

Henderson Far East Income Limited

Report for the period from incorporation on 6 November 2006 to 31 August 2007



Contents

| | |
|-------|---|
| 1 | Objective, Investment Policy, History, Financial Highlights and Performance |
| 2 | Directors, Management and Consultant |
| 3 | Chairman's Statement |
| 4-6 | Investment Portfolio |
| 7-10 | Manager's Report |
| 11-15 | Report of the Directors |
| 15 | Statement of Directors' Responsibilities in respect of the Financial Statements |
| 16-19 | Corporate Governance |
| 20 | Directors' Remuneration Report |
| 21 | Report of the Independent Auditors |
| 22 | Consolidated Income Statement |
| 23 | Consolidated and Parent Company Statement of Changes in Equity |
| 24 | Consolidated and Parent Company Balance Sheet |
| 25 | Consolidated and Parent Company Cash Flow Statement |
| 26-36 | Notes to the Financial Statements |
| 37-38 | Notice of Meeting |
| 39-40 | Investor Information |

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").

Investment Policy

Details of the Company's investment policy are given on page 11.

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. Shareholders hold the same number of shares in the new company as in the previous. The Board is wholly independent from the management company.

Financial Highlights

| | As at 31 August 2007 |
|------------------------------------|-------------------------|
| Total net assets | £208,737,000 |
| Net asset value per ordinary share | 268.91p |
| Market price per ordinary share | 257.75p |
| Revenue earnings | 12.98p |
| Dividends – first interim | 2.75p |
| – second interim | 2.75p |
| – third interim | 2.75p |
| Annualised dividend growth | 30.9% |

Performance

| | Period to 31 August 2007* |
|---|------------------------------|
| *Net asset value (total return) | 28.6% |
| *Share price (total return) | 35.2% |
| †FTSE All-World Asia Pacific Ex Japan £ (total return) | 36.9% |
| Dividends paid in period (both companies) (including a Special Dividend of 8.5p paid December 2006) | 16.30p |

*Performance shows the increase in the twelve month period relating to the former and present company.

†There is no formal benchmark for the Company. This benchmark is shown purely for comparative purposes.

Source: Fundamental Data/Datastream.

Directors



Pictured from left to right: Back row: Richard Povey, David Mashiter, Michael Kerley (Manager). Front row: Simon Meredith Hardy, John Russell, Christopher Spencer.

John Russell (Chairman) (age 65) 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. He is also the Chairman of Minster Pharmaceuticals plc. John was previously a director of Henderson Far East Income Trust plc.

Simon Meredith Hardy (age 64) 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 and is chairman of Framlington Income & Capital Trust plc. Simon was previously a director of Henderson Far East Income Trust plc.

David Mashiter (age 61) David is currently managing director of Meridian Asset Management (C.I.) Limited. He is also a director of Northcross Capital Management Limited and RBC Regent Strategy Fund Limited. He was formerly head of investment management with the Royal Trust Company of Canada in Jersey.

Richard Povey (age 64) Richard has occupied a number of senior positions in Asia with the Swire Pacific Group, most recently being managing director of the Swire Pacific trading operations in Taiwan. He currently sits on the board of the Jersey Competition Regulatory Authority and Opsec Security Group plc. He has been a non-executive director of a number of offshore investment companies.

Christopher Spencer (age 57) Christopher is a chartered accountant and was managing director of Pannell Kerr Forster (Guernsey) Limited in Guernsey from 1990 until his retirement in 2000. He is currently a non-executive director of a number of offshore insurance and investment companies.

All of the Directors are non-executive and are members of the Audit Committee, the Management Engagement Committee and the Nominations Committee.

Management and Consultant



Michael Kerley



Andrew Beal



Michael Watt

The portfolio is managed by Michael Kerley, assisted by Andrew Beal. Michael Watt, previously a director of the predecessor company and a former employee of Henderson is a consultant to the Company.

Chairman's Statement



John Russell

I am pleased to report that since the transfer of the assets of Henderson Far East Income Trust plc to your Company on 18 December 2006, we have utilised our additional investment flexibility and successfully increased the amount of distributable income generated by our portfolio. This vindicates the decision to move your Company's domicile to Jersey and gives us the opportunity not only to forecast an increase in dividends of 9.1% in the coming financial year, but also to position the portfolio for a higher total return.

Performance

The performance of your Company has been strong, and since 18 December 2006 it has achieved a net asset value total return of 16.0% and a share price total return of 15.9%. When combined with the performance data for the previous company, the results reveal a total increase of 28.6% in net asset value total return and a 35.2% increase in share price total return over the twelve month period since 1 September 2006.

Dividends

The first financial period for your Company is the ten months to 31 August 2007 and therefore only three interim dividends will be paid in respect of this financial period. Your Company paid a first interim dividend of 2.75p on 31 May 2007, a second interim dividend of 2.75p on 31 August 2007 and has declared a third interim dividend of 2.75p which will be paid on 30 November 2007. This makes a total for the period of 8.25p, compared to 6.30p for the equivalent period last year in the previous company, and represents an increase of 30.9%. Your Board is confident that in the coming full financial year it will be able to pay a quarterly dividend of at least 3.0p, which is an increase of 9.1% on the current quarterly rate of 2.75p, making total dividends for the year of at least 12.0p.

Outlook

We have maintained our cautious stance as we continue to believe that Asian stock markets will experience increased volatility in the short term. A slow down in the US will not only impact Asia's exports and slow GDP growth but could also lead to an outflow of investment from the region as

investors become more risk averse. However, such corrections will provide buying opportunities and we shall take advantage of any weakness. Our medium to long term view of the Asian markets remains extremely positive.

Savings

Your Company aims to be an investment of choice for those looking to build a diversified income portfolio. Investments can be made cost effectively through Itshenderson, our Manager's investment service for private investors.

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Tuesday 11 December 2007 at BNP House, Anley Street, St Helier, Jersey and shareholders are most welcome to attend. Your Board recognises that this meeting may be difficult for investors based on the UK mainland to attend. Accordingly an open presentation to shareholders will be held at 3pm on 13 December 2007 at 4 Broadgate, London EC2M 2DA where the Manager will make an investment presentation and I shall be happy to answer questions. If you would like to attend please complete and return the invitation enclosed with this report.

John Russell
Chairman
30 October 2007

Investment Portfolio

as at 31 August 2007

| Company | Country | Sector | Value £'000 | Total net assets % |
|---|-------------|--------------------|----------------|-----------------------|
| 1. POSCO The world's fifth largest steel maker, manufacturing various products for the auto, construction and shipbuilding industries both domestically and overseas. The recent consolidation of the global steel industry plus strong demand from China has kept prices strong and provided POSCO with a positive earnings trajectory. | South Korea | Basic Materials | 6,113 | 2.9 |
| 2. Hang Seng Bank One of the largest banks in Hong Kong providing a full array of financial services domestically and with a growing business in mainland China. As the largest mortgage lender in Hong Kong, Hang Seng is a beneficiary of a strong property market. | Hong Kong | Financials | 6,061 | 2.9 |
| 3. Philippine Long Distance Telephone The Philippines' largest telecoms operator with dominant market share in both fixed and mobile telephone services. PLDT is a beneficiary of increased telecommunications usage as the Philippines aggressively expands its call centre business. | Philippines | Telecommunications | 5,811 | 2.8 |
| 4. Singapore Telecommunications Operator of telecom services in Singapore and Australia through its subsidiary, Optus. Has valuable investments in the strong growth markets of India, Indonesia and Thailand. Generates substantial free cash flow and offers a healthy dividend yield. | Singapore | Telecommunications | 5,767 | 2.8 |
| 5. Westpac Bank One of Australia's big four banks providing financial services to both corporate and retail clients. Loan growth remains buoyant with earnings being supplemented by non interest areas such as investment management and insurance services. | Australia | Financials | 5,475 | 2.6 |
| 6. Macquarie Airports One of the world's leading airport operators with investments in various countries across the world. As one of the few non state operators of airport assets it is well positioned to grow through further acquisition. | Australia | Industrials | 5,251 | 2.5 |
| 7. Transurban Group Australian toll road operator with a dominant position in Sydney and Melbourne. It also has a growing business in the US toll road sector, where infrastructure spending is expected to double in 2008. | Australia | Industrials | 5,167 | 2.5 |
| 8. Singapore Technologies Engineering Singapore based company specialising in electronics and maintenance for aerospace, land and sea going vessels for both commercial and military applications. Following recent contract wins the company's order book now stands at record levels. | Singapore | Industrials | 5,148 | 2.5 |
| 9. Fairfax Media Australian publisher of newspapers, magazines and entertainment publications. It also provides advertising sales for print media and has recently launched an online business to supplement its portfolio. | Australia | Consumer Services | 5,014 | 2.4 |
| 10. Tenaga Nasional Dominant Malaysian generator, transmitter and distributor of electricity to commercial and retail customers. With capital expenditure peaking in 2007, Tenaga is expected to generate positive free cash flow in 2008 and significant dividend growth. | Malaysia | Utilities | 4,973 | 2.4 |
| Top Ten Investments | | | 54,780 | 26.2 |

Investment Portfolio

continued

| Company | Country | Sector | Value £'000 | Total net assets % |
|--|-----------|-------------------|----------------|-----------------------|
| 11. United Overseas Bank† | Singapore | Financials | 4,911 | 2.4 |
| 12. China Steel | Taiwan | Basic Materials | 4,847 | 2.3 |
| 13. Delta Electronics | Taiwan | Technology | 4,831 | 2.3 |
| 14. Bumiputra-Commerce | Malaysia | Financials | 4,740 | 2.3 |
| 15. High Tech Computer | Taiwan | Technology | 4,720 | 2.3 |
| 16. Singapore Press | Singapore | Consumer Services | 4,709 | 2.3 |
| 17. Sun Hung Kai Properties | Hong Kong | Financials | 4,695 | 2.2 |
| 18. Sincere Navigation | Taiwan | Industrials | 4,629 | 2.2 |
| 19. Woolworths | Australia | Consumer Services | 4,525 | 2.2 |
| 20. Advanced Semiconductor Engineering | Taiwan | Technology | 4,482 | 2.1 |
| Top Twenty Investments | | | 101,869 | 48.9 |

| Company | Country | Sector | Value £'000 | Total net assets % |
|------------------------------------|-------------|--------------------|----------------|-----------------------|
| 21. Thoresen Thai Agencies | Thailand | Industrials | 4,422 | 2.1 |
| 22. Taiwan Semiconductor | Taiwan | Technology | 4,415 | 2.1 |
| 23. Santos | Australia | Oil & Gas | 4,372 | 2.1 |
| 24. Hang Lung Properties | Hong Kong | Financials | 4,357 | 2.1 |
| 25. Petrochina | China | Oil & Gas | 4,269 | 2.0 |
| 26. QBE Insurance Group | Australia | Financials | 4,255 | 2.0 |
| 27. Far Eastone Telecommunications | Taiwan | Telecommunications | 4,229 | 2.0 |
| 28. Kookmin Bank | South Korea | Financials | 4,218 | 2.0 |
| 29. Henderson Land Development | Hong Kong | Financials | 4,143 | 2.0 |
| 30. AMP | Australia | Financials | 4,121 | 2.0 |
| Top Thirty Investments | | | 144,670 | 69.3 |

