Company Number: 95064

# HENDERSON FAR EAST INCOME LIMITED

## Report for the half-year ended 28 February 2022

*(unaudited)*

LEGAL ENTITY IDENTIFIER: 2138008DIQREOD38O596

# HENDERSON FAR EAST INCOME LIMITED

## Unaudited results for the half-year ended 28 February 2022

**INVESTMENT OBJECTIVE**

The Company seeks to provide shareholders with a growing total annual dividend per share, as well as capital appreciation, from a diversified portfolio of investments from the Asia Pacific region.

**PERFORMANCE**

**Total return performance** *(including dividends reinvested and excluding transaction costs)*

| | **6 months %** | 1 year % | 3 years % | 5 years % | 10 years % |
|---|---|---|---|---|---|
| NAV[1] | **-0.1** | -0.3 | 6.3 | 14.4 | 76.7 |
| Share price[2] | **-0.7** | -3.0 | 3.7 | 13.7 | 76.5 |
| AIC sector[6] average NAV | **-1.5** | -1.8 | 25.4 | 39.9 | 133.3 |
| FTSE All-World Asia Pacific ex Japan Index* | **-6.3** | -6.5 | 25.2 | 36.6 | 113.0 |
| MSCI AC Pacific ex Japan High Dividend Yield Index* | **3.1** | 6.6 | 16.0 | 22.9 | 88.2 |

| **Financial highlights** | **at 28 February 2022** | at 31 August 2021 |
|---|---|---|
| **NAV per ordinary share** | **287.40p** | 299.58p |
| **Share price** | **288.00p** | 301.50p |
| **Net assets** | **£435,607,000** | £452,644,000 |
| **Premium[3]** | **0.2%** | 0.6% |
| **Dividend yield** | **8.2%[4]** | 7.8%[5] |

*The Company does not have a formal benchmark. It uses the FTSE All-World Asia Pacific ex Japan and MSCI AC Asia Pacific ex Japan High Dividend Yield indices (sterling adjusted with dividends reinvested) for reference purposes only.

1. Net asset value per ordinary share total return.
2. Share price total return using mid-market closing price.
3. The premium expresses, as a percentage, the difference between the closing mid-market share price and net asset value, including current year revenue, as at the period end date.
4. Dividend yield based on a share price of 288.00p and dividends for the twelve months to 28 February 2022 totalling 23.60p per ordinary share.
5. Dividend yield based on a share price of 301.50p and dividends for the twelve months to 31 August 2022 totalling 23.40p per ordinary share.
6. The AIC sector is the Asia Pacific Equity Income sector.

Sources: Morningstar Direct, Refinitiv Datastream

# INTERIM MANAGEMENT REPORT

## CHAIRMAN'S STATEMENT

### Performance

Performance for the six months to 28 February 2022 was mixed, with NAV total return performance negative 0.1%, which was markedly better than the FTSE World Asia Pacific ex Japan Index of negative 6.3%, but behind the MSCI AC Asia Pacific ex Japan High Dividend Yield Index of 3.1%. This reflected the rotation from growth to value, alongside the portfolio's increased allocation to the financials, materials and energy sectors. The underperformance of the high yield index was predominantly down to the oversized weighting of BHP following the consolidation of the UK stock line into the Australian listing.

### Dividends

The first and second interim dividends for the current financial year have been declared in the amount of 5.90p per ordinary share each. This represents a 1.7% increase on the dividends paid or payable for the same period last year. The period saw the Company's dividend yield finish at 8.2%.

### Outlook

Investors always face challenges, but it is even more difficult to remain focused when in the midst of a humanitarian crisis. Volatility is high and likely to remain so. The consequences of the war in Ukraine are largely unknowable. These shocking events tend to draw attention away from personal considerations in sympathy for those in severe distress.

We cannot ignore, however, the risks and opportunities we are now exposed to. This crisis coming so close to the pandemic is a further serious blow to global growth. The OECD recently noted 'The moves in commodity prices and financial markets seen since the outbreak of the war could, if sustained, reduce global GDP growth by over 1 percentage point in the first year, with a deep recession in Russia, and push up global consumer price inflation by approximately 2.5 percentage points'*.

The impact of these developments will be felt unevenly throughout the world. Weak global growth is a negative for exporting countries, significantly higher commodity prices a negative for importers, and lower disposable incomes and uncertainties negative for consumption levels and tourism. Rising rates of inflation will be a problem for everybody.

We are investors in the Asia Pacific region and what does it mean for us? The role of Russia and Ukraine in the global economy is small accounting for only about 2% of global GDP. However, they are major suppliers of commodities to the world and supply disruption will cause some severe problems. Russia and Ukraine together account for about 30% of global exports of wheat, 20% for corn, mineral fertilisers and natural gas and 11% for oil. Indonesia and the Philippines are dependent on wheat imports and Vietnam is dependent on corn. The impact on the Middle East will be severe as well. Farmers everywhere will be impacted by much higher fertilizer prices and supply disruption.

A bleak picture indeed. However, there are some bright spots. China adopted more restrictive monetary and fiscal policies in late 2020 but is now easing policies and while credit growth has been falling it now appears to be bottoming out. This will support growth in China and should have a cushioning effect on the region and on the rest of the world. China provided significant support to the global economy during the 2008 financial crisis and played an important part in helping to avoid a global depression. It seems it could play a similar role today, although the recent lockdowns following Covid-19 outbreaks may delay this.

