 92 | 92 | 184 |
| Loan arrangement and non-utilisation fees | **68** | **68** | **136** | 56 | 56 | 112 |
| Other expenses payable to the management company* | **42** | **42** | **84** | 32 | 32 | 64 |
| Registrar's fees | **21** | **21** | **42** | 20 | 20 | 40 |
| Printing and stationery | **10** | **10** | **20** | 13 | 13 | 26 |
| Asia Board visit | **16** | **17** | **33** | 18 | 17 | 35 |
| Other expenses | **76** | **76** | **152** | 65 | 66 | 131 |
| | **429** | **429** | **858** | 379 | 379 | 758 |

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

| 6 Finance costs | 2013 £'000 | 2012 £'000 |
|---|---|---|
| On bank loans and overdrafts payable: within one year | **256** | 22 |
| Amount allocated to capital | **(128)** | (11) |
| Total allocated to revenue | **128** | 11 |

| 7 Taxation | 2013 Revenue return £'000 | 2013 Capital return £'000 | 2013 Total £'000 | 2012 Revenue return £'000 | 2012 Capital return £'000 | 2012 Total £'000 |
|---|---|---|---|---|---|---|
| The taxation charge for the period is comprised of the following: | | | | | | |
| Foreign withholding tax suffered | **1,789** | **–** | **1,789** | 1,555 | – | 1,555 |
| | **1,789** | **–** | **1,789** | 1,555 | – | 1,555 |

Profits arising in the Company for the year ended 31 August 2013 are subject to Jersey income tax at the rate of 0% (2012: 0%).

# Notes to the Financial Statements

continued

## 8 Earnings per ordinary share

The earnings per ordinary share figure is based on the net gains for the year of £32,765,000 (2012: £24,767,000) and on 102,912,043 (2012: on 101,077,558) being the weighted average number of ordinary shares in issue during the year.

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

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Net revenue profit | **18,579** | 17,495 |
| Net capital profit | **14,186** | 7,272 |
| Net total profit | **32,765** | 24,767 |
| Weighted average number of ordinary shares in issue during the year | **102,912,043** | 101,077,558 |
| Revenue earnings per ordinary share | **18.05p** | 17.31p |
| Capital earnings per ordinary share | **13.78p** | 7.19p |
| Total earnings per ordinary share | **31.83p** | 24.50p |

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 | **2013 £'000** | 2012 £'000 |
|---|---|---|---|---|
| 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 |
| Fourth interim dividend 4.10p for the year ended 2012 | 9 November 2012 | 30 November 2012 | **4,165** | – |
| First interim dividend 4.10p for the year ended 2013 | 8 February 2013 | 28 February 2013 | **4,217** | – |
| Second interim dividend 4.10p for the year ended 2013 | 10 May 2013 | 31 May 2013 | **4,278** | – |
| Third interim dividend 4.40p for the year ended 2013 | 9 August 2013 | 30 August 2013 | **4,591** | – |
| | | | **17,251** | 15,972 |

The fourth interim dividend for the year ended 31 August 2013 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 £18,579,000 (2012: £17,495,000).

# Notes to the Financial Statements
continued

| **9** | **Dividends** (continued) | **2013 £'000** | 2012 £'000 |
|---|---|---|---|
| | First interim dividend for 2013 – 4.10p (2012: 3.90p) | **4,217** | 3,930 |
| | Second interim dividend for 2013 – 4.10p (2012: 3.90p) | **4,278** | 3,958 |
| | Third interim dividend for 2013 – 4.40p (2012: 4.10p) | **4,591** | 4,165 |
| | Fourth interim dividend for 2013 – 4.40p (2012: 4.10p) (payable 29 November 2013 based on 104,570,564 shares in issue at 8 November 2013) | **4,601** | 4,165 |
| | | **17,687** | 16,218 |

| **10** | **Investments held at fair value through profit or loss** | **2013 £'000** | 2012 £'000 |
|---|---|---|---|
| | Cost at the beginning of the year | **282,630** | 272,532 |
| | Investment holding gain at the beginning of the year | **28,975** | 9,732 |
| | Valuation of investments and options written at the beginning of the year | **311,605** | 282,264 |
| | Movements in the year: | | |
| | Purchases at cost | **278,392** | 219,725 |
| | Sales – proceeds | **(259,085)** | (199,661) |
| | – realised gains/(losses) on sales | **27,132** | (9,966) |
| | (Decrease)/increase in investment holding gains | **(9,697)** | 19,243 |
| | Closing valuation of investments and options written at the end of the year | **348,347** | 311,605 |
| | Cost at the end of the year | **329,069** | 282,630 |
| | Investment holding gain | **19,278** | 28,975 |
| | Closing valuation of investments and options written at the end of the year | **348,347** | 311,605 |

As at 31 August 2013 the market value included options written of £(581,000) (2012: £(254,000)).