Investment Portfolio

continued

| Company | Country | Sector | Value £'000 | Total net assets % |
|---|-------------|-------------------|----------------|-----------------------|
| 31. Samsung Electronics | South Korea | Technology | 4,053 | 1.9 |
| 32. NWS Holdings | Hong Kong | Industrials | 3,935 | 1.9 |
| 33. Spark Infrastructure Fund | Australia | Financials | 3,891 | 1.9 |
| 34. Macquarie Korea Infrastructure Fund | South Korea | Financials | 3,856 | 1.8 |
| 35. Television Broadcasts | Hong Kong | Consumer Services | 3,803 | 1.8 |
| 36. Malayan Banking | Malaysia | Financials | 3,778 | 1.8 |
| 37. Mega Financial | Taiwan | Financials | 3,630 | 1.7 |
| 38. Regal Real Estate Investment | Hong Kong | Financials | 3,581 | 1.7 |
| 39. SP Setia | Malaysia | Financials | 3,240 | 1.6 |
| 40. Perusahaan Gas Negara | Indonesia | Utilities | 3,224 | 1.5 |
| Top Forty Investments | | | 181,661 | 87.0 |

| Company | Country | Sector | Value £'000 | Total net assets % |
|---|-------------|-------------------|----------------|-----------------------|
| 41. Korea Development Corp | South Korea | Industrials | 3,101 | 1.5 |
| 42. Lite On Technology | Taiwan | Technology | 2,805 | 1.3 |
| 43. IOI Properties | Malaysia | Financials | 2,695 | 1.3 |
| 44. Formosa International Hotels | Taiwan | Consumer Services | 2,682 | 1.3 |
| 45. Insurance Australia Group | Australia | Financials | 2,420 | 1.2 |
| 46. Compal Electronics | Taiwan | Technology | 1,223 | 0.6 |
| 47. MSCI AC Asia Pacific Ex Japan Put 28/12/07 460.473 | Region | Options | 1,115 | 0.5 |
| 48. MXAPJ Index Put 25/01/08 476.691 | Region | Options | 816 | 0.4 |
| 49. Regal Hotels | Hong Kong | Consumer Services | 744 | 0.4 |
| 50. Compal Communications | Taiwan | Technology | 108 | 0.1 |
| 51. Vanguard Intl Semiconductor | Taiwan | Technology | 44 | 0.0 |
| Total Investments | | | 199,414 | 95.5 |
| Current net assets | | | 9,323 | 4.5 |
| Total net assets | | | 208,737 | 100.0 |

† value adjusted for call options written.

Manager's Report

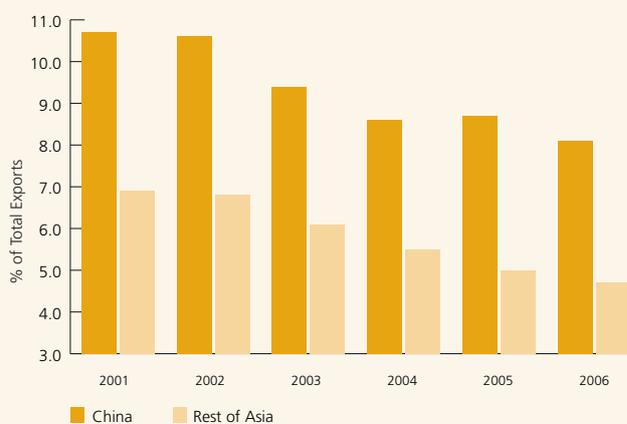


Michael Kerley

The last year has provided another strong return for Asian markets, except for Japan with your Company's net asset value total return being 28.6% over the period. All markets in which the Company is invested posted positive returns, as shown in Fig. 1 below, buoyed by strong global economic performance and improving domestic demand. The star of the show was undoubtedly China which more than doubled in sterling terms.

The economic backdrop has been supportive with global growth remaining strong, obviously helped by the emerging economies, but also from improving numbers from Europe and to a lesser extent, Japan. As a result, Asia's export diversification has improved and the region is now less reliant on the US as a destination for its manufactured goods. This is best illustrated in Fig. 2 which shows the declining trend of consumer goods to the US as a percentage of China and the rest of Asia's total exports. It is clear from this chart that China and the rest of Asia's export performance is now less dependent on the US than it has been in the past.

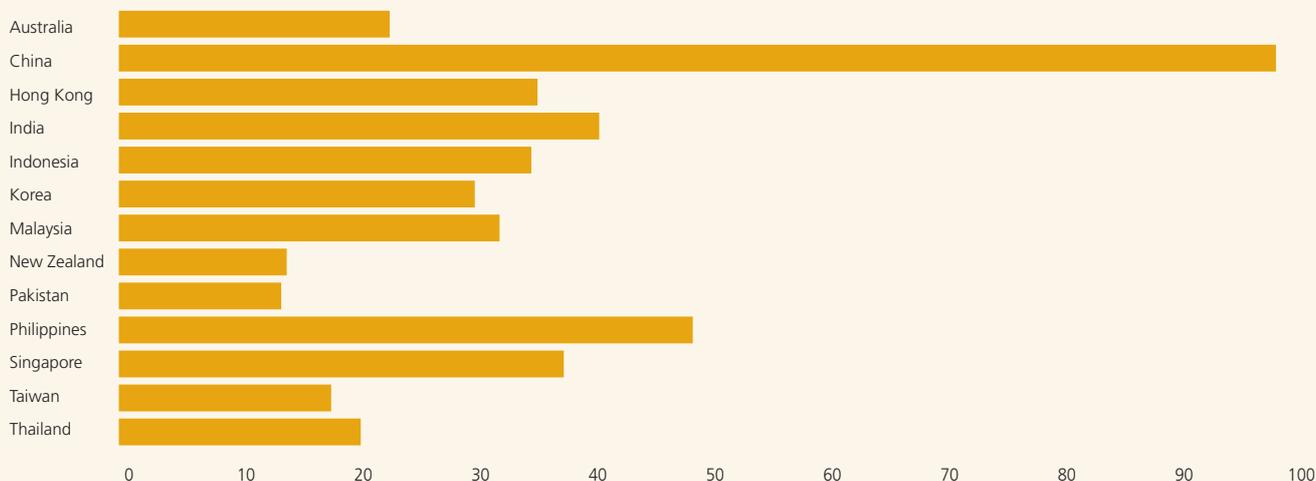
FIG.2 Consumer goods exports to the US



Source: UN, CEIC and Merrill Lynch

The increased diversification of Asia's export exposure away from the US and towards the world's developing economies is reassuring, particularly in light of the events of July and August 2007. The US sub prime market is a continuing cause of concern, although central banks have cut rates and injected liquidity, it is clear that credit markets are still not functioning

FIG.1 FTSE – All World Asia Pacific Ex Japan Index – Country Performance (£ total return) (%)



Source: Factset

Manager's Report

continued

properly. Only time will tell what the full impact will be on financial markets but it seems inevitable that the US economy will slow as the availability of credit to fuel the consumer boom dwindles.

The strong trade performance in Asia is beginning to feed through into domestic consumption. It has been a long time coming but sentiment is improving following a sustained period of relatively low interest rates.

Unlike the credit fuelled consumption booms in the West, the people of Asia have been much more prudent, with savings ratios continuing at high levels. As a result, the banking system is liquid and not geared, with consumer debt to GDP ratios at extremely low levels. Although property prices across the region have moved higher, some are still below the levels of 1997, which leaves affordability ratios at attractive levels.

Following years of overspending in the West and over-saving in the East, the fiscal and trade surpluses now favour Asia which is the complete reverse of ten years ago. The only exceptions to this within the Company's investment remit are Australia and New Zealand, both of which have similar characteristics to the US and UK. We are conscious of this when considering exposure to these markets. We currently have less than 20% of the portfolio invested in Australia and zero exposure to New Zealand.

Whilst looking at this ten year comparison between Asia and the rest of the world's economies we should also look at the positive changes that have taken place in the corporate sector. The profitability of Asian companies on average is now better

FIG.3 Asia – Strong cash flow generation



FIG.4 Asia – Corporate debt



than those in Europe and similar to the US as measured by return on equity. Importantly for the mandate for this Company, dividend payout ratios have been rising backed by strong free cash flow generation and more prudent capital expenditure. This has resulted in lower gearing and higher dividend distribution in Asia, as shown in Figs. 3 and 4.

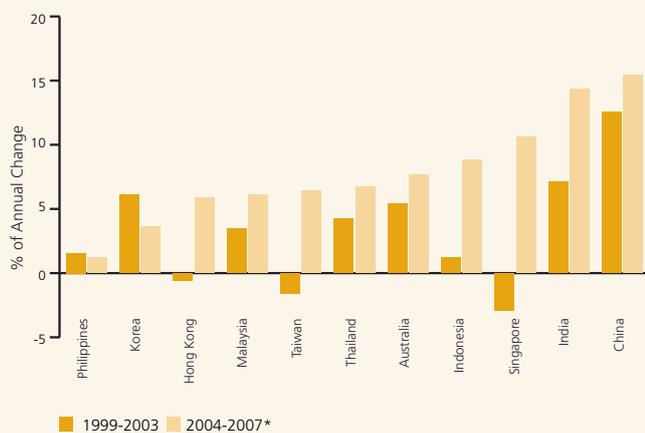
Dividend yields are now comparable with developed markets. Currently many investors do not realise that Asia can be a destination for income as well as growth and thus we would expect global income investors to allocate a higher proportion to the region in the years to come. This should prove positive for the type of investments we hold in the portfolio.