The outlook for us is quite encouraging. We have a large number of companies in a diverse geographical setting to choose from. To achieve our dividend objective, we invest largely in value shares paying significant levels of dividend; this has been something of a negative for our NAV total return performance in the past two years as investor preferences largely concentrated on growth shares with low dividend payouts. In a rising inflation environment value and income become much more to the fore in meeting investor needs. Our concentration on value is now working in our favour. Since the beginning of the 2022 calendar year, the NAV total return has risen to 4.9% and the dividend income generated by the portfolio has risen 14.7% compared to the same period last year.

As noted by the Fund Managers, we have significant holdings in industrial metals and energy. Prices of copper, aluminum, nickel, steel and others have risen sharply on the back of strong demand and constrained supply. Demand levels reflect increased global fiscal stimulus via infrastructure spending and long-term structural growth from the transition to a low carbon world. An example of this was demonstrated by a recent report from Blackrock World Mining. The report compared the resources to build a 100MW natural gas fired turbine with a wind farm equivalent. Twenty wind turbines would need to be installed requiring 100 times more iron ore, 25 times more concrete and 10 times more specialty metals including copper. This is a measure of the challenge confronting the world and the strength of demand for industrial metals.

The supply of industrial metals has been constrained by significant underinvestment in recent years. Short supply and high demand will support rising prices for some time and mining companies are experiencing high levels of free cash flow which they are paying back to shareholders in the form of higher dividends and/or share buy backs. This is welcome news to us.

In summary, we are in an environment that supports our investment strategy of producing attractive levels of income for our shareholders with an enhanced prospect of sound capital performance.  The recent shift towards more value oriented investments should be a positive factor in portfolio returns as we look ahead to the balance of our financial year.

**John Russell**
**Chairman**
27 April 2022

*Economic and Social Impacts and Policy Implications of the War in Ukraine, March 2022

## FUND MANAGERS' REPORT

### Review

Despite another extraordinary period, global equity markets, with a few exceptions, have proved to be remarkably resilient. Over the six months to 28 February 2022, the MSCI World index is down almost 2% in sterling terms, the S&P is practically unchanged, while the FTSE 100 is up just over 6%. In contrast, Asia Pacific was less resilient with the FTSE All World Asia Pacific ex Japan Index falling 6.3%.

For most of the last six months equity markets have been struggling with the expectation of rising interest rates, a reversal of central bank asset purchases and inflation which has moved from being transitory to something more long lasting in nature. Although most of the world is now learning to live with Covid-19, the impact on supply chains through worker absence and logistics disruptions has compounded the impact on prices with effects likely to last well into 2022 and possibly beyond. The Russian invasion of Ukraine in February this year has taken these constraints to another level with spikes in prices of oil, gas, industrial metals and agricultural products putting further pressure on the cost of living, especially in Europe, the UK and the US. The resilience of equity markets is most likely a function of excess liquidity and the diminishing attractiveness of bonds and cash in an increasingly negative interest rate environment. It remains to be seen whether this resilience will continue as rates rise and liquidity is withdrawn.

As a net importer of most of these products, Asia is not immune to inflationary pressures from rising energy, metals and food prices but in most cases core inflation remains some way below the levels in developed markets. Although this will most likely rise in the region, real rates will remain close to positive while the constraints in terms of labour, logistics and asset prices are not nearly as acute as elsewhere.

The best performing markets over the period were in South Asia as the gradual easing of Covid-19 restrictions spurred expectations of the long-awaited re-opening. Thailand, the Philippines and Malaysia all posted positive returns while Indonesia rose almost 20% in sterling terms as the rise in demand for fossil fuels boosted coal prices – one of the country's major exports. The performance of North Asia was much weaker as China and Korea fell by 14.6% and 13.8% respectively while Taiwan posted a small gain. At the sector level, only energy, financials and utilities posted positive returns with consumer and health care down over 20%.

The weakness in China continues to dominate the region. From its peak in February 2021 the MSCI China Index has fallen 34% in US dollar terms while the S&P Index by comparison has risen 13%. The combination of regulatory uncertainty, property defaults, Covid-19 disruptions and a slowing economy have combined to undermine investors faith in Chinese equities. While the government has now moved to a stimulatory footing, the zero tolerance to Covid-19 and ongoing lockdowns are stifling recovery. The confirmation of a target GDP growth of 5.5% for 2022 looks increasingly unlikely unless restrictions are eased and stimulus accelerated.

### Performance

The NAV total return declined 0.1% in sterling terms over the period, outperforming the FTSE All World Asia Pacific ex Japan Index which fell 6.3%.  The MSCI AC Asia Pacific ex Japan High Dividend Yield Index rose 3.1%, boosted by an oversize weighting of BHP as the UK shares switched to the Australian line and a greater exposure to the Taiwanese technology sector.

The switch from growth to value as a driver of returns was beneficial for the Company's portfolio while allocation to financials, materials and energy added value. At the country level, the reduction in the weighting to China in favour of Australia was positive for absolute and relative performance.

At the stock level the most significant contributors to performance were from the financials and energy sectors. CTBC in Taiwan, United Overseas Bank in Singapore, and KB Financial in Korea rose 20%, 19% and 12% respectively, but the star of the show was Australian oil and gas company Woodside Petroleum which rose 48%. Detractors from performance were Chinese mid-caps that were caught up in the issues described earlier.

