

# **HENDERSON FAR EAST INCOME LIMITED**

**Report for the half-year ended  
28 February 2019**  
*(unaudited)*

## HENDERSON FAR EAST INCOME LIMITED

### Unaudited results for the half-year ended 28 February 2019

*This announcement contains regulated information*

#### Investment Objective

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

#### Performance highlights for the six months to 28 February 2019

- Net Asset Value ('NAV') per share total return was -3.5% compared to a total return of the FTSE All-World Asia Pacific ex Japan (sterling adjusted) of -3.7%
- Share price total return was -0.8%
- Shares trading at a premium of 2.1% at the period end
- Share issuance in the financial year to date totalling 3,125,000 shares raising £10.6m
- Two quarterly dividends paid during the period amount to 11.00p, a 3.8% increase on the same period in the prior year

#### Financial Highlights

	As at 28 February 2019	As at 31 August 2018
NAV per ordinary share	335.79p	359.26p
Share price	343.00p	357.00p
Net assets	£422,690,000	£441,004,000
Premium/(discount)	2.1%	(0.6%)

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

	6 months %	1 year %	3 years %	5 years %
Net asset value total return <sup>1</sup>	-3.5	-3.3	43.5	54.0
FTSE All-World Asia Pacific ex Japan Index (total return) <sup>2</sup>	-3.7	-3.8	57.6	65.1
FTSE All-World Asia Pacific Index (total return) <sup>3</sup>	-5.6	-5.1	50.1	66.6
Share price total return <sup>4</sup>	-0.8	-1.2	49.5	54.7

The Company does not have a formal benchmark. It uses the FTSE All-World Asia Pacific ex Japan Index (sterling adjusted) for reference purposes only.

<sup>1</sup> Net Asset Value (NAV) total return (including dividends reinvested and excluding transaction costs)

<sup>2</sup> FTSE All-World Asia Pacific ex Japan Index (sterling adjusted), for comparison purposes (including dividends reinvested)

<sup>3</sup> FTSE All-World Asia Pacific (sterling adjusted), for comparison purposes (including dividends reinvested)

<sup>4</sup> Share price total return (including dividends reinvested)

Sources: Morningstar for the AIC, Datastream

# INTERIM MANAGEMENT REPORT

## CHAIRMAN'S STATEMENT

### Performance

Asian equities produced a bumpier ride in 2018 in comparison to the prior year, with higher levels of volatility driven by rising trade tensions and the stronger US dollar and yields, along with fears of a slowing Chinese economy. However, the cut to the banks' reserve requirement ratios by the Peoples Bank of China coupled with the government's indication of higher public spending provided a degree of stimulus in the latter part of 2018, as did the temporary truce due to de-escalating trade tensions which was secured following a working dinner between Presidents Trump and Xi at the G20 Summit in early December. Despite the near-term headwinds, it is worth noting that quality Asian companies continue to produce solid growth and valuations are attractive.

For the six months to 28 February 2019, the net asset value per share total return was -3.5%, marginally ahead of the FTSE All-World Asia Pacific ex Japan Index (sterling adjusted) at -3.7%. The share price total return for the period was -0.8% and the Company has continued to trade at a premium in contrast to much of the AIC Asia Pacific ex Japan sector.

### Dividends

In keeping with its approach of paying four quarterly interim dividends, the Board is pleased to declare the second interim dividend for the year ending 31 August 2019 in the amount of 5.50p per ordinary share. This brings the total for the dividends paid in the financial year to date to 11.00p, reflecting an increase of 3.8% over the same period in the prior year.

The second interim dividend will be paid on 31 May 2019 to shareholders on the register on 3 May 2019.

### Share issues

The first half of the year saw strong demand for the Company's shares with 3,125,000 shares issued since the start of the current financial year, raising a total of £10,628,000.

For the benefit of shareholders, shares are only issued at a premium to net asset value to ensure that these do not have a dilutive effect.

### Outlook

Global risks and uncertainties abound and, while well flagged, present difficult choices for investors. In our region however, the Asia Pacific, there are clear trends which are encouraging and provide opportunities for investors taking a medium to long term view.

The US/China trade dispute is unlikely to diminish in the near term but the impact on China is likely to lessen over the next few years as the 10 Nations of ASEAN, home to 700 million people, reap the rewards of structural change, infrastructure spending and regional integration. Looking back this integration process started five decades ago with the rise of Japan, followed by the Asian tigers, Singapore, South Korea and Taiwan, then China. Now we are witnessing the rise of South and South East Asia, principally India, Indonesia and Vietnam. ASEAN is now China's third largest trading partner and overall more than 60% of ASEAN trade is within the region. This intra-Asia trade is bound to continue to grow as economic development drives up living standards and consumption. Western export markets will become less important to the region over time.