Although a lot has happened in global markets over the previous twelve months we remain focused on companies that generate growing and sustainable cash flows. Throughout most of the last twelve months this strategy has been beneficial both in terms of income generation but also in terms of capital appreciation. Recently however it has been more difficult to keep pace with market rises due to the exceptionally strong performance of Chinese equities. The outlook for the Chinese economy is extremely positive in the long term, but following the significant rise in prices we are finding it increasingly difficult to locate attractive stocks that fit with the Company's objective. India is a similar story and although the market rise has not been as marked as China's it has still outperformed the region as a whole. At period end the portfolio only had a modest exposure to China and no holdings in India, although we do have economic exposure to

Manager's Report

continued

FIG.5 Asia – Fixed Investment



*2007 is based on a full-year extrapolation of 1H07 data. Source: CEIC, Merrill Lynch calculations

the former through our investments in regional steel and bulk shipping companies.

Our strategy has been to focus on domestically orientated companies and away from cyclical and export related areas. This has led to a bias towards financials, infrastructure and telecoms and away from resources, materials and technology. Infrastructure spending is a core theme running through the portfolio as we believe that governments have plenty of room to 'pump prime' domestically, especially if export growth slows. As Fig. 5 above shows fixed investment growth is a region wide phenomenon and not confined to India and China.

The change in domicile and objective in December 2006 has given us much more flexibility in running the portfolio. The focus on total return rather than income growth has allowed us to capture more capital appreciation while the added tax benefits of moving offshore have allowed us to pay a substantially higher dividend than we would have done in the previous company. The new structure has also allowed us to

include Real Estate Investment Trusts in the portfolio and also to use derivatives for the purpose of enhancing yield and protecting the Company's capital.

We have been nervous on markets and expect to remain so for the rest of 2007. Our issue has not been with Asia's economies nor its valuations but more with the global appetite for risk which we believe does not fully reflect the increasing vulnerability of the global economy. Our key assumption is that the US will slow, weighed down by an over indebted consumer and rising interest rates. Although this has been slow to materialise the problems in the sub prime lending market are beginning to feed through into retail sales and employment data. This will impact Asia's exports and slow GDP growth but more importantly could lead to an outflow of funds from the region based on higher volatility and rising risk aversion. In the light of this we bought six month put options in July to protect the Company's capital. These cost 75bp and protected 23% of the portfolio. This strategy worked extremely well during the sell down in early August, but has subsequently been neutralised as markets have rallied to new highs.

The medium to long term prospects for Asia remain extremely positive. The economic fundamentals are very supportive and together with the positive changes that have taken place in the corporate sector make Asia an attractive investment destination.

Michael Kerley

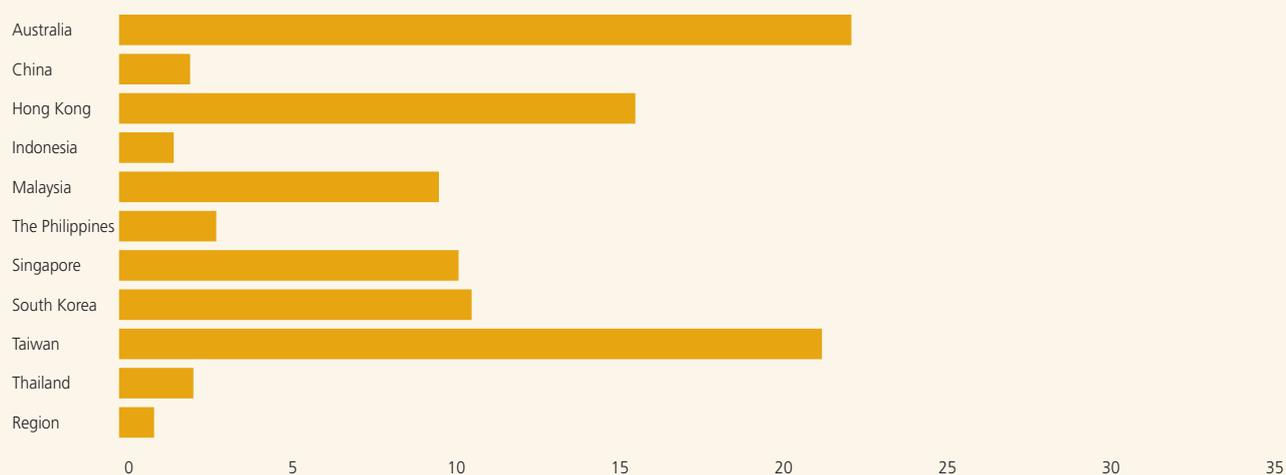
Portfolio Manager

30 October 2007

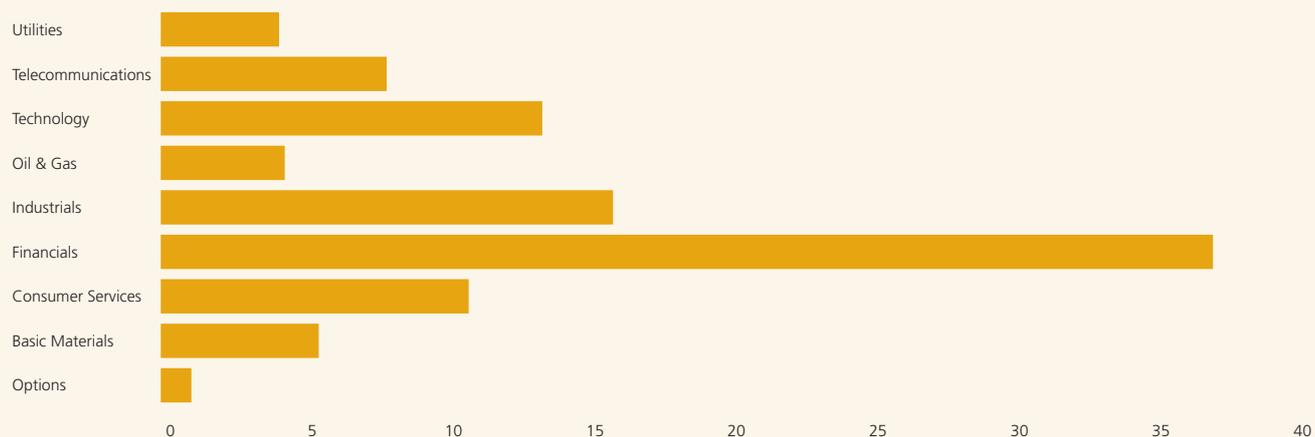
Manager's Report

continued

Geographical Distribution of Investments as at 31 August 2007 (%)



Sector Distribution of Investments as at 31 August 2007 (%)



Report of the Directors

The Directors present the audited accounts of the Group and their report for the period since incorporation on 6 November 2006 to 31 August 2007. The Group comprises Henderson Far East Income Limited ("the Company") and its wholly owned subsidiary undertaking, Henderson Far East (Malta) Limited. The Company commenced trading on the London and New Zealand Stock Exchanges on 18 December 2006.

This is the Group's first Report and Accounts.

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 regulated as a collective investment fund under the Collective Investment Funds (Jersey) Law 1988. The Company has obtained a permit under Article 7 of the Jersey Funds Law from the Jersey Financial Services Commission to operate as a functionary within the Island of Jersey.

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

The Company's shares qualify as an eligible security in a PEP, providing that the investment is funded from proceeds raised from the sale of an existing PEP holding. The Company intends to manage its affairs so as to be a qualifying investment for inclusion in the stocks and shares component of an Individual Savings Account ('ISA') and it is the Directors' intention that the Company should continue to qualify.

Business Review

The following review is designed to provide information primarily about the Group's business and results for the period ended 31 August 2007 and covers:

- Investment objective
- Investment policy
- Performance for the period and dividends
- Performance measurement and key performance indicators
- Management, administration and custody arrangements
- Internal controls and management of risks
- Bank facilities
- Share capital
- Future developments

A review of the investment activities for the period ended 31 August 2007 and the outlook for the coming financial year are given on pages 7 to 9.

Investment objective

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

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

The Company does not have a fixed life.

Investment policy

Details of the Company's investment objective are set out above. 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. At the period end the Group had borrowings of £5.06 million and held cash of £17.66 million which meant the Company was ungeared.

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

The Company intends to pay dividends on a quarterly basis each year. In the reporting period, the Company paid dividends totalling 5.50p per share and has declared a further dividend of 2.75p per share which is payable on 30 November 2007. These payments are in line with the Company's stated intention to pay dividends in this first period at an annualised rate of 11.0p per share. The Company holds stocks in ten countries across Asia, and no single country represents more

Report of the Directors

continued

than 22.3% of the portfolio. Investments have not yet been made in Indian and Japanese markets.

Performance

Total net assets at 31 August 2007 amounted to £208,737,000 and the net asset value per ordinary share was 268.91p.

At 31 August 2007 there were 51 separate investments, as detailed in the Investment Portfolio and the Manager's Report on pages 4 to 10.

Group net revenue after taxation for the period was £10,076,000.

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.

Since incorporation the Company has paid two interim dividends, each of 2.75p per share, on 31 May and 31 August 2007. A third interim dividend of 2.75p per share will be paid on 30 November 2007.

Shareholders who previously held shares in Henderson Far East Income Trust plc received from that company a fourth interim dividend of 2.3p per share in respect of the year to 31 August 2006 and a special dividend of 8.5p per share; both of which were paid on 14 December 2006. Those shareholders who were invested in both companies through the year to 31 August 2007 have therefore received dividends totalling 16.3p per share in the twelve month period.

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 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 excludes current financial year revenue items. This means that it is on a different basis to the NAV per ordinary share calculated within the period end financial statements, which does include current financial year revenue items.
- Yield
At each Board meeting, the Directors examine the Revenue forecast and consider 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.