### Revenue

Despite a difficult period for income in 2020, the recovery in 2021 and into 2022 has been impressive.  With Covid-19 disruptions generally easing, companies are feeling more confident on committing to dividend increases. This is especially true of the energy and material sectors which were already benefiting from tight supply and increased pricing prior to the Russian invasion of Ukraine. Banks are also returning to more progressive pay-out policies notably in Australia, Korea and Singapore while we have been pleasantly surprised by some significant uplift in pay-out ratios in China and Taiwan.

Dividend income from the portfolio rose 14.7% compared to the same period last year while total income rose 11.9% as the contribution from option income was 10.6% lower as less options were written. Revenue per share rose 15.3% reflecting a lower tax charge and a reduced management fee despite a modest increase in shares in issue.

### Strategy

Throughout the period we have added exposure to the energy, financials and materials sectors and reduced exposure to China and real estate. The case for energy and materials is not based on demand, but in how the lack of investment in recent years would lead to supply shortages, rising prices, abundant cash flow and higher dividends. These trends were beginning to materialise with oil prices moving to US$80 a barrel but have been brought more into focus following the Russian invasion of Ukraine. Our preference in this area is for gas companies rather than oil and miners of the industrial metals, such as copper, that will be in great demand in the transition towards more energy efficient power production and transportation. We own BHP Group Limited, Rio Tinto Limited, Woodside Petroleum, Santos and OZ Minerals in Australia, Zijin Mining in China as well as ONGC and Hindustan Petroleum in India which are exposed to these themes.

Throughout most of 2020 and 2021, banks globally have been impacted by low interest rates and a fairly benign economic recovery. With inflation rising and economies re-opening the pressure on interest rates to rise is becoming more intense. At the end of 2021 we added to our positions in banks in Korea, Taiwan, Singapore and Australia in order to benefit from these improving trends in profitability. We added KB Financial in Korea, CTBC and Yuanta in Taiwan, UOB in Singapore and ANZ in Australia.

With input prices likely to remain elevated for some considerable time, we continue to prefer price makers rather than price takers. This leads us to favour upstream producers while remaining cautious of manufacturers and consumer facing companies that don’t have pricing power. Our high weights in energy and materials and low weights in consumer sectors and industrials, reflect these views.

While interest rate increases are positive for banks, they are less so for real estate leading to the sale of Stockland in Australia and reduced exposure to REITS in Singapore. Over the period, we also reduced exposure to China by selling Venustech, China Construction Bank and Topsports as it became increasingly clear that recovery in China would take longer than originally expected.

**Outlook**

We are cautiously optimistic on the outlook for Asia Pacific equities. Following a period of underperformance Asia looks cheap compared to its peers while earnings look to be well underpinned by fundamentals. Dividends remain the ‘bright spot’ with dividend growth likely to exceed expectations as companies regain some confidence following an uncertain couple of years.

China remains key for the region’s success. At some point in 2022, once the Covid-19 outbreak has been contained, the Chinese authorities will embark on a concerted effort to revive the economy. This will be focused on incentivising consumption, promoting innovation alongside the more traditional means of infrastructure spending. Following the period of underperformance, there is a lot of value in the Chinese equity market and once there is greater clarity on policy, especially regarding regulations, property market solvency and living with Covid-19, we will look to add exposure to the only major economy that is likely to be loosening economic conditions in 2022.

We are also positive on the outlook for yield as an investment style. The last few years have been difficult with the focus clearly on thematics and growth at the expense of fundamentals. The spike in inflation and the impending rise in interest rates has prompted a change in perception as expensive growth stocks become more difficult to justify and new areas of investment lose their lustre. We expect dividend yield as a style to perform better as we go through the year as inflation erodes the returns available to savers. The spread of dividend yield over cash and bonds is still wide and attractive for pension funds, insurance companies and individual investors alike. The demand from aging populations should be positive for the share prices of high and sustainable yielding companies which make up a large part of the portfolio.

**Mike Kerley and Sat Duhra**
**Fund Managers**
27 April 2022

**PRINCIPAL RISKS AND UNCERTAINTIES**
The principal risks and uncertainties associated with the Company's business can be divided into the following main areas:

- Investment and strategy – adopting an inappropriate investment strategy or underperformance for an extended period leading to a wide discount and hostile shareholders;
- Accounting, legal and regulatory – failure to maintain accurate accounting records or a breach of legal or regulatory requirements resulting in financial or reputational loss;
- Operational – disruption to or failure of a third-party service provider leading to loss of shareholder value or reputational damage;
- Financial – changes in market prices, currency exchange rates, interest rates or poor liquidity or counterparty management leading to a loss of shareholder value.

Further information on these risks and how they are managed is given in the annual report for the year ended 31 August 2021. In the view of the Board these principal risks and uncertainties are as applicable to the remaining six months of the financial year as they were to the six months under review.

**DIRECTORS' RESPONSIBILITY STATEMENT**
The directors (listed in note 14) confirm that, to the best of their knowledge:

- the unaudited condensed set of financial statements has been prepared in accordance with IAS 34 – Interim Financial Reporting ('IAS 34') and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by Disclosure Guidance and Transparency Rule ('DTR') 4.2.4R;

- the interim management report includes a fair review of the information required:

  - by DTR 4.2.7R (indication of important events during the first six months of the financial year, and their impact on the unaudited condensed set of financial statements, and a description of principal risks and uncertainties for the remaining six months of the year); and

  - by DTR 4.2.8R (disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Company during the period; and any changes in related party transactions described in the latest annual report that could have an impact in the first six months of the current financial year).