China's transition away from low cost manufacturing exports to a service driven economy continues. Exports are now less than 20% of GDP, while services, the fastest growing sector, now accounts for more than 50%. This transition has driven up labour costs in China presenting opportunities for ASEAN countries. Manufacturers looking for a lower cost environment are moving south, particularly to Indonesia and Vietnam. This trend has been supported by confidence that the lessons of the Asian financial crisis in 1997/8 have been well learned and policies put in place to prevent a recurrence. Prior to the crisis many Asian countries tied their currency to the US\$, poorly regulated banks borrowed heavily abroad often to fund the purchase of non-performing assets. Weakening exports started the rout and as the stock and property markets began to collapse money flowed out and local currencies fell sharply causing a severe foreign debt repayment problem. The economic and social damage across the region was devastating and not to be forgotten. Today all ASEAN currencies are floating and manufactured exports much more competitive. Lessons learned was the main reason Asia weathered the 2008 global crisis so well.

The continued growth and development of this vast and highly populated region, where people are highly motivated to work together to improve their lives and economic wellbeing, continues to provide ample opportunities for investors.

John Russell  
Chairman  
25 April 2019

## FUND MANAGER'S REPORT

### Review

Asia Pacific ex Japan markets had a roller coaster ride over the six months to the end of February 2019. The period started poorly as the trade dispute between the US and China ramped up while the fear of rising interest rates in the US caused further uncertainty culminating in the worst fourth quarter performance for global equities in many years. Markets rallied at the beginning of 2019 as trade worries eased and weakness in the US economy reduced the expectations of interest rate rises. By the end of the period markets had regained most of their losses with the FTSE All-World Asia Pacific ex Japan index down only 1.3% in local currency terms and 3.7% in sterling.

While equity markets have ridden out the volatility the pressure has certainly been felt in corporate earnings. Results across the region have generally been disappointing with the countries and sectors most exposed to trade and the global cycle most impacted. Earnings growth forecasts for 2019 are now firmly in single digit, down from mid-teens less than twelve months ago, while the recent rally in stock markets has stretched valuations beyond longer term averages. It is fair to say that at this point in the cycle markets are being driven by political and macro forces rather than company specific fundamentals.

Within this malaise there have been pockets of strength. The collapse of Vale's tailings dam in January 2019 and the subsequent closure of similar capacity on safety and environmental concerns have kept iron ore prices elevated. Supply side reform in China has also curtailed production in steel, cement, aluminium and coal and as a result the materials sector has performed much better than the economic numbers would suggest. Defensive sectors also performed well most notably telecommunications and real estate which were less volatile in the downturn but also participated in the new-year rally as the expectation of higher rates waned making their dividend yields more attractive relative to bonds.

At the country level Indonesia was the standout performer, rising 7% in sterling terms. The momentum in the economy is improving supported by resilient coal prices and falling inflation which has left room for the central bank to cut interest rates later in the year. High real interest rates have been supportive of the rupiah while the elections in April 2019, appear to favour incumbent President Joko Widodo whose popularity has remained high and who is beginning to see the benefits of Indonesia's much needed spending on infrastructure.

Despite the obvious impact from the trade dispute with the US, which has negatively impacted export volumes, China and Hong Kong were the only other two markets that posted positive returns in local currency terms. Recent data suggests that the Chinese economy is beginning to show some positive trends following the targeted measures implemented by the government in late 2018. The latest purchasing managers indices indicate a return to growth while property sales and consumer activity is proving resilient. The increased weighting of mainland 'A' shares in the MSCI regional indices has also proved supportive as foreigners continue to add to their China allocation.

The worst performing market was India, which fell 11.7% in sterling terms. The reason for the decline can be attributed to uncertainty around whether Modi will be re-elected in the April/May elections, high equity market valuations relative to the rest of the region and an earnings trajectory which refuses to deviate from its downward path. More importantly the confidence of the domestic investor has been dented and the flows into mutual funds, which have driven the market over the last few years, has slowed considerably.

The export orientated markets of Korea and Taiwan were also weak over the period. Unsurprisingly the impact from the trade war was not unexpected but the weakness in the demand for products such as smartphones and PC's had a significant impact on the profitability of these technology centric markets.

### Performance

Over the period the Company's net asset value per share total return was -3.5% in sterling terms, marginally outperforming the 3.7% fall in the FTSE All World Asia Pacific ex Japan Index. Surprisingly, the portfolio performed better on a relative basis in the rally of 2019 than it did in the sell off at the end of 2018 which is unusual for an income focused process. This was down to a series of factors which have more to do with themes and macro indicators than they have to do with corporate performance. From September 2018 the market was worried about Chinese growth, the trade war and the potential for rising US interest rates. With the portfolio's focus on China and in particular Chinese consumption and yield stocks (which are sensitive to rising interest rates) the usual defensiveness of the portfolio was negated. When the markets rallied the catalyst was improving relations between the US and China and a signal from the Federal Reserve that interest rates had peaked – a complete reverse from earlier in the period.

At the stock level there was strong performance from the mining sector with BHP and Rio Tinto in the top ten contributors while the bounce in Chinese consumption data proved beneficial for Anta Sports, high end liquor company Kweichow Moutai and also property developer China Vanke. The contribution of income stocks to capital return is borne out by the appearance of telco's China Mobile, HKT Trust and REITs Macquarie Korea Infrastructure, Mapletree North Asia Commercial Trust and Mapletree Commercial Trust in the top ten contributors to performance over the period.