Management, administration and custody arrangements

Investment management services are provided to the Company by wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc ("Henderson") under a management agreement.

The management fee is calculated and paid quarterly in arrears at the rate of 1.0% per annum of the average value of the Company's (or the predecessor company's for the periods prior to the launch) assets under management on the last day of each of the two calendar years preceding the calculation date in respect of which the charge is determined. Where the Company raises additional money by issuing shares, a supplemental fee is payable calculated at 1.0% of the amount raised net of expenses.

The management agreement may be terminated by either party, but in certain events the Company would be required to pay compensation to Henderson of 12 months' management charges. No compensation is payable if notice of termination of more than 12 months is given.

Administration services and the services of the Company Secretary are provided to the Company by BNP Paribas Fund Services Jersey Limited.

Report of the Directors

continued

Global Custodian services are provided by JP Morgan Chase Bank N.A.

Internal controls and management of risks

There are in place extensive internal controls to evaluate and manage any major financial, operational and compliance risks facing the Company. Details of the internal controls system and how the Board undertakes the analysis of the Company's business risks are contained in the Corporate Governance Report on pages 16 to 19.

Due to its investment strategy, the Company's business activities are exposed to market price risk, interest rate risk, credit risk, gearing risk, liquidity risk and foreign currency risk. The Company's policies for managing these risks are set out in note 18 to the financial statements.

Bank facilities

The Board has in place facilities which allow it to borrow as and when appropriate. At 31 August 2007 the Group had available short term and overdraft facilities of which £5.06 million was committed. The facilities are subject to regular review. At 31 August 2007, the ratio of borrowings under the facilities to gross assets was 2.37%.

Share capital

The number of Ordinary shares of no par value in issue on 31 August 2007 was 77,622,621. There was no change during the period.

Future developments

While the future performance of the Company is dependent, to a large degree, 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 7 to 9).

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. Accordingly, the whole Board shall submit itself for election at the forthcoming Annual General Meeting. The Board considers that there is a balance of skills and experience within the Board and each of the Directors contributes effectively.

The Directors and their beneficial interests in the ordinary shares of the Company from launch until the end of the financial period are stated below:

| | Ordinary Shares of no par value | |
|-------------------------|---------------------------------|---------------------|
| | 31 August 2007 | 18 December 2006 |
| John Russell (Chairman) | 5,000 | 5,000 |
| David Mashiter | – | – |
| Simon Meredith Hardy | 15,000 | 15,000 |
| Richard Povey | – | – |
| Christopher Spencer | – | – |

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

No Director has a service contract with the Company.

Directors' Remuneration

A report on Directors' Remuneration is on page 20.

Directors have agreed letters of appointment with the Company. Copies are available for review by shareholders. There were no contracts subsisting during, or at the end of the period, in which a Director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

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 judgement is given in their favour by the Court.

Report of the Directors

continued

Substantial Share Interests

| Shareholder | % of voting rights |
|--|--------------------|
| Legal & General Investment Management | 3.89 |
| Rensburg Sheppards Investment Management | 3.20 |

Declarations of notifiable interests in the issued share capital of the Company, at 30 October 2007, are set out above.

In addition, the Board is aware that, at 30 October 2007, 9.62% of the issued share capital was held on behalf of participants in the Itshenderson share schemes and 0.54% on behalf of participants in other Henderson PEP and ISA schemes. 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. In accordance with the revised terms and conditions of Itshenderson, issued by Henderson recently, Henderson has stated that it will instruct the nominee company to exercise the voting rights of any shares held through Itshenderson that have not been exercised by the individual participants in Itshenderson. It 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.

Annual General Meeting ("AGM")

The AGM will be held in Jersey on 11 December 2007 at 12 noon. The Notice of Meeting is set out on page 37.

Directors' Authority to Allot Relevant Securities

There are no provisions under Jersey law which confer rights of pre-emption upon the issue or sale of any class of shares in the Company. Accordingly, the Articles of Association authorise the Directors to allot an unlimited number of Ordinary shares without pre-emption rights applying for shareholders. Ordinary shares will only be issued at a premium to the prevailing net asset value per Ordinary share and, therefore, will not be disadvantageous to existing shareholders. Any future issues of Ordinary shares will be carried out in accordance with the Listing Rules. During the period since launch, no new Ordinary shares have been issued.

Purchase of the Company's Securities

The Directors intend to operate an active discount management policy through the use of share buy backs, if the shares were ever to trade at a substantial discount to net asset value for a significant period. Purchases of Ordinary shares will only be made through the market for cash at prices below the prevailing net asset value per Ordinary share (as last calculated) where the Directors believe such purchases will enhance Shareholder value and to assist in narrowing any discount to net asset value at which the Ordinary shares may trade. Resolution 9, a Special Resolution, will be proposed to renew the Directors' authority to make market purchases of the Company's shares in accordance with the provisions of the Listing Rules of the Financial Services Authority. Accordingly, the Company will seek authority to purchase up to a maximum of 11,635,630 Ordinary shares (representing 14.99 per cent. of the current issued share capital). The Directors do not intend to use this authority to purchase the Company's shares unless to do so would result in an increase in net asset value per share and would be in the interests of shareholders generally. The authority being sought shall expire at the conclusion of the Annual General Meeting in 2008 unless such authority is renewed prior to such time. Any Ordinary shares purchased in this way will be cancelled and the number of Ordinary shares will be reduced accordingly. At the present time Jersey law does not provide for shares to be held in treasury.

These powers will give Directors additional flexibility going forward and the Board considers that it will be in the interest of the Company that such powers be available. Such powers will only be implemented when, in the view the Directors, to do so will be for the benefit of all shareholders. The Directors recommend that shareholders vote in favour of Resolution 9 in the Notice of Meeting.

Corporate Governance

A statement on Corporate Governance is on pages 16 to 19.

Creditor Payment Policy

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant markets in which it operates. All other expenses are paid on a timely basis in the ordinary course of business.

Report of the Directors

continued

The Directors do not consider any creditors to represent trade creditors.

Going Concern

After making enquiries and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Independent Auditors

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

On behalf of the Board

Director

30 October 2007

Statement of Directors' Responsibilities in respect of the Financial Statements

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group at that time and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the www.itshenderson.com/hfel website, which is a website maintained by the Company's investment manager. The maintenance and integrity of the website is, so far as it relates to the Company, the responsibility of Henderson. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Corporate Governance

Background

The Board is accountable to shareholders for the governance of the Company's affairs. Paragraph 9.8.6 of the UK Listing Rules requires all listed companies to disclose how they have applied the principles and complied with the provisions of the revised Combined Code. The Financial Reporting Council (the "FRC") confirmed in February 2007 that it remained the view of the FRC that by following the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"), boards of investment companies should fully meet their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules.

The Directors considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to Henderson Far East Income Limited.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide the most appropriate information to shareholders.

There is no standard code of corporate governance in Jersey, where the Company is incorporated.

Application of the Codes' principles

The Board attaches great importance to the matters set out in the Code and the AIC Code and observes the relevant main and supporting principles. It should be noted that, most of the Company's day to day responsibilities are delegated to third parties and the directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

Board independence and composition

The Board currently consists of five non-executive directors. All are independent of the Company's investment manager.

All 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.

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 and that the Directors have different qualities and areas of expertise on which they may lead where issues arise. Their biographies, set out on page 2, demonstrate a breadth of investment, commercial and professional experience with an international perspective.

Responsibilities

The Board meets at least four times each year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. The investment manager takes decisions as to the purchase and sale of individual investments. The investment manager also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the investment manager attend each Board meeting, enabling Directors to probe further on matters of concern or seek clarification on certain issues. 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.

The Board's tenure and succession policy will seek to ensure that the Board is well-balanced and refreshed regularly by the appointment of new directors with the skills and experience necessary, in particular, to replace those lost by directors' retirements. Directors must be able to demonstrate their commitment to the Company. The Board seeks to encompass relevant past and current experience of various areas relevant to the Company's business.

The number of formal meetings during the period of the Board, Audit Committee and Management Engagement Committee, and the attendance of the individual Directors at those meetings, is shown in the following table.

Corporate Governance

continued

| Number of meetings* | Management Engagement | | |
|----------------------|-----------------------|-----------------|-----------|
| | Board | Audit Committee | Committee |
| | 3 | 1 | 1 |
| John Russell | 3 | 1 | 1 |
| David Mashiter | 3 | 1 | 1 |
| Simon Meredith Hardy | 3 | 1 | 1 |
| Richard Povey | 3 | 1 | 1 |
| Christopher Spencer | 3 | 1 | 1 |

*Since December 2006.

Senior Independent Non-executive Director

The Chairman of the Company is a non-executive director. A Senior Independent Non-Executive Director has not been identified, as the Board considers that all the Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

Directors' training

When a new Director is appointed, he or she will be offered a directors' introductory programme to be held by the investment manager. 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 in advance.

Directors' appointment

In accordance with the Company's Articles of Association, all Directors stand for election at the first AGM following their appointment, and every Director is to stand for re-election at intervals of not more than three years.

Board Committees

The Board has established Audit, Management Engagement and Nominations committees with defined terms of reference and duties.

Audit Committee

The Board has appointed an Audit Committee, which operates within clearly defined terms of reference and which comprises the entire Board. 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 of the Company by reviewing and challenging, where necessary, the actions and judgements of the investment 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 its auditors (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 the remuneration and terms of engagement of the Company's auditors; and
- to monitor and review annually the Company's auditors independence, objectivity, effectiveness, resources and qualifications.

Mr Spencer has been Chairman of the Audit Committee since 9 November 2006.

The Audit Committee has satisfied itself that Ernst & Young LLP, the Company's auditors, are independent.

Management Engagement Committee

The Management Engagement Committee comprises the entire Board and is responsible for ensuring that the investment 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.

Nominations Committee

The Board has appointed a Nominations Committee, which comprises the entire Board and which will be convened for the purpose of considering the appointment of additional or replacement directors. Full details of the duties of new directors will be provided to them with a letter of appointment. This Committee is chaired by the Chairman of the Board.

Performance Evaluation

The performance of the Company is considered in detail at each Board meeting. The Chairman reviews each individual Directors' contribution on an annual basis. The work of the Board as a whole and its committees will be reviewed annually by the Nominations Committee. The Directors will

Corporate Governance

continued

also meet without the Chairman present in order to review his performance.