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors 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.

For and on behalf of the Board
John Russell
Chairman
27 April 2022

**INVESTMENT PORTFOLIO** at 28 February 2022

| | Company | Country of incorporation | Sector | Valuation £'000 | % of Portfolio |
|---|---|---|---|---|---|
| 1 | Rio Tinto Limited | Australia | Basic Materials | 22,206 | 4.94 |
| 2 | Samsung Electronics[1] | South Korea | Technology | 17,403 | 3.87 |
| 3 | Macquarie Group | Australia | Financials | 16,355 | 3.64 |
| 4 | BHP Group Limited | Australia | Basic Materials | 15,239 | 3.39 |
| 5 | Macquarie Korea Infrastructure Fund | South Korea | Financials | 15,209 | 3.39 |
| 6 | Telekom Indonesia Persero | Indonesia | Telecommunications | 14,835 | 3.30 |
| 7 | Woodside Petroleum | Australia | Energy | 14,233 | 3.17 |
| 8 | Santos | Australia | Energy | 13,712 | 3.05 |
| 9 | VinaCapital Vietnam Opportunity Fund | Vietnam | Financials | 13,690 | 3.05 |
| 10 | Digital Telecommunications Infrastructure Fund | Thailand | Telecommunications | 13,676 | 3.04 |
| | **Top Ten Investments** | | | **156,558** | **34.84** |
| 11 | Taiwan Semiconductor Manufacturing[2] | Taiwan | Technology | 13,455 | 2.99 |
| 12 | KB Financial | South Korea | Financials | 12,807 | 2.85 |
| 13 | Spark New Zealand | New Zealand | Telecommunications | 12,423 | 2.77 |
| 14 | United Overseas Bank | Singapore | Financials | 12,348 | 2.75 |
| 15 | HKT Trust & HKT | Hong Kong | Telecommunications | 11,676 | 2.60 |
| 16 | Quanta Computers | Taiwan | Technology | 11,528 | 2.57 |
| 17 | LG Corp | South Korea | Industrials | 10,889 | 2.42 |
| 18 | CTBC Financial Holdings | Taiwan | Financials | 10,882 | 2.42 |
| 19 | CITIC Securities | China | Financials | 10,654 | 2.37 |
| 20 | SK Telekom[2] | South Korea | Telecommunications | 10,588 | 2.36 |
| | **Top Twenty Investments** | | | **273,808** | **60.94** |
| 21 | Oil & Natural Gas Corporation | India | Energy | 10,341 | 2.30 |
| 22 | Industrial Bank Co | China | Financials | 9,832 | 2.19 |
| 23 | Singapore Telecommunications | Singapore | Telecommunications | 9,721 | 2.16 |
| 24 | KT Corp | South Korea | Telecommunications | 9,411 | 2.10 |
| 25 | Yuanta Financial | Taiwan | Financials | 9,367 | 2.09 |
| 26 | OZ Minerals | Australia | Basic Materials | 9,150 | 2.04 |
| 27 | Taiwan Cement | Taiwan | Industrials | 9,085 | 2.02 |
| 28 | Zijin Mining | China | Basic Materials | 9,004 | 2.00 |
| 29 | China National Building Material Group | China | Industrials | 8,792 | 1.96 |
| 30 | Ascendas REIT | Singapore | Real Estate | 8,728 | 1.94 |
| | **Top Thirty Investments** | | | **367,239** | **81.74** |
| 31 | Yageo | Taiwan | Technology | 8,692 | 1.93 |
| 32 | Australia and New Zealand Banking Corp | Australia | Financials | 8,665 | 1.93 |
| 33 | Dexus | Australia | Real Estate | 8,393 | 1.87 |
| 34 | JD.com | China | Consumer Discretionary | 7,972 | 1.77 |
| 35 | Mapletree Logistics | Singapore | Real Estate | 7,685 | 1.71 |
| 36 | Chinasoft | China | Technology | 7,551 | 1.68 |
| 37 | China Yongda Automobiles | China | Consumer Discretionary | 7,288 | 1.62 |
| 38 | AIA Group | Hong Kong | Financials | 6,626 | 1.48 |
| 39 | Guangdong Investments | Hong Kong | Utilities | 6,575 | 1.46 |
| 40 | Sun Hung Kai Properties | Hong Kong | Real Estate | 6,312 | 1.41 |
| | **Top Forty Investments** | | | **442,998** | **98.60** |
| 41 | Hindustran Petroleum | India | Energy | 6,291 | 1.40 |
| 42 | China Forestry Holdings | China | Basic Materials | - | - |
| | **Total Investments** | | | **449,289** | **100.00** |