Outside of bulk commodities the performance of other materials companies fared less well. The weakness of the oil price impacted China Petroleum & Chemical as well as down-stream refining – Star Petroleum and chemicals – Far East New Century. Also in the bottom ten detractors was Lend Lease which had served us well in previous periods but an unexpected provision related to its engineering arm resulted in a material sell off.

## **Revenue and Dividends**

The portfolio's dividend stream was very strong over the period with income from the stocks held rising 16.4% over the same period last year. This elevated performance was partly due to an increase in the number of special dividends received and is reflective of the amount of excess cash which is held on company balance sheets. Although these one off distributions may not be maintained at such a high level going forward this is a phenomenon which is likely to be repeated as companies reflect their strong capital positions and ongoing cash flow generation in their distributions to shareholders.

The revenue derived from option activity was broadly flat compared to last year. Volatility in markets has remained relatively low but individual stock price moves have allowed opportunities to write put and call options to supplement the Company's revenue. Option premia accounted for 11.0% of the Company's revenue received in the first half of this financial year.

## **Activity**

Although the country allocation has remained broadly unchanged, the volatility in markets has allowed us to take the opportunity to own some stocks in the consumer space which have previously not passed our valuation test. Examples of this would be Treasury Wine in Australia and high end liquor producer Kweichow Moutai in China. Both of these stocks are beneficiaries of the upgrading trend in China which is fuelled by rising disposable incomes. We have also added Sands China to the portfolio in the belief that this increased wealth will lead to higher tourism spend and greater visitation to Macau.

Following a number of visits and some detailed analysis we have initiated a position in Vietnam, which we feel is one of the most exciting stories in Asia. Apart from the short term benefit of an increased level of outsourcing from China as manufacturers diversify their production facilities, this is a country with a young population, improving infrastructure where the opening up of capital markets in the months and years ahead could unlock some real value. As a result of the constraints on liquidity and the premium which applies to some stocks we have chosen to enter the market through a London listed investment trust. The Vietnam Opportunity Fund provides us with liquidity across a broad range of companies, included unlisted while trading at a 17% discount to NAV.

To enable us to make these additions, we have sold a number of positions in the Company's portfolio; following some strong performance through most of 2018 we took some profit in Baosteel and also exited our position in Star Petroleum, we also sold Lend Lease in Australia following the previously mentioned provision and Hon Hai in Taiwan as the demand for Apple's smartphone products suffered owing to an overly aggressive pricing strategy.

## **Outlook**

We remain positive on the outlook for Asian equities in the medium to long term but realise that politics and macro uncertainty will dictate market direction in the short term. The recent stock market rally at the start of 2019 and the decline in earnings expectations have combined to push valuations, to levels above the long term average, which has removed the compelling value that was on offer. For the market moves to be sustained earnings need to improve and encouragingly we are seeing tentative signs of this emerging. The measures put in place by China in 2018 are beginning to gain some traction and we expect that momentum to continue throughout the rest of 2019, which will have a positive knock on effect for the rest of the region.

Our focus will continue to be on consumer related areas while we feel China still offers the best combination of value and growth in the region, despite the recent rally. Although Australia is the second highest allocation in the portfolio it is not an economy we feel that positive about. The elections in May this year could result in a left wing government which has already identified the dividend franking system as a target for change which could reduce the attractiveness of this country for an income investor. Although most of the stocks we own in Australia are not that exposed to the Australian economy it is something we will be paying close attention to as the year progresses.

Although the earnings momentum in the region has deteriorated the outlook for dividends remains robust. Companies continue to be prudent with capital expenditure allowing excess cash to be routed towards dividends. With dividend pay-out ratios low relative to other more developed markets this is a trend we expect to continue for many years to come.

Mike Kerley  
Fund Manager  
25 April 2019

## **PRINCIPAL RISKS AND UNCERTAINTIES**

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

- Investment and strategy
- Accounting, legal and regulatory
- Operational
- Financial

Information on these risks and how they are managed is given in the Annual Report for the year ended 31 August 2018. In the view of the Board these principal risks and uncertainties are as applicable to the remaining six months of the financial year as they were to the six months under review.

## **RELATED PARTY TRANSACTIONS**

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

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

## **DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors confirm that, to the best of their knowledge:

- the unaudited condensed set of financial statements has been prepared in accordance with IAS 34 – Interim Financial Reporting ("IAS 34") and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by Disclosure Guidance and Transparency Rule ('DTR') 4.2.4R;
- the interim management report includes a fair review of the information required:
  - by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months of the financial year, and their impact on the unaudited condensed set of financial statements, and a description of principal risks and uncertainties for the remaining six months of the year); and
  - by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Company during the period; and any changes in related party transactions described in the 2018 Annual Report that could have an impact in the first six months of the current financial year).

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the financial statements are complete and unaltered in any way.