The Board considers that, in view of its non-executive nature, it is not appropriate for the Directors to be appointed for a specified term of more than three years as recommended by the Combined Code.

Directors' remuneration

The Board as a whole will consider Directors' remuneration and no separate remuneration committee has been appointed. As the Company is an investment company and all its Directors are non-executive, the Company is not required to comply with the principles of the Code in respect of executive Directors' remuneration. The Directors' fees are detailed in the Directors' Remuneration Report on page 20.

Relations with shareholders and nominee code

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with shareholders is through the Half Year and Annual Reports which aim to provide shareholders with a clear understanding of the Company's activities and its results. This information is supplemented by the daily calculation and publication at the London and New Zealand Stock Exchanges of the net asset value of the Company's ordinary shares and a monthly fact sheet.

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

The Notice of the AGM on page 37 sets out the business of the meeting and the special resolutions are explained more fully in the Report of the Directors on pages 11 to 15. Separate resolutions are proposed for each substantive issue.

A summary of the proxy votes received on the resolutions proposed will be displayed at the meeting and will also be displayed on the Company's website.

It is the intention of the Board that the Annual Report and Notice of AGM be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the

meeting and specifically related to the resolutions proposed are invited to do so by writing to the Company Secretary at the address given on page 40.

Where shares are held in nominee companies, the Company undertakes to:

- provide to those nominee operators, who have indicated in advance a wish to receive them, copies of shareholder communications to distribute to their customers;
- encourage nominee operators to advise investors that they are able to attend general meetings and to speak at meetings when invited to do so by the Chairman.

Investors in the Itshenderson plans (formerly the Henderson Investment Trust Share Plan and the Henderson PEP and ISA) receive all shareholder communications. A voting instruction form is also provided to facilitate voting at general meetings of the Company.

The Board considers that shareholders should be encouraged to attend and participate in the AGM. It is recognised, however, that few shareholders are able to travel to Jersey to attend the formal meeting, and as such a shareholder event will be held in London on 13 December 2007, two days after the AGM. Full details are set out on page 39. This will give shareholders the opportunity to address questions to the Portfolio Manager, who as the representative of the investment manager, will make a presentation to shareholders.

Accountability and audit

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 15. The Independent Auditors' Report is set out on page 21. The Board has delegated contractually to external agencies, including the investment manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day to day company secretarial, administration requirements and accounting services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of 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 reports regularly from the investment manager and ad hoc reports

Corporate Governance

continued

and information are supplied to the Board as required. In addition, the Chairman attends gatherings of all the chairmen of the investment trusts and investment companies managed by the investment manager, which is a forum to discuss issues of common interest, and he reports back to the Board.

The investment manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the investment manager's compliance and business risk department on an ongoing basis.

Continued appointment of the investment manager

The Board reviews the performance of the investment manager. In the opinion of the Directors, the continued appointment of the current investment manager on the terms agreed is in the interests of the Company's shareholders as a whole. The investment manager has extensive investment management resources and wide experience in managing and administering investment companies.

Internal controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. This process is subject to regular review by the Board and accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 (the "Turnbull Guidance"). The process was fully in place throughout the period ended 31 August 2007 and up to the date of the approval of this report. In addition the Board conducted its annual review of the effectiveness of the Company's system of internal control, covering all the controls, including financial, operational and compliance controls and risk management. This review took into account points raised during the period in the Board's regular appraisal of specific areas of risk.

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the Directors will review from time to time whether a function equivalent to an internal audit is needed.

The Board received during the period from the investment manager a report on its internal controls (a "FRAG" Report) which includes a report from the investment manager's auditors on the controls and procedures in operation. The Board also received a report from the administrator. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the 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 investment manager, undertook a full review of the Company's business risks and these were analysed and recorded in a risk map. The Board receives each quarter from the investment manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the investment manager, and which reports the details of any known internal control failures.

Statement of compliance

The Directors consider that the Company has complied throughout the period ended 31 August 2007 with all the relevant provisions set out in the Code except as described above. The Company is compliant with the AIC Code.

New Zealand listing

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

Directors' Remuneration Report

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

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.

Statement of the Company's policy on Directors' remuneration

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. 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. In the period under review the Directors' fees were paid at the following annual rates: the Chairman £27,500; the Chairman of the Audit Committee £20,000; the other Directors £17,500.

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

Directors' fees and expenses

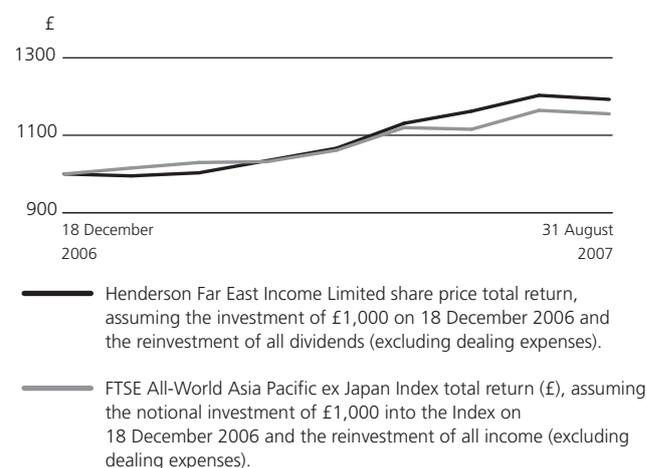
The fees payable by the Company in respect of each of the Directors who served during the period from appointment on 9 November 2006 to 31 August 2007, were as follows:

| | 2007 £'000 |
|---|---------------|
| John Russell (Chairman and highest paid director) | 23 |
| David Mashiter | 14 |
| Simon Meredith Hardy | 14 |
| Richard Povey | 14 |
| Christopher Spencer | 17 |
| Total | 82 |

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 (currency adjusted) for the period from launch to 31 August 2007. In view of the Company's objective, this is the most appropriate index against which to measure performance.

Share price performance graph



For and on behalf of the Board

Director
30 October 2007

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

We have audited the consolidated and parent company financial statements (“the financial statements”) of Henderson Far East Income Limited for the period ended 31 August 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statement of Changes in Equity, the Consolidated and Parent Company Balance Sheet, the Consolidated and Parent Company Cash Flow Statement and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company’s members, as a body, in accordance with Article 110 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 auditors’ 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

The Directors are responsible for the preparation of the financial statements in accordance with applicable Jersey law, as set out in the Statement of Directors’ Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report and Accounts and consider whether it is consistent with the audited financial statements. The other information comprises the Chairman’s Statement, the Manager’s Report, the Report of

the Directors, Corporate Governance Statement, the Directors’ Remuneration Report, the Notice of Meeting and Investor Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group and Company’s affairs as at 31 August 2007 and of the Group’s results for the period then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Ernst & Young LLP
Jersey, Channel Islands
30 October 2007

The financial statements are published on websites maintained by the Company’s manager, Henderson Global Investors Limited (“Henderson”).

The maintenance and integrity of these websites are the responsibility of Henderson; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Consolidated Income Statement

for the period 6 November 2006 to 31 August 2007

| | | Period 6 November 2006 to 31 August 2007 | | |
|-------|---|---|----------------------------|----------------|
| Notes | | Revenue return £'000 | Capital return £'000 | Total £'000 |
| 3 | Investment income | 11,808 | – | 11,808 |
| 4 | Other income | 434 | – | 434 |
| 11 | Gains on investments held at fair value through profit or loss | – | 23,330 | 23,330 |
| | Total income | 12,242 | 23,330 | 35,572 |
| | Expenses | | | |
| 5 | Management fees | (599) | (599) | (1,198) |
| 6 | Other expenses | (206) | (169) | (375) |
| | Profit before finance costs and taxation | 11,437 | 22,562 | 33,999 |
| 7 | Finance costs | (79) | (66) | (145) |
| | Profit before taxation | 11,358 | 22,496 | 33,854 |
| 8 | Taxation | (1,282) | (36) | (1,318) |
| | Profit for the period | 10,076 | 22,460 | 32,536 |
| 9 | Earnings per ordinary share (pence) | 12.98p | 28.94p | 41.92p |

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

All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of Henderson Far East Income Limited. There are no minority interests.

Consolidated and Parent Company Statement of Changes in Equity

for the period 6 November 2006 to 31 August 2007

| | | Consolidated Period 6 November 2006 to 31 August 2007 | | | | |
|-------|---|--|-----------------------------------|---------------------------------------|-----------------------------|----------------|
| Notes | | Stated capital £'000 | Distributable reserve £'000 | Other capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
| | Opening balance | – | – | – | – | – |
| | Issue of shares | 180,982 | – | – | – | 180,982 |
| | Share issue costs | (499) | (12) | – | – | (511) |
| | Transfer to distributable reserves | (180,483) | 180,483 | – | – | – |
| | Net profit from ordinary activities after taxation | – | – | 22,460 | 10,076 | 32,536 |
| 10 | Ordinary dividends paid | – | – | – | (4,270) | (4,270) |
| | At 31 August 2007 | – | 180,471 | 22,460 | 5,806 | 208,737 |

| | | Company Period 6 November 2006 to 31 August 2007 | | | | |
|-------|--|---|-----------------------------------|---------------------------------------|-----------------------------|----------------|
| Notes | | Stated capital £'000 | Distributable reserve £'000 | Other capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
| | Opening balance | – | – | – | – | – |
| | Issue of shares | 180,982 | – | – | – | 180,982 |
| | Share issue costs | (499) | (12) | – | – | (511) |
| | Transfer to distributable reserves | (180,483) | 180,483 | – | – | – |
| | Net profit from ordinary activities after taxation | – | – | 24,098 | 8,438 | 32,536 |
| 10 | Ordinary dividends paid | – | – | – | (4,270) | (4,270) |
| | At 31 August 2007 | – | 180,471 | 24,098 | 4,168 | 208,737 |