There is one unquoted investment valued at £516,000 (2012: £746,000). The Company also holds over-the-counter options and Participation Notes valued at £23,507,000 (2012: £21,036,000).

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| **Gains/(losses) on investments held at fair value** | | |
| Realised gains/(losses) on sales of investments | **27,132** | (9,966) |
| (Decrease)/increase in investment holding gains | **(9,697)** | 19,243 |
| Net movement on foreign exchange | **(863)** | (192) |
| | **16,572** | 9,085 |

# 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:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Purchases | **616** | 517 |
| Sales | **614** | 524 |
| | **1,230** | 1,041 |

## 11 Other receivables

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Prepayments and accrued income | **2,811** | 3,985 |
| Amounts due from brokers | **5,405** | 963 |
| Other receivables | **15** | – |
| | **8,231** | 4,948 |

## 12 Other payables

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **(a) Other payables** | | |
| Foreign withholding tax payable | **–** | 11 |
| Amounts due to brokers | **3,078** | – |
| Other payables | **776** | 704 |
| | **3,854** | 715 |

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **(b) Bank overdrafts** | **1** | – |

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **(c) Bank loans (unsecured)** | **31,182** | 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 2013 on its investments amounted to £348,928,000 (2012: £311,859,000) in respect of 'Non current assets' and £581,000 (2012: £254,000) 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, Thailand and Hong Kong, 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% (2012: 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)

| | 2013 Increase in fair value £'000 | 2013 Decrease in fair value £'000 | 2012 Increase in fair value £'000 | 2012 Decrease in fair value £'000 |
|---|---|---|---|---|
| Statement of Comprehensive Income – profit after tax | | | | |
| Revenue return | **(174)** | **174** | (156) | 156 |
| Capital return | **34,661** | **(34,661)** | 31,005 | (31,005) |
| Impact on total return after tax for the year and shareholders' funds | **34,487** | **(34,487)** | 30,849 | (30,849) |

### 13.1.2 Currency risk

The majority 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.

| **2013** | **AUS$ £'000** | **TW$ £'000** | **KRW £'000** | **HK$ £'000** | **S$ £'000** | **US$ £'000** | **Other £'000** |
|---|---|---|---|---|---|---|---|
| Receivables (due from brokers, dividends and other income receivable) | **4,086** | **1,227** | **23** | **645** | **1,719** | **163** | **322** |
| Cash at bank and on deposit less short term overdrafts | **1,045** | **–** | **–** | **415** | **158** | **1,489** | **1,150** |
| Payables (due to brokers, accruals and other creditors) | **(649)** | **–** | **–** | **(1,279)** | **–** | **–** | **(1,151)** |
| Borrowings under multi-currency loan facility | **–** | **–** | **–** | **–** | **–** | **(31,182)** | **–** |
| Total foreign currency exposure on net monetary items | **4,482** | **1,227** | **23** | **(219)** | **1,877** | **(29,530)** | **321** |
| Investments at fair value through profit or loss that are equities | **58,596** | **34,769** | **27,851** | **95,521** | **35,796** | **45,471** | **50,343** |
| **Total net foreign currency exposures** | **63,078** | **35,996** | **27,874** | **95,302** | **37,673** | **15,941** | **50,664** |

# Notes to the Financial Statements

continued

**13 Risk Management policies and procedures** (continued)

**13.1.2 Currency risk** (continued)

| 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 |

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% (2012: 10%). Sterling/Taiwanese Dollar +/- 10% (2012: 10%).
Sterling/Korean Won +/- 10% (2012: 10%). Sterling/Hong Kong Dollar +/- 10% (2012: 10%).
Sterling/Singapore Dollar +/- 10% (2012: 10%). Sterling/US Dollar +/- 10% (2012: 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:

| | **2013 AUS$ £'000** | **2013 TW$ £'000** | **2013 KRW £'000** | **2013 HK$ £'000** | **2013 S$ £'000** | **2013 US$ £'000** | **2013 Other £'000** | 2012 AUS$ £'000 | 2012 TW$ £'000 | 2012 KRW £'000 | 2012 HK$ £'000 | 2012 S$ £'000 | 2012 US$ £'000 | 2012 Other £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Statement of Comprehensive Income – return after tax | | | | | | | | | | | | | | |
| Revenue return | **471** | **275** | **105** | **441** | **146** | **214** | **489** | 383 | 285 | 47 | 400 | 209 | 109 | 466 |
| Capital return | **6,476** | **3,842** | **3,078** | **10,558** | **3,957** | **5,026** | **5,563** | 5,750 | 2,513 | 1,653 | 9,317 | 4,160 | 4,186 | 6,860 |
| Total return after tax for the year | **6,947** | **4,117** | **3,183** | **10,999** | **4,103** | **5,240** | **6,052** | 6,133 | 2,798 | 1,700 | 9,717 | 4,369 | 4,295 | 7,326 |

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

| | **2013 AUS$ £'000** | **2013 TW$ £'000** | **2013 KRW £'000** | **2013 HK$ £'000** | **2013 S$ £'000** | **2013 US$ £'000** | **2013 Other £'000** | 2012 AUS$ £'000 | 2012 TW$ £'000 | 2012 KRW £'000 | 2012 HK$ £'000 | 2012 S$ £'000 | 2012 US$ £'000 | 2012 Other £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Statement of Comprehensive Income – return after tax | | | | | | | | | | | | | | |
| Revenue return | **(385)** | **(225)** | **(86)** | **(360)** | **(120)** | **(175)** | **(400)** | (313) | (233) | (38) | (327) | (171) | (89) | (276) |
| Capital return | **(5,298)** | **(3,144)** | **(2,519)** | **(8,638)** | **(3,237)** | **(4,112)** | **(4,552)** | (4,704) | (2,056) | (1,353) | (7,623) | (3,404) | (3,425) | (5,614) |
| Total return after tax for the year | **(5,683)** | **(3,369)** | **(2,605)** | **(8,998)** | **(3,357)** | **(4,287)** | **(4,952)** | (5,017) | (2,289) | (1,391) | (7,950) | (3,575) | (3,514) | (5,890) |

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 2013 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 (2012: 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 £113,000 (2012: £46,000), capital return after tax by £156,000 (2012: £107,000), and total profit after tax and shareholders' funds by £269,000 (2012: £153,000).

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 £45 million (2012: £30 million) of which £31,182,000 (2012: £21,414,000) was drawn down at the year end. This facility is under regular review and unless renewed will expire on 27 February 2014.

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:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| **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 | **31,233** | **–** | 21,423 | – |
| Written put options at fair value | **581** | **–** | 254 | – |
| Amounts to brokers and accruals | **3,854** | **–** | 715 | – |
| | **35,668** | **–** | 22,392 | – |

### 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.

# Notes to the Financial Statements

continued

## 13 Risk Management policies and procedures (continued)

### 13.3 Credit risk (continued)

***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 2013 was to cash and cash equivalents £4,257,000 (2012: £6,076,000) and to other receivables of £8,231,000 (2012: £4,948,000).

Amounts due from brokers and accrued income of £8,185,000 had been received at 14 November 2013, the date of printing this report.

The Company is also exposed to credit risk through the use of banks for its cash position. Bankruptcy or insolvency of banks may cause the Company's rights with respect to cash held by banks to be delayed or limited. The Company's cash balances are held by Custodian J.P. Morgan Chase bank, and loan balances held with, Commonwealth Bank of Australia. The Directors believe these counterparties to be of high quality (S&P credit rating at 31 August 2013: J.P. Morgan Chase Bank A- rated. Commonwealth Bank of Australia AA-); therefore the Company has minimal exposure to credit risk.

### 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 2013** | **Level 1 £'000** | **Level 2 £'000** | **Level 3* £'000** | **Total £'000** |
|---|---|---|---|---|
| Equity investments | **324,324** | **24,088** | **516** | **348,928** |
| OTC derivatives (put options) | **–** | **(581)** | **–** | **(581)** |
| | **324,324** | **23,507** | **516** | **348,347** |

If the discount rate applied in valuing the level 3 investment changed by +/-10%, the impact would be an increase or decrease in revenue after tax of £1,000 (2012: £1000), capital return after tax of £107,000 (2012: £155,000), and total return after tax of £106,000 (2012: £154,000).

| **Level 3 investments at fair value through profit or loss** | **£'000** |
|---|---|
| Opening balance | 746 |
| Transferred into Level 3 | – |
| Capital distribution | – |
| | 746 |
| **Total losses included in gains on investments in the Statement of Comprehensive Income** – on assets held at year end | (230) |
| Closing balance | 516 |

*Level 3 investments relate to one unquoted holding of China Forestry, transferred into level 3 in 2012.