For and on behalf of the Board  
John Russell, Chairman  
25 April 2019

**Investment Portfolio** as at 28 February 2019

	<b>Company</b>	<b>Country of incorporation</b>	<b>Sector</b>	<b>Valuation £'000</b>	<b>% of Portfolio</b>
1	HKT Trust & HKT	Hong Kong	Telecommunications	13,615	3.12
2	China Construction Bank	China	Financials	13,388	3.07
3	Macquarie Korea Infrastructure Fund	South Korea	Financials	12,993	2.98
4	Industrial & Commercial Bank of China	China	Financials	12,709	2.92
5	BHP Group Ltd	Australia	Basic Materials	12,107	2.78
6	China Yangtze Power	China	Utilities	11,605	2.66
7	China Mobile	China	Telecommunications	11,558	2.65
8	Kweichow Moutai	China	Consumer Goods	11,065	2.54
9	Taiwan Semiconductor Manufacturing <sup>1</sup>	Taiwan	Technology	11,011	2.53
10	Digital Telecommunications	Thailand	Telecommunications	10,930	2.51
	<b>Top Ten Investments</b>			<b>120,981</b>	<b>27.76</b>
11	China Vanke	China	Property	10,824	2.49
12	Macquarie Group	Australia	Financials	10,648	2.44
13	Wesfarmers	Australia	Consumer Services	10,291	2.36
14	Spark Infrastructure	Australia	Utilities	10,018	2.30
15	China Petroleum & Chemical	China	Oil & Gas	9,927	2.28
16	Rio Tinto Ltd	Australia	Basic Materials	9,799	2.25
17	Anhui Conch Cement	China	Industrials	9,661	2.22
18	Mapletree North Asia	Hong Kong	Property	9,579	2.20
19	Mapletree Commercial Trust	Singapore	Property	9,469	2.17
20	Ascendas REIT	Singapore	Property	9,469	2.17
	<b>Top Twenty Investments</b>			<b>220,666</b>	<b>50.64</b>
21	Scentre Group	Australia	Property	9,448	2.17
22	E.Sun Financial	Taiwan	Financials	9,439	2.17
23	SK Telekom <sup>1</sup>	South Korea	Telecommunications	9,347	2.15
24	Spark New Zealand	New Zealand	Telecommunications	9,253	2.12
25	DBS Group	Singapore	Financials	9,213	2.11
26	Amcor	Australia	Industrials	8,864	2.03
27	Orange Life Insurance	South Korea	Financials	8,828	2.03
28	Taiwan Cement	Taiwan	Industrials	8,827	2.03
29	Sands China	China	Consumer Services	8,648	1.98
30	SK Innovation	South Korea	Basic Materials	8,431	1.93
	<b>Top Thirty Investments</b>			<b>310,964</b>	<b>71.36</b>
31	United Overseas Bank	Singapore	Financials	8,317	1.91
32	Far Eastern New Century	Taiwan	Basic Materials	8,191	1.88
33	Samsung Electronics <sup>2</sup>	South Korea	Technology	8,146	1.87
34	PTT	Thailand	Oil & Gas	8,083	1.85
35	Indorama Ventures	Thailand	Basic Materials	7,935	1.82
36	Intouch Holdings	Thailand	Telecommunications	7,869	1.80
37	Chow Tai Fook Jewellery	Hong Kong	Consumer Goods	7,801	1.79
38	Treasury Wine Estates	Australia	Consumer Goods	7,754	1.78
39	Telekomunikasi Indonesia	Indonesia	Telecommunications	7,698	1.77
40	Anta Sports Products	China	Consumer Goods	7,570	1.74
	<b>Top Forty Investments</b>			<b>390,328</b>	<b>89.57</b>

	<b>Company</b>	<b>Country of incorporation</b>	<b>Sector</b>	<b>Valuation £'000</b>	<b>% of Portfolio</b>
41	Suncorp	Australia	Financials	7,566	1.74
42	Dexus	Australia	Property	7,504	1.72
43	Venture	Singapore	Technology	7,086	1.63
44	Dali Foods	China	Consumer Goods	6,870	1.58
45	Powertech Technology	Taiwan	Technology	6,370	1.46
46	KB Financial Group	South Korea	Financials	5,847	1.34
47	VinaCapital Vietnam	Vietnam	Financials	4,840	1.11
48	China Forestry Holdings	China	Basic Materials	-	-
49	China Resources Land Apr 19 Put (Expiry 15/04/19)	China	Property	(312)	(0.07)
50	Anhui Conch Cement May 19 Call (Expiry 27/05/19)	China	Industrials	(339)	(0.08)
	<b>Top Fifty Investments</b>			<b>435,760</b>	<b>100.00</b>
	<b>Total Investments</b>			<b>435,760</b>	<b>100.00</b>