(1) Preferred Shares

(2) American Depositary Receipts

## SECTOR AND GEOGRAPHIC EXPOSURE

| **Geographic exposure** | **Portfolio at 28 February 2022 %** | Portfolio at 31 August 2021 % |
|---|---|---|
| Australia | **24.0** | 21.4 |
| South Korea | **17.0** | 14.4 |
| Taiwan | **14.0** | 18.6 |
| China | **13.6** | 15.4 |
| Singapore | **8.6** | 5.9 |
| Hong Kong | **6.9** | 11.8 |
| India | **3.7** | 2.9 |
| Indonesia | **3.3** | 2.5 |
| Vietnam | **3.1** | 3.1 |
| Thailand | **3.0** | 2.0 |
| New Zealand | **2.8** | 2.0 |
| Total | **100.0** | 100.0 |

| **Sector exposure** | **Portfolio at 28 February 2022 %** | Portfolio at 31 August 2021 % |
|---|---|---|
| Financials | **28.2** | 27.6 |
| Telecommunications | **18.3** | 13.7 |
| Technology | **13.0** | 17.8 |
| Basic Materials | **12.4** | 12.5 |
| Energy | **9.9** | 4.5 |
| Real Estate | **6.9** | 10.6 |
| Industrials | **6.4** | 7.3 |
| Consumer Discretionary | **3.4** | 6.0 |
| Utilities | **1.5** | - |
| **Total** | **100.0** | 100.0 |

## CONDENSED STATEMENT OF COMPREHENSIVE INCOME

| | **Half-year ended 28 February 2022 (Unaudited)** | | | Half-year ended 28 February 2021 (Unaudited) | | | Year ended 31 August 2021 (Audited) | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Revenue return £'000** | **Capital return £'000** | **Total return £'000** | Revenue return £'000 | Capital return £'000 | Total return £'000 | Revenue return £'000 | Capital return £'000 | Total return £'000 |
| Investment income | **10,895** | **-** | **10,895** | 9,492 | - | 9,492 | 37,236 | - | 37,236 |
| Other income | **1,093** | **-** | **1,093** | 1,223 | - | 1,223 | 3,103 | - | 3,103 |
| (Losses)/gains on investments held at fair value through profit or loss | **-** | **(8,841)** | **(8,841)** | - | 23,328 | 23,328 | - | (1,791) | (1,791) |
| Net foreign exchange (losses)/gains excluding foreign exchange (losses)/gains on investments | **-** | **(509)** | **(509)** | - | 670 | 670 | - | (216) | (216) |
| **Total income** | **11,988** | **(9,350)** | **2,638** | 10,715 | 23,998 | 34,713 | 40,339 | (2,007) | 38,332 |
| **Expenses** | | | | | | | | | |
| Management fees | **(853)** | **(853)** | **(1,706)** | (988) | (988) | (1,976) | (2,022) | (2,023) | (4,045) |
| Other expenses | **(301)** | **(301)** | **(602)** | (232) | (232) | (464) | (469) | (469) | (938) |
| **Profit/(loss) before finance costs and taxation** | **10,834** | **(10,504)** | **330** | 9,495 | 22,778 | 32,273 | 37,848 | (4,499) | 33,349 |
| Finance costs | **(52)** | **(52)** | **(104)** | (28) | (28) | (56) | (87) | (87) | (174) |
| **Profit/(loss) before taxation** | **10,782** | **(10,556)** | **226** | 9,467 | 22,750 | 32,217 | 37,761 | (4,586) | 33,175 |
| Taxation | **(875)** | **45** | **(830)** | (1,367) | 237 | (1,130) | (3,988) | 490 | (3,498) |
| **Profit/(loss) for the period and total comprehensive income** | **9,907** | **(10,511)** | **(604)** | 8,100 | 22,987 | 31,087 | 33,773 | (4,096) | 29,677 |
| **Earnings/(losses) per ordinary share basic and diluted** (note 2) | **6.55p** | **(6.95p)** | **(0.40p)** | 5.68p | 16.12p | 21.80p | 23.22p | (2.82p) | 20.40p |

The total column of this statement represents the Condensed Statement of Comprehensive Income of the Company, prepared in accordance with IAS 34.

The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All income is attributable to the equity shareholders of the Company. There are no minority interests.

## CONDENSED STATEMENT OF CHANGES IN EQUITY

**Half-year ended 28 February 2022 (Unaudited)**

| | **Stated capital £'000** | **Distributable reserve £'000** | **Capital reserves £'000** | **Revenue reserve £'000** | **Total £'000** |
|---|---|---|---|---|---|
| Total equity at 31 August 2021 | **235,955** | **180,471** | **10,557** | **25,661** | **452,644** |
| Total comprehensive income: | | | | | |
| (Loss)/profit for the period | **-** | **-** | **(10,511)** | **9,907** | **(604)** |
| Transaction with owners, recorded directly to equity: | | | | | |
| Dividends paid | **-** | **-** | **-** | **(17,845)** | **(17,845)** |
| Shares issued | **1,415** | **-** | **-** | **-** | **1,415** |
| Share issue costs | **(3)** | **-** | **-** | **-** | **(3)** |
| **Total equity at 28 February 2022** | **237,367** | **180,471** | **46** | **17,723** | **435,607** |

Half-year ended 28 February 2021 (Unaudited)

| | Stated capital £'000 | Distributable reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|
| Total equity at 31 August 2020 | 204,875 | 180,471 | 14,653 | 25,928 | 425,927 |
| Total comprehensive income: | | | | | |
| Profit for the period | - | - | 22,987 | 8,100 | 31,087 |
| Transaction with owners, recorded directly to equity: | | | | | |
| Dividends paid | - | - | - | (16,580) | (16,580) |
| Shares issued | 9,089 | - | - | - | 9,089 |
| Share issue costs | (18) | - | - | - | (18) |
| Total equity at 28 February 2021 | 213,946 | 180,471 | 37,640 | 17,448 | 449,505 |