Consolidated and Parent Company Balance Sheet

at 31 August 2007

| Notes | Consolidated 2007 £'000 | Company 2007 £'000 |
|---|--|--------------------------|
| Non current assets | | |
| 11 | Investments held at fair value through profit or loss | 199,414 |
| | | 143,433 |
| Current assets | | |
| 12 | Other receivables | 6,722 |
| 8 | Deferred tax asset | 152 |
| | Cash and cash equivalents | 17,657 |
| | | 24,531 |
| | | 77,876 |
| | Total assets | 223,945 |
| | | 221,309 |
| Current liabilities | | |
| 13 | Other payables | (10,147) |
| 13 | Bank loans and overdrafts | (5,061) |
| | | (15,208) |
| | | (12,572) |
| | Net assets | 208,737 |
| | | 208,737 |
| Equity attributable to equity shareholders | | |
| | Stated capital | – |
| 15 | Distributable reserve | 180,471 |
| | Retained earnings: | |
| 16 | Other capital reserves | 22,460 |
| | Revenue reserve | 5,806 |
| | | 4,168 |
| | Total equity | 208,737 |
| | | 208,737 |
| 17 | Net asset value per ordinary share (pence) | 268.91p |
| | | 268.91p |

The financial statements were approved by the Board of Directors and authorised for issue on 30 October 2007 and were signed on its behalf by:

David Edward Peter Mashiter
Director

Richard Thomas Povey
Director

Consolidated and Parent Company Cash Flow Statement

for the period 6 November 2006 to 31 August 2007

| | Consolidated 2007 £'000 | Company 2007 £'000 |
|---|-------------------------------|--------------------------|
| Operating activities | | |
| Profit before taxation | 33,854 | 32,816 |
| Add back interest paid | 139 | 126 |
| Less gains on investments held at fair value through profit or loss | (23,330) | (24,556) |
| Less purchases of investments held at fair value through profit or loss | (175,534) | (118,520) |
| In specie transfer of securities in consideration for shares issued | 178,200 | 178,200 |
| Increase in other receivables | (1,942) | (4,649) |
| Increase in amounts due from brokers | (4,072) | (4,072) |
| Increase in other payables | 451 | 436 |
| Unrealised losses on foreign exchange contracts | 47 | 23 |
| Increase in amounts due to brokers | 9,034 | 7,223 |
| Scrip dividends included in investment income | (303) | (303) |
| Net cash inflow from operating activities before interest and taxation | 16,544 | 66,724 |
| Interest paid | (139) | (126) |
| Taxation on investment income | (1,332) | (612) |
| Net cash inflow from operating activities | 15,073 | 65,986 |
| Financing activities | | |
| Equity dividends paid | (4,270) | (4,270) |
| Drawdown of loan | 2,236 | 2,236 |
| Issue proceeds | 2,544 | 2,544 |
| Issue costs | (504) | (504) |
| Increase in inter-company loan | – | (51,927) |
| Net cash inflow/(outflow) from financing | 6 | (51,921) |
| Increase in cash and cash equivalents | 15,079 | 14,065 |
| Cash and cash equivalents at the start of the period | – | – |
| Exchange movements | (247) | (54) |
| Cash and cash equivalents at the end of the period (including bank overdrafts of £2,825 and £2,603 respectively) | 14,832 | 14,011 |

The notes on pages 26 to 36 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. Accordingly the accounting period runs from 6 November 2006 to 31 August 2007, and there are no comparative figures.

2 Accounting policies

a Basis of preparation

This consolidated financial information for the period ended 31 August 2007 has been prepared in accordance with International Financial Reporting Standards ("IFRS"). These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ("IASC") that remain in effect, to the extent that IFRS have been adopted by the European Union.

The principal accounting policies adopted are set out below. Where consistent with International Financial Reporting Standards ("IFRS") the financial statements have also been prepared in accordance with the guidance set out in the Statement of Recommended Practice ("SORP") for Investment Trusts issued by the Association of Investment Companies ("AIC") as revised in December 2005.

The Company has not applied the following IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been issued but are not yet effective:

IFRS 6 – Exploration for and evaluation of mineral resources (*effective for financial years beginning on or after 1 January 2007*). This standard is not applicable to the Company's operations.

IFRS 7 – Financial Instruments – Disclosures (*effective for financial years beginning on or after 1 January 2007*). This standard supersedes the disclosure requirements of IAS 32 and will result in additional disclosures in the Company's financial statements.

IFRS 8 – Operating Segments (*effective for financial years beginning on or after 1 January 2009*). IFRS 8 is not relevant to the Company's operations.

A complementary amendment to **IAS 1 – Presentation of Financial Statements – Capital disclosures** (*effective for financial years beginning on or after 1 January 2007*). The Company assessed the impact and concluded that certain additional disclosures would be necessary upon their application.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (*effective for financial years beginning on or after 1 March 2007*). IFRIC 11 is not relevant to the Company's operations.

IFRIC 12 – Service Concession Arrangements (*effective for financial years beginning on or after 1 January 2008*). IFRIC 12 is not relevant to the Company's operations.

b Basis of consolidation

The consolidated financial information comprises the financial information of Henderson Far East Income Limited ("the Company") and its subsidiary undertaking, Henderson Far East (Malta) Limited ("the Subsidiary").

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised as assets, are eliminated in full.

The Subsidiary is fully consolidated from the date of inception, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases.

Notes to the Financial Statements

continued

2 Accounting policies (continued)

c 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. Assets are de-recognised at the trade date of the 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.

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 Consolidated Income Statement 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.

d 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. Premia on written options are recognised as income.

e Expenses

All administration expenses 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 Consolidated Income Statement and allocated to other 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.

f Taxation

Under Article 123A of the Income Tax (Jersey) Law 1961, as amended, the Company has obtained Jersey exempt company status for the period and is therefore exempt from Jersey income tax on non-Jersey source income and bank interest (by concession). A £600 annual exempt company fee is payable by the Company.

Deferred taxation is accounted for within the provision for liabilities and charges and is provided on all taxable temporary differences that have originated but not reversed by the balance sheet date, other than those differences regarded as permanent. Any liability to deferred tax is provided at the average rate of tax expected to apply, based on tax law that had been enacted or substantially enacted by the balance sheet date. A deferred tax asset is recognised only to the extent that it is considered probable that sufficient taxable profits will be available to allow the deferred tax benefit of that asset to be utilised. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Maltese income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Consolidated Income Statement.

g Foreign currency

For the purposes of the consolidated financial information, the results and financial position of each entity is expressed in pounds sterling, which is the functional currency of the Company and the presentational currency of the Group. Sterling is the functional currency because it is the currency of the primary economic environment in which the Group 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 by which dividends are returned to shareholders, share buy-backs and share issues are conducted and is the cost base of the Company.

Notes to the Financial Statements

continued

2 Accounting policies (continued)

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

h Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risks of changes in value.

i Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the Consolidated Income Statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

j Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment business.

3 Investment income

Period 6 November 2006
to 31 August 2007
£'000

| | |
|-------------------------|--------|
| Income from investments | |
| Overseas dividends | 11,465 |
| | <hr/> |
| Interest income | 40 |
| Stock dividends | 303 |
| | <hr/> |
| | 11,808 |
| | <hr/> |

4 Other income

Period 6 November 2006
to 31 August 2007
£'000

| | |
|-------------------------|-------|
| Bank and other interest | 124 |
| Option premium income | 310 |
| | <hr/> |
| | 434 |
| | <hr/> |

5 Management fee

Period 6 November 2006 to 31 August 2007
Revenue Capital Total
£'000 £'000 £'000

| | | | |
|---------------------------|-------|-------|-------|
| Investment management fee | 599 | 599 | 1,198 |
| | <hr/> | <hr/> | <hr/> |

A summary of the terms of the management agreement is given in the Report of the Directors on page 12.

Notes to the Financial Statements

continued

| 6 | Other expenses | Period 6 November 2006 to 31 August 2007 | | |
|---|--|--|------------------|----------------|
| | | Revenue £'000 | Capital £'000 | Total £'000 |
| | Directors' fees [†] (see the Directors' Remuneration Report on page 20) | 49 | 41 | 90 |
| | Auditor's remuneration (including £8,000 relating to the subsidiary): | | | |
| | – statutory audit | 21 | 13 | 34 |
| | – interim accounts review | 4 | 4 | 8 |
| | – non-audit services | 4 | 5 | 9 |
| | Bank and custody charges | 43 | 23 | 66 |
| | Other expenses payable to the management company* | 9 | 8 | 17 |
| | Registrar's fees | 7 | 6 | 13 |
| | Printing and stationery | 12 | 13 | 25 |
| | Other expenses | 57 | 56 | 113 |
| | | 206 | 169 | 375 |

*Other expenses payable to the management company relate to the administration of the Henderson Share Plans.

[†]Includes £8,000 paid to the directors of the Maltese subsidiary.

| 7 | Finance costs | Period 6 November 2006 to 31 August 2007 | |
|---|---|---|------|
| | | £'000 | |
| | On bank loans and overdrafts payable: within one year | | 145 |
| | Amount allocated to capital | | (66) |
| | Total allocated to revenue | | 79 |

| 8 | Taxation | Period 6 November 2006 to 31 August 2007 | | |
|---|---|--|------------------|----------------|
| | | Revenue £'000 | Capital £'000 | Total £'000 |
| | a Taxation | | | |
| | The taxation charge for the period is comprised of the following: | | | |
| | Foreign withholding tax suffered | 1,282 | – | 1,282 |
| | Current tax expense | – | 188 | 188 |
| | Deferred tax credit (note 8b) | – | (152) | (152) |
| | | 1,282 | 36 | 1,318 |

The taxation on profit differs from the theoretical expense that would apply on the Company's profit before taxation using the applicable tax rate in Jersey of 20% as follows:

Notes to the Financial Statements

continued

| 8 Taxation (continued) | Period 6 November 2006 to 31 August 2007 £'000 |
|-------------------------------------|--|
| Profit before taxation | 33,854 |
| Theoretical taxation expense at 20% | 6,771 |
| Tax effect of: | |
| – Jersey exempt tax relief | (6,771) |
| – Foreign withholding tax | 1,282 |
| – Maltese income tax | 36 |
| Tax charge for the period | <u>1,318</u> |

b Deferred Taxation

The provision for deferred taxation for the period is analysed as follows:

| | |
|---------------------------------------|------------|
| At beginning of period | – |
| Transfer to profit and loss (note 8a) | 152 |
| | <u>152</u> |

9 Earnings per ordinary share

The earnings per ordinary share figure is based on the net gains for the period of £32,536,000 and on the weighted average number of ordinary shares in issue during the period of 77,622,621.