(1) American Depositary Receipts

(2) Preferred Shares

### Sector and Geographic exposure

<b>Sector Exposure</b>	<b>Portfolio as at 28 February 2019</b>	<b>Portfolio as at 31 August 2018</b>	<b>Geographic Exposure</b>	<b>Portfolio as at 28 February 2019</b>	<b>Portfolio as at 31 August 2018</b>
	<b>%</b>	<b>%</b>		<b>%</b>	<b>%</b>
Financials	<b>23.8</b>	28.4	Australia	<b>21.5</b>	17.1
Telecommunications	<b>16.1</b>	14.7	China	<b>26.0</b>	25.9
Property	<b>12.9</b>	10.4	Hong Kong	<b>7.1</b>	6.1
Basic Materials	<b>10.7</b>	10.5	Indonesia	<b>1.8</b>	1.5
Consumer Goods	<b>9.4</b>	7.4	Malaysia	-	2.1
Technology	<b>7.5</b>	10.7	New Zealand	<b>2.1</b>	2.1
Industrials	<b>6.2</b>	7.0	Singapore	<b>10.0</b>	9.8
Utilities	<b>5.0</b>	4.4	South Korea	<b>12.3</b>	12.1
Consumer Services	<b>4.3</b>	-	Taiwan	<b>10.1</b>	15.2
Oil & Gas	<b>4.1</b>	6.5	Thailand	<b>8.0</b>	8.1
			Vietnam	<b>1.1</b>	-
<b>Total</b>	<b>100.0</b>	100.0	<b>Total</b>	<b>100.0</b>	100.0



## CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Half-year ended 28 February 2019 (Unaudited)			Half-year ended 28 February 2018 (Unaudited)			Year ended 31 August 2018 (Audited)		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Investment income	9,194	-	9,194	7,897	-	7,897	29,914	-	29,914
Other income	1,160	-	1,160	1,108	-	1,108	2,665	-	2,665
Losses on investments held at fair value through profit or loss	-	(22,252)	(22,252)	-	(256)	(256)	-	(17,574)	(17,574)
Net foreign exchange (loss)/gain excluding (losses)/gains on investments	-	(168)	(168)	-	905	905	-	(63)	(63)
<b>Total income</b>	<b>10,354</b>	<b>(22,420)</b>	<b>(12,066)</b>	<b>9,005</b>	<b>649</b>	<b>9,654</b>	<b>32,579</b>	<b>(17,637)</b>	<b>14,942</b>
<b>Expenses</b>									
Management fees	(934)	(934)	(1,868)	(973)	(973)	(1,946)	(1,935)	(1,935)	(3,870)
Other expenses	(236)	(236)	(472)	(247)	(247)	(494)	(498)	(497)	(995)
<b>Profit/(loss) before finance costs and taxation</b>	<b>9,184</b>	<b>(23,590)</b>	<b>(14,406)</b>	<b>7,785</b>	<b>(571)</b>	<b>7,214</b>	<b>30,146</b>	<b>(20,069)</b>	<b>10,077</b>
Finance costs	(121)	(121)	(242)	(105)	(105)	(210)	(236)	(236)	(472)
<b>Profit/(loss) before taxation</b>	<b>9,063</b>	<b>(23,711)</b>	<b>(14,648)</b>	<b>7,680</b>	<b>(676)</b>	<b>7,004</b>	<b>29,910</b>	<b>(20,305)</b>	<b>9,605</b>
Taxation	(897)	245	(652)	(639)	-	(639)	(3,010)	-	(3,010)
<b>Profit/(loss) for the period and total comprehensive income</b>	<b>8,166</b>	<b>(23,466)</b>	<b>(15,300)</b>	<b>7,041</b>	<b>(676)</b>	<b>6,365</b>	<b>26,900</b>	<b>(20,305)</b>	<b>6,595</b>
<b>Earnings per ordinary share basic and diluted</b> (note 2)	<b>6.59p</b>	<b>(18.94p)</b>	<b>(12.35p)</b>	<b>5.88p</b>	<b>(0.57p)</b>	<b>5.31p</b>	<b>22.21p</b>	<b>(16.77p)</b>	<b>5.44p</b>

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

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

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

## CONDENSED STATEMENT OF CHANGES IN EQUITY

### Half-year ended 28 February 2019 (Unaudited)

	Stated capital £'000	Distributable reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
Total equity at 31 August 2018	139,698	180,471	97,255	23,580	441,004
Total comprehensive income:					
(Loss)/profit for the period	-	-	(23,466)	8,166	(15,300)
Transaction with owners, recorded directly to equity:					
Dividends paid	-	-	-	(13,642)	(13,642)
Shares issued	10,660	-	-	-	10,660
Share issue costs	(32)	-	-	-	(32)
<b>Total equity at 28 February 2019</b>	<b>150,326</b>	<b>180,471</b>	<b>73,789</b>	<b>18,104</b>	<b>422,690</b>

### Half-year ended 28 February 2018 (Unaudited)

	Stated capital £'000	Distributable reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
Total equity at 31 August 2017	121,784	180,471	117,560	22,667	442,482
Total comprehensive income:					
(Loss)/profit for the period	-	-	(676)	7,041	6,365
Transaction with owners, recorded directly to equity:					
Dividends paid	-	-	-	(12,736)	(12,736)
Shares issued	13,138	-	-	-	13,138
Share issue costs	(53)	-	-	-	(53)
<b>Total equity at 28 February 2018</b>	<b>134,869</b>	<b>180,471</b>	<b>116,884</b>	<b>16,972</b>	<b>449,196</b>