Year ended 31 August 2021 (Audited)

| | Stated capital £'000 | Distributable reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|
| Total equity at 31 August 2020 | 204,875 | 180,471 | 14,653 | 25,928 | 425,927 |
| Total comprehensive income: | | | | | |
| (Loss)/profit for the year | - | - | (4,096) | 33,773 | 29,677 |
| Transaction with owners, recorded directly to equity: | | | | | |
| Dividends paid | - | - | - | (34,040) | (34,040) |
| Shares issued | 31,188 | - | - | - | 31,188 |
| Share issue costs | (108) | - | - | - | (108) |
| Total equity at 31 August 2021 | 235,955 | 180,471 | 10,557 | 25,661 | 452,644 |

## CONDENSED BALANCE SHEET

| | **28 February 2022 (Unaudited) £'000** | 28 February 2021 (Unaudited) £'000 | 31 August 2021 (Audited) £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments held at fair value through profit or loss (note 8) | **449,289** | 472,644 | 462,525 |
| **Current assets** | | | |
| Other receivables | **24,908** | 11,747 | 5,351 |
| Cash and cash equivalents | **7,716** | 6,974 | 13,693 |
| | **32,624** | 18,721 | 19,044 |
| **Total assets** | **481,913** | 491,365 | 481,569 |
| **Current liabilities** | | | |
| Investments held at fair value through profit or loss - written options (note 8) | **-** | (598) | (440) |
| Deferred taxation | **-** | (34) | (78) |
| Other payables | **(12,728)** | (11,174) | (2,953) |
| Bank loans and overdrafts | **(33,578)** | (30,054) | (25,454) |
| | **(46,306)** | (41,860) | (28,925) |
| **Net assets** | **435,607** | 449,505 | 452,644 |
| **Equity attributable to equity shareholders** | | | |
| Stated share capital | **237,367** | 213,946 | 235,955 |
| Distributable reserve | **180,471** | 180,471 | 180,471 |
| Retained earnings: | | | |
| Capital reserves | **46** | 37,640 | 10,557 |
| Revenue reserve | **17,723** | 17,448 | 25,661 |
| **Total equity** | **435,607** | 449,505 | 452,644 |
| **Net asset value per ordinary share** (note 3) | **287.40p** | 311.52p | 299.58p |

**CONDENSED STATEMENT OF CASH FLOWS**

| | **Half-year ended 28 February 2022 (Unaudited) £'000** | Half-year ended 28 February 2021 (Unaudited) £'000 | Year ended 31 August 2021 (Audited) £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | **226** | 32,217 | 33,175 |
| Add back: | | | |
| Finance costs | **104** | 56 | 174 |
| Losses/(gains) on investments held at fair value through profit or loss | **8,841** | (23,328) | 1,791 |
| Net foreign exchange losses/(gains) excluding foreign exchange losses/(gains) on investments | **509** | (670) | 216 |
| Sales of investments | **181,314** | 197,958 | 478,991 |
| Purchases of investments | **(177,359)** | (224,080) | (520,263) |
| Decrease/(increase) in prepayments and accrued income | **701** | 11 | (1,555) |
| (Increase)/decrease in amounts due from brokers | **(20,245)** | 2,707 | 10,797 |
| (Decrease)/increase in other payables | **(1,263)** | (310) | (5,231) |
| Decrease in amounts due to brokers | **11,039** | 4,129 | 943 |
| **Net cash inflow/(outflow) from operating activities before interest and taxation** | **3,867** | (11,310) | (962) |
| Interest paid | **(105)** | (51) | (175) |
| Increase in corporation tax payable | **-** | - | (210) |
| Withholding tax on investment income | **(921)** | (1,196) | (3,648) |
| **Net cash inflow/(outflow) from operating activities after interest and taxation** | **2,841** | (12,557) | (4,995) |
| | | | |
| **Financing activities** | | | |
| Loan drawdown | **48,154** | 70,550 | 145,124 |
| Loan repayment | **(40,304)** | (47,328) | (127,859) |
| Equity dividends paid | **(17,845)** | (16,580) | (34,040) |
| Share issue proceeds | **1,415** | 9,089 | 31,188 |
| Share issue costs | **(3)** | (18) | (108) |
| **Net cash (outflow)/inflow from financing** | **(8,583)** | 15,713 | 14,305 |
| **(Decrease)/increase in cash and cash equivalents** | **(5,742)** | 3,156 | 9,310 |
| **Cash and cash equivalents at the start of the period/year** | **13,693** | 3,879 | 3,879 |
| Exchange movements | **(235)** | (61) | 504 |
| **Cash and cash equivalents at the end of the period / year** | **7,716** | 6,974 | 13,693 |
| | | | |
| **Net debt** | | | |
| Cash and cash equivalents | **7,716** | 6,974 | 13,693 |
| Bank loans and overdraft repayable within one year | **(33,578)** | (30,054) | (25,454) |
| Net debt | **(25,862)** | (23,080) | (11,761) |

## Notes to the condensed financial statements

### 1. Accounting Policies:

(a) Basis of preparation
The condensed interim financial statements have been prepared in accordance with IAS 34 and the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

The annual report and financial statements for the year ended 31 August 2021 were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Where presentational guidance as set out in the Statement of Recommended Practice (the 'SORP') for investment trusts issued by the Association of Investment Companies (the 'AIC') in April 2021 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP. The unaudited results for the half-year ended 28 February 2022 have been prepared in accordance with the same accounting policies as those applied in the Company's financial statements for the year ended 31 August 2021.