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

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.

| | Period 6 November 2006 to 31 August 2007 £'000 |
|---|--|
| Net revenue gain | 10,076 |
| Net capital gain | 22,460 |
| Net total gain | <u>32,536</u> |
| Weighted average number of ordinary shares in issue during the period | <u>77,622,621</u> |
| | (Pence) |
| Revenue earnings per ordinary share | 12.98 |
| Capital earnings per ordinary share | 28.94 |
| Total earnings per ordinary share | <u>41.92</u> |

Notes to the Financial Statements

continued

| 10 Dividends | Period 6 November 2006 to 31 August 2007 £'000 |
|--|--|
| Amounts recognised as distributions to equity shareholders during the period | |
| First interim paid 2007 | 2,135 |
| Second interim paid 2007 | 2,135 |
| | <u>4,270</u> |

The third interim dividend has not been included as a liability in these financial statements as it was announced and paid after 31 August 2007.

The table below sets out the total dividends paid and to be paid in respect of the financial period. The revenue available for distribution by way of dividend for the period is £10,076,000.

| | Period 6 November 2006 to 31 August 2007 £'000 |
|--|--|
| First interim dividend for 2007 – 2.75p per share | 2,135 |
| Second interim dividend for 2007 – 2.75p per share | 2,135 |
| Third interim dividend for 2007 – 2.75p per share (payable 30 November 2007) | 2,135 |
| | <u>6,405</u> |

| 11 Investments held at fair value through profit or loss | Period 6 November 2006 to 31 August 2007 £'000 |
|---|--|
| a Consolidated | |
| Opening book cost | – |
| Movements in the period: | |
| Purchases at cost | 359,224 |
| Sales – proceeds | (183,387) |
| – realised gains on sales | 13,704 |
| Increase in unrealised appreciation | 9,873 |
| Closing valuation at 31 August 2007 | <u>199,414</u> |

| | Period 6 November 2006 to 31 August 2007 | | |
|-------------------------------------|--|------------------------------------|----------------|
| | Investments £'000 | Subsidiary Undertaking £'000 | Total £'000 |
| b Company | | | |
| Opening book cost | – | – | – |
| Movements in the period: | | | |
| Purchases at cost | 206,974 | 1 | 206,975 |
| Sales – proceeds | (88,152) | – | (88,152) |
| – realised gains on sales | 7,837 | – | 7,837 |
| Increase in unrealised appreciation | 6,922 | 9,851 | 16,773 |
| Closing valuation at 31 August 2007 | <u>133,581</u> | <u>9,852</u> | <u>143,433</u> |

Notes to the Financial Statements

continued

Period 6 November 2006
to 31 August 2007
£'000

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

c Gains on held at fair value investments

| | |
|--|---------------|
| Realised gains on sales of investments | 13,704 |
| Increase in unrealised appreciation | 9,873 |
| Net movement on foreign exchange | (247) |
| | <u>23,330</u> |

d Transaction costs

During the period from 6 November 2006 to 31 August 2007 expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments held at fair value through profit or loss in the Consolidated Income Statement.

The total costs were as follows:

| | |
|-----------|------------|
| | £'000 |
| Purchases | 435 |
| Sales | 544 |
| | <u>979</u> |

e Subsidiary undertaking

The Company has an investment in the issued share capital in its wholly owned limited liability subsidiary undertaking, Henderson Far East (Malta) Limited. This is a limited liability company, registered under the Companies Act, 1995, Cap.386 of the Laws of Malta and was incorporated on 14 December 2006. The investment in the subsidiary undertaking of £1,000 is stated at net asset value (see note 11 (b)).

| | Consolidated 2007 £'000 | Company 2007 £'000 |
|--|-------------------------------|--------------------------|
| 12 Other receivables | | |
| Prepayments and accrued income | 1,942 | 4,649 |
| Amounts due from brokers | 4,072 | 4,072 |
| Other receivables | 332 | 238 |
| Maltese income tax receivable | 376 | 376 |
| Amount due from subsidiary undertaking | – | 51,927 |
| | <u>6,722</u> | <u>61,262</u> |
| | Consolidated 2007 £'000 | Company 2007 £'000 |
| 13 Other payables | | |
| a Other payables | | |
| Amounts due to brokers | 9,034 | 7,223 |
| Taxation payable | 564 | – |
| Other payables | 549 | 510 |
| | <u>10,147</u> | <u>7,733</u> |

Notes to the Financial Statements

continued

| 13 Other payables (continued) | Consolidated 2007 £'000 | Company 2007 £'000 |
|--------------------------------------|--|-----------------------------------|
| b Bank loans and overdrafts | | |
| Bank loans | 2,236 | 2,236 |
| Bank overdrafts | 2,825 | 2,603 |
| | <u>5,061</u> | <u>4,839</u> |

The bank loans and overdrafts outstanding at 31 August 2007 are valued at the middle rates of exchange at the year end, resulting in cumulative foreign exchange gains of £51,000 for the Group and £36,000 for the Company against the original book cost of these loans.

| 14 Called-up share capital | Authorised | Issued and fully paid |
|-----------------------------------|-------------------|----------------------------------|
| Founder shares of no par value | 2 | – |
| Ordinary shares of no par value | Unlimited | 77,622,621 |
| | | <u>77,622,621</u> |

On 15 December 2006 the Company issued 77,622,621 Ordinary shares of no par value for consideration value of £180,982,000, incurring £511,000 of issue expenses.

| 15 Distributable reserve | Consolidated and Company 2007 £'000 |
|---------------------------------|--|
| Opening balance | – |
| Transfer from stated capital | 180,982 |
| Issue share costs | (511) |
| At 31 August 2007 | <u>180,471</u> |

| 16 Other capital reserves | Capital reserve – realised £'000 | Capital reserve – unrealised £'000 | Total capital reserve £'000 |
|--|---|---|--|
| a Consolidated | | | |
| At 6 November 2006 | – | – | – |
| Loans – movement in unrealised currency gain | – | 31 | 31 |
| Exchange loss | (278) | – | (278) |
| Movement in unrealised appreciation | – | 9,873 | 9,873 |
| Gain on realisation of investments | 13,704 | – | 13,704 |
| Costs charged to capital | (834) | – | (834) |
| Tax charge on capital gains | (36) | – | (36) |
| At 31 August 2007 | <u>12,556</u> | <u>9,904</u> | <u>22,460</u> |

Notes to the Financial Statements

continued

| 16 Other capital reserves (continued) | Capital reserve – realised £'000 | Capital reserve – unrealised £'000 | Total capital reserve £'000 |
|--|---|---|--------------------------------------|
| b Company | | | |
| At 6 November 2006 | – | – | – |
| Loans – movement in unrealised currency gain | – | 31 | 31 |
| Exchange gain | (85) | – | (85) |
| Movement in unrealised appreciation | – | 16,773 | 16,773 |
| Gain on investments | 7,837 | – | 7,837 |
| Costs charged to capital | (834) | – | (834) |
| Maltese income tax recoverable | 376 | – | 376 |
| | <u>7,294</u> | <u>16,804</u> | <u>24,098</u> |

17 Net asset value per share

The basic net asset value per Ordinary share and the net asset values attributable to Ordinary Shareholders at the period end calculated in accordance with the Articles of Association were as follows:

| | Net asset value per share 2007 pence | Net asset values attributable 2007 £'000 |
|-----------------|--|--|
| Ordinary shares | <u>268.91p</u> | <u>208,737</u> |

The basic net asset value per Ordinary share is based on 77,622,621 Ordinary shares, being the number of Ordinary shares in issue at the period end.

18 Financial instruments

The Group's financial instruments comprise securities and other investments, cash balances, bank overdrafts and debtors and creditors that arise directly from its operations (for example, sales and purchases awaiting settlement and debtors for accrued income).

The main risks arising from the Group's financial instruments are market price risk, interest rate risk, foreign currency risk, liquidity risk, credit risk and gearing risk. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the inception of the Group.

The Board considers that the carrying amount of trade and other receivables approximates to their fair values.

Fair value

Investments held at fair value through profit or loss are valued at their quoted bid prices which equate to their fair values. The Directors are of the opinion that the financial assets and financial liabilities are stated at fair value in the Balance Sheet.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Group might suffer through holding market positions in the face of price movements.

Notes to the Financial Statements

continued

18 Financial instruments (continued)

To mitigate the risk, the Board's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis, with the emphasis on long-term investments. An appropriate spread of investments is held in the portfolio in order to reduce both the statistical risk and the risk arising from factors specific to a sector. The investment manager actively monitors market prices throughout the period and reports to the Board which meets regularly in order to consider investment strategy.

A list of the investments held by the Group is shown in the investment portfolio. Investments are held at fair value through profit or loss, valued at their quoted bid prices, which equate to their fair values.

Interest rate risk

Financial assets

The majority of the Group's financial assets are equity shares and other investments which neither pay interest nor have a stated maturity date.

Financial liabilities

There were floating rate liabilities of £5,061,000 (US Dollar short term bank loan £2,236,000 and bank overdrafts US Dollar £2,625,000; Australian Dollar £124,000; Sterling £74,000; and Euro £2,000).

All of the above Group financial liabilities at 31 August 2007 mature within one year.

Foreign currency risk

The Group's total return and net assets can be significantly affected by currency translation movements as the majority of the Group's assets and income are denominated in currencies other than Sterling, which is the Group's functional currency. It is not the Group's policy to hedge this risk but it reserves the right to do so.

Foreign currency exposure by currency of denomination as at 31 August 2007, is set out below:

| | Overseas Investments and monetary assets £'000 | Foreign currency monetary liabilities £'000 | Total currency exposure £'000 |
|--------------------|--|---|--|
| Australian Dollar | 44,897 | (1,935) | 42,962 |
| Euros | – | (2) | (2) |
| Hong Kong Dollar | 34,878 | (5,045) | 29,833 |
| Indonesian Rupiah | 3,236 | – | 3,236 |
| Malaysian Ringgit | 15,076 | (1,181) | 13,895 |
| New Zealand Dollar | 19 | – | 19 |
| Philippines Peso | 185 | – | 185 |
| Singapore Dollar | 20,900 | (997) | 19,903 |
| South Korean Won | 17,124 | – | 17,124 |
| Thailand Baht | 4,422 | – | 4,422 |
| Taiwan Dollar | 46,414 | – | 46,414 |
| US Dollar | 34,299 | (4,292) | 30,007 |
| Total | 221,450 | (13,452) | 207,998 |

Notes to the Financial Statements

continued

18 Financial instruments (continued)

Liquidity risk

The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary.