### Year ended 31 August 2018 (Audited)

	Stated capital £'000	Distributable reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
Total equity at 31 August 2017	121,784	180,471	117,560	22,667	442,482
Total comprehensive income:					
(Loss)/profit for the year	-	-	(20,305)	26,900	6,595
Transaction with owners, recorded directly to equity:					
Dividends paid	-	-	-	(25,987)	(25,987)
Shares issued	17,983	-	-	-	17,983
Share issue costs	(69)	-	-	-	(69)
<b>Total equity at 31 August 2018</b>	<b>139,698</b>	<b>180,471</b>	<b>97,255</b>	<b>23,580</b>	<b>441,004</b>

## CONDENSED BALANCE SHEET

	28 February 2019 (Unaudited) £'000	28 February 2018 (Unaudited) £'000	31 August 2018 (Audited) £'000
<b>Non-current assets</b>			
Investments held at fair value through profit or loss (note 8)	436,411	463,716	462,638
	-----	-----	-----
<b>Current assets</b>			
Other receivables	7,871	12,730	3,253
Cash and cash equivalents	6,390	16,874	7,117
	-----	-----	-----
	14,261	29,604	10,370
	-----	-----	-----
<b>Total assets</b>	<b>450,672</b>	<b>493,320</b>	<b>473,008</b>
	-----	-----	-----
<b>Current liabilities</b>			
Investments held at fair value through profit or loss - written options (note 8)	(651)	(503)	(461)
Other payables	(1,769)	(10,961)	(768)
Bank loans and overdrafts	(25,562)	(32,660)	(30,775)
	-----	-----	-----
	(27,982)	(44,124)	(32,004)
	-----	-----	-----
<b>Net assets</b>	<b>422,690</b>	<b>449,196</b>	<b>441,004</b>
	=====	=====	=====
<b>Equity attributable to equity shareholders</b>			
Stated share capital	150,326	134,869	139,698
Distributable reserve	180,471	180,471	180,471
Retained earnings:			
Capital reserves	73,789	116,884	97,255
Revenue reserve	18,104	16,972	23,580
	-----	-----	-----
<b>Total equity</b>	<b>422,690</b>	<b>449,196</b>	<b>441,004</b>
	=====	=====	=====
<b>Net asset value per ordinary share</b> (note 3)	<b>335.79p</b>	<b>369.93p</b>	<b>359.26p</b>
	=====	=====	=====

## CONDENSED STATEMENT OF CASH FLOWS

	Half-year ended 28 February 2019 (Unaudited) £'000	Half-year ended 28 February 2018 (Unaudited) £'000	Year ended 31 August 2018 (Audited) £'000
<b>Operating activities</b>			
(Loss)/profit before tax	(14,648)	7,004	9,605
Add back:			
Finance costs	242	210	472
Losses on investments held at fair value through profit or loss	22,252	256	17,574
Net foreign exchange losses/(gains) excluding foreign exchange losses/(gains) on investments	168	(905)	63
Sales of investments	128,984	160,052	407,666
Purchases of investments	(125,134)	(161,927)	(425,248)
Decrease in prepayments and accrued income	501	221	105
(Increase)/decrease in amounts due from brokers	(4,793)	(9,530)	62
Increase/(decrease) in other payables	1,009	978	(145)
Increase in amounts due to brokers	-	9,086	-
Stock dividends included in investment income	-	-	(574)
	-----	-----	-----
<b>Net cash inflow from operating activities before interest and taxation</b>	<b>8,581</b>	<b>5,445</b>	<b>9,580</b>
	-----	-----	-----
Interest paid	(251)	(254)	(500)
Withholding tax on investment income	(652)	(639)	(3,010)
	-----	-----	-----
<b>Net cash inflow from operating activities after interest and taxation</b>	<b>7,678</b>	<b>4,552</b>	<b>6,070</b>
	-----	-----	-----
<b>Financing activities</b>			
Repayment of loan with CBA	-	-	(31,833)
Initial drawdown of loan with SMBC	-	-	32,282
Net loans repayment	(5,216)	2,063	(985)
Equity dividends paid	(13,642)	(12,736)	(25,987)
Share issue proceeds	10,660	13,138	17,983
Share issue costs	(32)	(53)	(69)
	-----	-----	-----
<b>Net cash (outflow)/inflow from financing</b>	<b>(8,230)</b>	<b>2,412</b>	<b>(8,609)</b>
	-----	-----	-----
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(552)</b>	<b>6,964</b>	<b>(2,539)</b>
<b>Cash and cash equivalents at the start of the period / year</b>	<b>7,117</b>	<b>10,241</b>	<b>10,241</b>
Exchange movements	(175)	(331)	(585)
	-----	-----	-----
<b>Cash and cash equivalents at the end of the period / year</b>	<b>6,390</b>	<b>16,874</b>	<b>7,117</b>
	=====	=====	=====
<b>Net debt</b>			
Cash and cash equivalents	6,390	16,874	7,117
Bank loans & overdraft repayable within one year	(25,562)	(32,660)	(30,775)
	-----	-----	-----
<b>Net debt</b>	<b>(19,172)</b>	<b>(15,786)</b>	<b>(23,658)</b>
	=====	=====	=====

## NOTES

### 1. Accounting Policies:

#### (a) Basis of preparation

The condensed interim financial information has been prepared on a going concern basis, in accordance with IAS 34 and the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

The Annual Report and Financial Statements for the year ended 31 August 2018 were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The unaudited results for the half-year ended 28 February 2019 have been prepared using the same accounting policies as those applied in the Company's financial statements for the year ended 31 August 2018 with the exception of the implementation of IFRS 9, 'Financial Instruments' and IFRS 15, 'Revenue from Contracts with Customers', which are standards applicable for this year, but have no impact on the financial statements.