There has been no change to the segmental reporting assessment compared to the 31 August 2021 financial statements.

These condensed financial statements do not include all information required for a full set of financial statements. The figures and financial information for the year ended 31 August 2021 are an extract based on the published financial statements and should be read in conjunction with them.

The condensed financial statements for the half-years ended 28 February 2022 and 28 February 2021 have not been audited.

(b) Investments held at fair value through profit or loss
All investments are classified upon initial recognition as held at fair value through profit or loss and are measured initially and subsequently at fair value. 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 assets is based on their quoted bid price at the balance sheet date, without deduction of the estimated future selling costs. The fair value of option contracts is determined by reference to the Black-Scholes model. 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, including exchange gains and losses, are recognised in the Statement of Comprehensive Income as '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.

*(c) Significant accounting judgments and estimates*
The preparation of the Company's financial statements requires management to make judgements, 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 judgements, estimates or assumptions.

The obligations relating to the options valued at £nil (28 February 2021: £598,000 (liability), 31 August 2021: £440,000 (liability)) are valued by reference to the Black-Scholes model.

### 2. Earnings per ordinary share

The earnings per ordinary share figure is based on the net loss after taxation of £604,000 (half-year ended 28 February 2021: profit £31,087,000; year ended 31 August 2021: profit £29,677,000) and on 151,168,978 ordinary shares (half-year ended 28 February 2021: 142,594,393; year ended 31 August 2021: 151,093,564) being the weighted average number of ordinary shares in issue during each of the periods.

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

| | **Half-year ended 28 February 2022 (Unaudited) £'000** | Half-year ended 28 February 2021 (Unaudited) £'000 | Year ended 31 August 2021 (Audited) £'000 |
|---|---|---|---|
| Net revenue profit | **9,907** | 8,100 | 33,773 |
| Net capital (loss)/profit | **(10,511)** | 22,987 | (4,096) |
| Net total (loss)/profit | **(604)** | 31,087 | 29,677 |
| Weighted average number of ordinary shares in issue during the period / year | **151,168,978** | 142,594,393 | 145,462,386 |
| | **Pence** | Pence | Pence |
| Revenue earnings per ordinary share | **6.55** | 5.68 | 23.22 |
| Capital (loss)/earnings per ordinary share | **(6.95)** | 16.12 | (2.82) |
| Total (loss)/earnings per ordinary share | **(0.40)** | 21.80 | 20.40 |

The Company does not have any dilutive securities therefore the basic and diluted returns per share are the same.

**3. Net asset value per ordinary share**

The net asset value per ordinary share is based on a net asset value of £435,607,000 (28 February 2021: £449,505,000; 31 August 2021: £452,644,000) and on 151,568,564 (28 February 2021: 144,293,564; 31 August 2021: 151,093,564) ordinary shares, being the number of ordinary shares in issue at each period end.

**4. Transaction costs**

Purchase transaction costs for the half-year ended 28 February 2022 were £180,000 (half-year ended 28 February 2021: £248,000; year ended 31 August 2021: £615,000). Sales transaction costs for the half-year ended 28 February 2022 were £312,000 (half-year ended 28 February 2021: £344,000; year ended 31 August 2021: £888,000). Transaction costs for both purchases and sales principally consist of commission fees.

**5. Share capital**

During the six months under review the Company issued a total of 475,000 shares (half-year ended 28 February 2021: 2,800,000; year ended 31 August 2021: 9,600,000) for net proceeds of £1,412,000 (half-year ended 28 February 2021: £9,071,000; year ended 31 August 2021: £31,080,000) net of costs. No shares have been issued since the period end.

**6. Dividends**

The Company pays dividends on a quarterly basis. On 26 November 2021, a fourth interim dividend of 5.90p per share was paid in respect of the year ended 31 August 2021. A first interim dividend, in respect of the year ended 31 August 2022, of 5.90p per share was paid on 25 February 2022. The second interim dividend of 5.90p per share will be paid on 27 May 2022 to shareholders on the register on 29 April 2022. The Company's shares will be quoted ex-dividend on 2 April 2022. Based on the number of shares in issue on 27 April 2022, the cost of this dividend will be £8,943,000.

**7. Management Fees**

With effect from 1 September 2021, management fees are charged in accordance with the terms of the management agreement at a flat rate of 0.75% of net assets per annum, charged quarterly in arrears.

Prior to this the Management fees were charged at a tiered rate of 0.9% per annum of the first £400,000,000 of net assets and 0.75% per annum of the balance of net assets greater than £400,000,000.

**8. Financial Instruments**

At the period end the carrying value of financial assets and financial liabilities approximates their fair value.