# 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 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 |

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 £1,270,000 (2012: £2,775,000).

**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 £516,000 (2012: £746,000). The Company does write over-the-counter options and holds Participation Notes with a value of £23,507,000 (2012: £21,036,000).

The Company's capital at 31 August comprises its equity share capital, reserves and bank debt that are shown in the balance sheet as a total of £356,981,000 (2012: £321,914,000).

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** | **2013 Issued and fully paid** | **2013 £'000** | 2012 Issued and fully paid | 2012 £'000 |
|---|---|---|---|---|---|---|
| | Opening balance at 1 September | | | | | |
| | Ordinary shares of no par value | Unlimited | **101,580,564** | **67,727** | 100,105,564 | 63,470 |
| | Issued during the year | | **2,765,000** | **9,833** | 1,475,000 | 4,276 |
| | Share issue costs | | **–** | **(49)** | – | (19) |
| | **Closing balance at 31 August** | | **104,345,564** | **77,511** | 101,580,564 | 67,727 |

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 2,765,000 (2012: 1,475,000) shares for proceeds of £9,784,000 (2012: £4,257,000) net of costs.

| **15** | **Distributable reserve** | **2013 £'000** | 2012 £'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** | **2013 Capital reserve arising on investments sold £'000** | **2013 Capital reserve arising on revaluation of investments held £'000** | **2013 Total capital reserves £'000** | 2012 Capital reserve arising on investments sold £'000 | 2012 Capital reserve arising on revaluation of investments held £'000 | 2012 Total capital reserves £'000 |
|---|---|---|---|---|---|---|---|
| | At 1 September | **8,144** | **28,975** | **37,119** | 20,056 | 9,732 | 29,788 |
| | Foreign exchange Losses | **(863)** | **–** | **(863)** | (192) | – | (192) |
| | Movement in investment holding (losses)/gains | **–** | **(9,697)** | **(9,697)** | – | 19,243 | 19,243 |
| | (Losses)/gains on investments | **27,132** | **–** | **27,132** | (9,966) | – | (9,966) |
| | Costs charged to capital | **(2,386)** | **–** | **(2,386)** | (1,813) | – | (1,813) |
| | Liquidation proceeds from predecessor company | **–** | **–** | **–** | 59 | – | 59 |
| | **At 31 August** | **32,027** | **19,278** | **51,305** | 8,144 | 28,975 | 37,119 |

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 2013 pence** | **Net asset value attributable 2013 £'000** | Net asset value per share 2012 pence | Net asset value attributable 2012 £'000 |
|---|---|---|---|---|
| Ordinary shares | **312.23** | **325,798** | 295.82 | 300,500 |

The basic net asset value per ordinary share is based on 104,345,564 (2012: 101,580,564) ordinary shares, being the number of ordinary shares in issue.

## 18 Contingent liabilities

There were no contingent liabilities as at 31 August 2013 (2012: £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 2013 was £3,658,000 (31 August 2012: £2,846,000) of which £595,000 was outstanding at 31 August 2013 (2012: £501,000).

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 2013 amounted to £84,000 (31 August 2012: £64,000), of which £16,000 was outstanding at 31 August 2013 (2012: £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.

## 20 Subsequent events

Since the year end the Company has issued 225,000 shares for net proceeds of £761,000. The Directors have evaluated the period since the year end and have not noted any other subsequent events.

# Investor Information

**Financial calendar**

| | |
|---|---|
| Financial period end | 31 August 2013 |
| Annual General Meeting | 18 December 2013 |
| Shareholder Event (see below) | 19 December 2013 |
| 4th Interim dividend 2013 | 29 November 2013 |
| Ex dividend date | 6 November 2013 |
| Record date | 8 November 2013 |
| 1st Interim dividend 2014 | 28 February 2014 |
| 2nd Interim dividend 2014 | 30 May 2014 |
| 3rd Interim dividend 2014 | 29 August 2014 |

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 Thursday 19 December 2013 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**

***HGi***

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# Investor Information

continued

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David Mashiter
Simon Meredith Hardy
Richard Povey
David Staples

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

**Secretary**
BNP Paribas Securities Services S.C.A. Jersey Branch
represented by Jeremy Hamon

BNP Paribas Securities Services S.C.A. Jersey Branch is regulated by the Jersey Financial Services Commission.

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**The Company is a member of**

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The Association of
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