There has been no change to the segmental reporting assessment compared to the 31 August 2018 financial statements.

These condensed financial statements do not include all information required for a full set of financial statements. The figures and financial information for the year ended 31 August 2018 are an extract based on the published financial statements and should be read in conjunction with them.

The condensed financial information for the half-years ended 28 February 2019 and 28 February 2018 have not been audited.

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

All investments are designated upon initial recognition as held at fair value through profit or loss. These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis. Financial assets are recognised/de-recognised at the trade date of the purchase/disposal. Proceeds will be measured at fair value, which will be regarded as the proceeds of sale less any transaction costs. The fair value of the equity instruments is based on their quoted bid price at the balance sheet date, without deduction of the estimated future selling costs. Participation notes are fair valued by reference to underlying stocks. The fair value of option contracts is determined by reference to the Black-Scholes model. The fair values of unquoted financial instruments within the portfolio are based on their last audited net asset values discounted where necessary to arrive at a fair value.

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

#### Significant accounting judgments and estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements; however, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future. As the majority of the Company's financial assets are quoted securities, in the opinion of the Directors, the amounts included as assets and liabilities in the financial statements are not subject to significant judgements, estimates or assumptions.

The Company does not hold any Participation Notes at 28 February 2019 (28 February 2018: £31.6 million, 31 August 2018: £4.5 million). These are valued by reference to the underlying quoted stock. The obligations relating to the options valued at £651,000 (liability) (28 February 2018: £503,000 (liability), 31 August 2018: £461,000 (liability)) are valued by reference to the Black-Scholes model.

### 2. Earnings per ordinary share

The earnings per ordinary share figure is based on the net loss after taxation of £15,300,000 (half-year ended 28 February 2018: profit £6,365,000; year ended 31 August 2018: profit £6,595,000) and on 123,919,862 ordinary shares (half-year ended 28 February 2018: 119,764,056; year ended 31 August 2018: 121,130,068) being the weighted average number of ordinary shares in issue during each of the periods.

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

	<b>Half-year ended 28 February 2019 (Unaudited) £'000</b>	Half-year ended 28 February 2018 (Unaudited) £'000	Year ended 31 August 2018 (Audited) £'000
Net revenue profit	<b>8,166</b>	7,041	26,900
Net capital loss	<b>(23,466)</b>	(676)	(20,305)
Net total (loss)/profit	<b>(15,300)</b>	6,365	6,595
Weighted average number of ordinary shares in issue during the period / year	<b>123,919,862</b>	119,764,056	121,130,068
	<b>Pence</b>	Pence	Pence
Revenue earnings per ordinary share	<b>6.59</b>	5.88	22.21
Capital earnings per ordinary share	<b>(18.94)</b>	(0.57)	(16.77)
Total earnings per ordinary share	<b>(12.35)</b>	5.31	5.44

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

### 3. Net asset value per ordinary share

The net asset value per ordinary share is based on a net asset value of £422,690,000 (28 February 2018: £449,196,000; 31 August 2018: £441,004,000) and on 125,878,564 (28 February 2018: 121,428,564; 31 August 2018: 122,753,564) ordinary shares, being the number of ordinary shares in issue at each period end.

### 4. Transaction costs

Purchase transaction costs for the half-year ended 28 February 2019 were £94,000 (half-year ended 28 February 2018: £189,000; year ended 31 August 2018: £488,000). Sales transaction costs for the half-year ended 28 February 2019 were £199,000 (half-year ended 28 February 2018: £275,000; year ended 31 August 2018: £846,000). Transaction costs for both purchases and sales principally consist of commission fees.

### 5. Share capital

During the six months under review the Company issued a total of 3,125,000 shares (half-year ended 28 February 2018: 3,493,000; year ended 31 August 2018: 4,818,000) for net proceeds of £10,628,000 (half-year ended 28 February 2018: £13,085,000; year ended 31 August 2018: £17,914,000) net of costs. Since the period end, a further 1,325,000 shares have been issued for net proceeds of £4,663,000.

### 6. Dividends

The Company pays dividends on a quarterly basis. On 30 November 2018, a fourth interim dividend of 5.50p per share was paid in respect of the year ended 31 August 2018. A first interim dividend, in respect of the year ended 31 August 2019, of 5.50p per share was paid on 28 February 2019. The second interim dividend of 5.50p per share will be paid on 31 May 2019 to shareholders on the register on 3 May 2019. The Company's shares will be quoted ex-dividend on 2 May 2019. Based on the number of shares in issue on 25 April 2019, the cost of this dividend will be £6,996,000.

### 7. Management Fees

Management fees are charged in accordance with the terms of the management agreement at a rate of 0.9% per annum of the first £400,000,000 of net assets and 0.75% per annum of the balance of net assets greater than £400,000,000.