<u>Financial instruments carried at fair value</u>

Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

- Level 1: inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs are unobservable inputs for the asset or liability.

| **Financial assets and financial liabilities at fair value through profit or loss at 28 February 2022** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| **Investments including derivatives:** | | | | |
| **- Equity investments** | **449,289** | **-** | **-** | **449,289** |
| **- OTC derivatives (options)** | **-** | **-** | **-** | **-** |
| | **449,289** | **-** | **-** | **449,289** |

| Financial assets and financial liabilities at fair value through profit or loss at 28 February 2021 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Investments including derivatives: | | | | |
| - Equity investments | 472,644 | - | - | 472,644 |
| - OTC derivatives (options) | - | (598) | - | (598) |
| | 472,644 | (598) | - | 472,046 |

| Financial assets and financial liabilities at fair value through profit or loss at 31 August 2021 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Investments including derivatives: | | | | |
| - Equity investments | 462,525 | - | - | 462,525 |
| - OTC derivatives (options) | - | (440) | - | (440) |
| | 462,525 | (440) | - | 462,525 |

Level 3 investments relate to one holding of China Forestry, transferred into Level 3 in 2012, written down to zero during the year ended 31 August 2014.

There have been no transfers into/out of and no movements in Level 3 investments during the half-year ended 28 February 2022 and 28 February 2021 and the year ended 31 August 2021.

The Company's holdings in options are included within Level 2.

The valuation techniques used by the Company are explained in note 1(b).

Premiums from written options during the half-year ended 28 February 2022 were £1,223,000 (half-year ended 28 February 2021: £1,223,000; year ended 31 August 2021: £3,102,000) and is included within other income.

**9. Going concern**

The assets of the Company consist almost entirely of securities that are listed and regularly traded and, accordingly, the directors believe that the Company has adequate financial resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. The directors have considered the impact of Covid-19, including cash flow forecasting, a review of covenant compliance including the headroom above the most restrictive covenants and an assessment of the liquidity of the portfolio. They have concluded that they are able to meet their financial obligations, including the repayments of the bank loan, as they fall due for at least twelve months from the date of this report. Despite the net current liability position as at 28 February 2022, having assessed the above factors, including the ability of the Company to draw down under the existing bank loan facility, and the principal risks and other matters discussed in connection with the viability statement, the Board has decided that it is appropriate for the financial statements to be prepared on a going concern basis.

**10. Net debt reconciliation**

| | **Cash and cash equivalents £'000** | **Bank loans and overdraft repayable within one year £'000** | **Total £'000** |
|---|---|---|---|
| **Net debt as at 31 August 2021** | **13,693** | **(25,454)** | **(11,761)** |
| **Cash flows** | **(5,742)** | **(7,850)** | **(13,592)** |
| **Exchange movements** | **(235)** | **(274)** | **(509)** |
| **Net debt as at 28 February 2022** | **7,716** | **(33,578)** | **(25,862)** |

| | Cash and cash equivalents £'000 | Bank loans and overdraft repayable within one year £'000 | Total £'000 |
|---|---|---|---|
| Net debt as at 31 August 2020 | 3,879 | (7,469) | (3,590) |
| Cash flows | 3,156 | (23,222) | (20,066) |
| Exchange movements | (61) | 637 | 576 |
| Net debt as at 28 February 2021 | 6,974 | (30,054) | (23,080) |

| | Cash and cash equivalents £'000 | Bank loans and overdraft repayable within one year £'000 | Total £'000 |
|---|---|---|---|
| Net debt as at 31 August 2020 | 3,879 | (7,469) | (3,590) |
| Cash flows | 9,310 | (17,265) | (7,955) |
| Exchange movements | 504 | (720) | (216) |
| Net debt as at 31 August 2021 | 13,693 | (25,454) | (11,761) |

**11. Related party transactions**
The Company's current related parties are its directors and Janus Henderson. There have been no material transactions between the Company and its directors during the period and the only amounts paid to them were in respect of expenses and remuneration, for which there were no outstanding amounts payable at the period end.

In relation to the provision of services by Janus Henderson, other than fees payable by the Company in the ordinary course of business and the provision of marketing services, there have been no material transactions with Janus Henderson affecting the financial position of the Company during the period under review.

**12. Investor presentation**
The Board invites shareholders to attend an investor presentation which will be held at 11.00 am on 8 June 2022 at the offices of the Company's investment manager, Janus Henderson, 201 Bishopsgate, London, EC2M 3AE.

**13. Half-year report**
The half-year report is available on the Company's website (***www.hendersonfareastincome.com***). Shareholders will be sent a copy of the abridged version of the half-year results in early May 2022.

**14. General information**
a) Company Status
The Company is a Jersey domiciled closed end investment company, number 95064, which was incorporated in 2006 and is listed on the London and New Zealand stock exchanges. The Company became UK tax resident with effect from 1 September 2018.

SEDOL/ISIN number: JE00B1GXH751
London Stock Exchange (TIDM) code: HFEL
New Zealand Stock Exchange code: HFL
Global Intermediary Identification Number (GIIN): NTTIYP.99999.SL.832
Legal Entity Identifier (LEI): 2138008DIQREOD38O596

The Company is a Jersey fund which is regulated by the Jersey Financial Services Commission.

b) Directors, Secretary and Registered Office
The directors of the Company are John Russell (Chairman), Ronald Gould (Chairman designate), Julia Chapman, Timothy Clissold, Nicholas George and David Mashiter. The Corporate Secretary is Janus Henderson Secretarial Services UK Limited. The registered office is IFC1, The Esplanade, St Helier, Jersey, JF1 4BP. The principal place of business is 201 Bishopsgate, London, EC2M 3AE.

c) Website
Details of the Company's share price and net asset value, together with general information about the Company, monthly factsheets and data, copies of announcements, reports and details of general meetings can be found at ***www.hendersonfareastincome.com***