Credit risk

The Company may potentially be at risk from the failure of any institution of which it is a creditor. The investment manager uses a spread of brokers when investing, in order to minimise this risk.

Gearing risk

The Company's policy is to increase its exposure to equity markets through the judicious use of borrowings. When borrowings are invested in such markets, the effect is to magnify the impact on shareholders' funds of changes, both positive and negative, in the value of the portfolio.

The loans are valued at fair value in the financial statements. The Board regulates the overall level of gearing by raising or lowering cash balances.

19 Contingent liabilities

There were no contingent liabilities at 31 August 2007.

20 Transactions with the manager

Under the terms of an agreement dated 13 November 2006 as amended, the Company has appointed wholly owned subsidiary companies of Henderson Global Investors (Holdings) 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 period ended 31 August 2007 was £1,198,000 of which £300,000 was outstanding at 31 August 2007.

In addition to the above services, Henderson has provided the Company with share plan administration services. The total fees paid or payable for these services for the period ended 31 August 2007 amounted to £17,000, of which £17,000 was outstanding at 31 August 2007.

Notice of Meeting

Notice is hereby given that the first Annual General Meeting of Henderson Far East Income Limited will be held at BNP House, Anley Street, St. Helier, Jersey, JE2 3QE on 11 December 2007 at 12 noon for the following purposes:

To consider and, if thought fit, pass the following Resolutions which will be proposed as Ordinary Resolutions:

- 1 To receive the Report of the Directors and financial statements for the period ended 31 August 2007, together with the auditors' report thereon.
- 2 To approve the Directors' Remuneration Report.
- 3 To elect Mr John Russell as a Director.
- 4 To elect Mr David Mashiter as a Director.
- 5 To elect Mr Simon Meredith Hardy as a Director.
- 6 To elect Mr Richard Povey as a Director.
- 7 To elect Mr Christopher Spencer as a Director.
- 8 To re-appoint Ernst & Young LLP as independent auditors and to authorise the Directors to agree their remuneration.

Special Business

As special business, to consider the following Resolution, which will be proposed as a Special Resolution:

- 9 THAT, the Company be and is hereby generally and unconditionally authorised to make market purchases on a stock exchange of, and to cancel, Ordinary shares of no par value in the capital of the Company ("shares"), provided that:

(a) the maximum number of shares hereby authorised to be purchased is 14.99 per cent. of the issued share capital of the Company as at the date of the passing of this Resolution;

(b) the maximum price which may be paid for a share shall not be more than the higher of (i) an amount equal to 105 per cent. of the average of the middle market quotations for a share taken from the Official List for the 5 business days immediately preceding the day on which the share is purchased; and (ii) the higher of the last independent trade and the current highest independent bid on the trading venue where the purchase is carried out;

(c) the minimum price which may be paid for a share is one penny;

(d) the Company be authorised to purchase shares out of its unrealised capital or revenue profits less its capital or revenue losses, whether realised or unrealised; and,

(e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the expiry of 18 months from the passing of this Resolution, unless such authority is renewed prior to such time.

By order of the Board

BNP Paribas Fund Services Jersey Limited
Secretary

Registered Office:

BNP House
Anley Street
St. Helier
Jersey

JE2 3QE

30 October 2007

Note in respect of the Annual General Meeting

Notes

- (i) A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed.
- (ii) Instruments of proxy and the power of attorney or other authority, if any, under which they are signed or a notarially certified copy of that power of attorney or authority should be sent to The Registrars, Lloyds TSB (Jersey) Services Limited, PO Box 63, 7 Bond Street, St. Helier, Jersey, JE4 8PH, so as to arrive not less than forty eight hours before the time fixed for the meeting.
- (iii) In accordance with Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, to have the right to attend and vote at the meeting referred to above a member must first have his or her name entered in the Company's register of members by not later than forty eight hours before the time fixed for the meeting (or, in the event that the meeting be adjourned, on the register of members forty eight hours before the time of the adjourned meeting). Changes to entries on that register after that time (or, in the event that the meeting is adjourned, on the register of members less than forty eight hours before the time of any adjourned meeting) shall be disregarded in determining the rights of any member to attend and vote at the meeting referred to above.
- (iv) No Director has a service contract with the Company.
- (v) The Register of Directors' interests is kept by the Company and available for inspection at the registered office.

Warning to Shareholders

Over recent months many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited telephone call, please call either the Company Secretary or the Registrar at the numbers provided on page 40.

Investor Information

Financial calendar

| | |
|-------------------------------|------------------|
| Financial period end: | 31 August 2007 |
| Annual General Meeting: | 11 December 2007 |
| Shareholder Event (see below) | 13 December 2007 |
| 3rd Interim dividend 2007 | 30 November 2007 |
| Ex dividend date: | 7 November 2007 |
| Record date: | 9 November 2007 |
| 1st Interim dividend 2008 | 29 February 2008 |
| 2nd Interim dividend 2008 | 30 May 2008 |
| 3rd Interim dividend 2008 | 29 August 2008 |

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 will be 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, as in the case of the previous company, Henderson Far East Income Trust plc.

Henderson has therefore arranged a Shareholder Event to be held on Thursday 13 December 2007. The event will provide the opportunity for the 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. A map of the venue is provided below:



■ Henderson Global Investors, 4 Broadgate, London EC2M 2DA
The Shareholder Event will be held on the 7th floor

Quotation of shares

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: B1GXH75.

The International Security Identification Number is: JE00B1GXH751.

New Zealand listing

The Company's ordinary 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.

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.itshenderson.com/hfel

Shareholder information

Copies of this Report and Accounts 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 on audio tape or larger type as appropriate.

For investors through Itshenderson a textphone telephone service is available on 020 7850 5406. This service is available during normal business hours.

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.

Those who invest through the Itshenderson Dealing Account, ISA or PEP, receive all shareholder communications. A form of instruction is provided to facilitate voting at general meetings of the Company.

Capital Gains Tax

The calculation of the tax on chargeable gains will depend on personal circumstances. If you are in any doubt about your personal tax position, you are recommended to contact a professional adviser.

Investor Information

continued

Directors

John Russell (Chairman)
David Mashiter
Simon Meredith Hardy
Richard Povey
Christopher Spencer

Consultant

Michael Watt

Investment Manager

Henderson Global Investors Limited
represented by Michael Kerley
4, Broadgate, London EC2M 2DA

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

Secretary

BNP Paribas Fund Services Jersey Limited
represented by Jeremy Hamon

Registered Office

BNP House
Anley Street
St. Helier
Jersey JE2 3QE
Telephone: 01534 709108

Registered Number

Registered in Jersey, number 95064

Registered Auditor

Ernst & Young, LLP
Unity Chambers
28, Halkett Street
St. Helier
Jersey JE1 1EY

UK Stockbrokers

Landsbanki Securities (UK) Limited
Beaufort House
15 St. Botolph Street
London EC3A 7QR

Registrar

Lloyds TSB (Jersey) Services Limited
PO Box 63
7, Bond Street
St. Helier
Jersey JE4 8PH
Telephone: 0870 240 7974

New Zealand Registrars

Computershare Investor Services Limited
PO Box 92119
Auckland 1020
New Zealand
Telephone: (0064) 09 488 8777

New Zealand Stockbrokers

First NZ Capital Securities Limited
10th Floor, Caltex Tower
282-292 Lambton Quay
PO Box 3394
Wellington
New Zealand



Henderson Far East Income Limited

Put all your investments in order

Itshenderson is the convenient way to manage your investment portfolio. Save time, money and effort by bringing all your investments together in one place. Not just Far East Income Company shares, but any quoted shares, investment trusts, OEICs, unit trusts, bonds, PEPs, ISAs and cash deposits. You can trade from just £4.95*† over the phone or online, with no limit to the deal size, and you can log onto the internet to keep track of your portfolio.

For more information, call or visit our website. Please remember that past performance is not a guide to future performance.

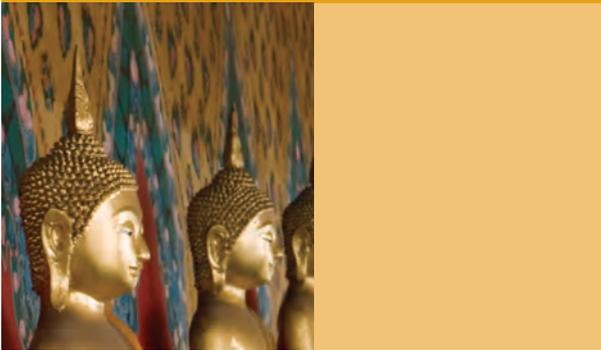
0845 712 5432
www.itshenderson.com

its
henderson
Stay on top of your investments

 **Henderson**
Global Investors

* Using SmartDeal – the online weekly bulk dealing service. †No Stamp Duty levied for shares in offshore domiciled companies.

The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions may change if the law changes and the value of tax relief will depend upon individual circumstances. Itshenderson is provided by Henderson Global Investors Limited the name under which Henderson Global Investors Limited, Henderson Fund Management plc, Henderson Administration Limited, Henderson Investment Funds Limited, Henderson Investment Management Limited and Henderson Alternative Investment Advisor Limited (each authorised and regulated by the Financial Services Authority and of 4 Broadgate, London EC2M 2DA), provide investment products and services. We may record telephone calls for our mutual protection and to improve customer service.



Henderson Far East Income Limited is managed by



This document is printed on Revive 50:50, a paper containing 50% recovered fibre & 50% virgin fibre. Pulps used are elemental chlorine free manufactured at a mill accredited with the ISO 14001 environmental management system.

The FSC logo identifies products which contain wood from well managed forests certified in accordance with the rules of the Forest Stewardship Council.