### 8. Financial Instruments

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

#### Financial instruments carried at fair value

##### Fair value hierarchy

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

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

<b>Financial assets and financial liabilities at fair value through profit or loss at 28 February 2019</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
<b>Investments including derivatives:</b>				
- Equity securities designated at fair value through profit or loss	436,411	-	-	436,411
- Written options	-	(651)	-	(651)
<b>Total financial assets and liabilities carried at fair value</b>	<b>436,411</b>	<b>(651)</b>	<b>-</b>	<b>435,760</b>
<b>Financial assets and financial liabilities at fair value through profit or loss at 28 February 2018</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
<b>Investments including derivatives:</b>				
- Equity securities designated at fair value through profit or loss	432,129	31,587	-	463,716
- Written options	-	(503)	-	(503)
<b>Total financial assets and liabilities carried at fair value</b>	<b>432,129</b>	<b>31,084</b>	<b>-</b>	<b>463,213</b>
<b>Financial assets and financial liabilities at fair value through profit or loss at 31 August 2018</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
<b>Investments including derivatives:</b>				
- Equity securities designated at fair value through profit or loss	458,113	4,525	-	462,638
- Written options	-	(461)	-	(461)
<b>Total financial assets and liabilities carried at fair value</b>	<b>458,113</b>	<b>4,064</b>	<b>-</b>	<b>462,177</b>

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

There have been no transfers into/out of and no movements in Level 3 investments during the half-year ended 28 February 2019 and 28 February 2018 and the year ended 31 August 2018.

The Company's holdings in options and Participation Notes are included within Level 2. No Participation Notes were held at 28 February 2019.

The valuation techniques used by the Company are explained in the accounting policies note of the Annual Report and Financial Statements for the year ended 31 August 2018.

Premiums from written options during the half-year ended 28 February 2019 were £1,106,000 (half-year ended 28 February 2018: £1,072,000, year ended 31 August 2018: £2,591,000).

The valuation techniques and inputs used for level 2 investments are as disclosed in note 1(b).

## 9. Going concern

The assets of the Company consist almost entirely of securities that are listed and regularly traded and, accordingly, the directors believe that the Company has adequate financial resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Having assessed these factors and the principal risks, the Board has decided that it is appropriate for the financial statements to be prepared on a going concern basis.

## 10. Net debt reconciliation

	<b>Cash and cash equivalents £'000</b>	<b>Bank loans and overdraft repayable within one year £'000</b>	<b>Total £'000</b>
<b>Net debt as at 31 August 2018</b>	7,117	(30,775)	(23,658)
Cash flows	(552)	5,216	4,664
Exchange movements	(175)	(3)	(178)
<b>Net debt as at 28 February 2019</b>	<b>6,390</b>	<b>(25,562)</b>	<b>(19,172)</b>

## **11. Half-Year Report**

The Half-Year Report will be available on the Company's website ([www.hendersonfareastincome.com](http://www.hendersonfareastincome.com)) or in hard copy format from the Company's registered office, IFC 1, The Esplanade, St Helier, Jersey, JE1 4BP from late April 2019. Shareholders will be sent a copy of the abridged version of the half-year results in early May 2019.

## **12. General Information**

### *a) Company Status*

The Company is a Jersey domiciled closed-ended investment company, number 95064, which was incorporated in 2006 and which is listed on the London and New Zealand Stock Exchanges. The Company became UK tax resident with effect from 1 September 2018.

SEDOL/ISIN number: JE00B1GXH751

London Stock Exchange (TIDM) code: HFEL

Global Intermediary Identification Number (GIIN): NTTIYP.99999.SL.832

Legal Entity Identifier (LEI): 213800801QRE00380596

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

### *b) Directors, Secretary and Registered Office*

The Directors of the Company are John Russell (Chairman), David Mashiter, Julia Chapman, Nicholas George and Tim Clissold. The Secretary is BNP Paribas Securities Services S.C.A. Jersey Branch and which is regulated by the Jersey Financial Services Commission. The registered office is IFC 1, The Esplanade, St Helier, Jersey, JE1 4BP.

### *c) Website*

Details of the Company's share price and net asset value, together with general information about the Company, monthly factsheets and data, copies of announcements, reports and details of general meetings can be found at ([www.hendersonfareastincome.com](http://www.hendersonfareastincome.com)).



## INDEPENDENT REVIEW REPORT TO HENDERSON FAR EAST INCOME LIMITED

### Conclusion

We have been engaged by Henderson Far East Income Limited (the “Company”) to review the condensed set of financial statements in the Company’s half-yearly financial report for the six months ended 28 February 2019, which comprises the Condensed Balance Sheet as at 28 February 2019, the Condensed Statement of Comprehensive Income, the Condensed Statement of Changes in Equity, the Condensed Statement of Cash Flows for the six months period then ended and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 28 February 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules (“the DTR”) of the UK’s Financial Conduct Authority (“the UK FCA”).

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement letter dated 26 March 2019 to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusion we have reached.

Andrew P. Quinn  
For and on behalf of KPMG Channel Islands Limited  
Chartered Accountants  
37 Esplanade, St. Helier, Jersey  
JE4 8WQ

25 April 2019