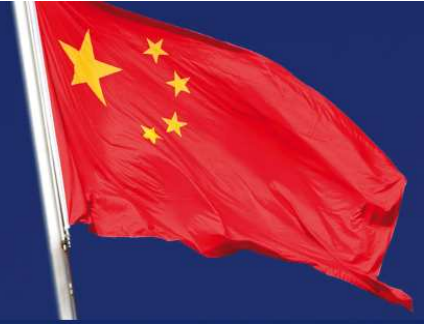


China Update



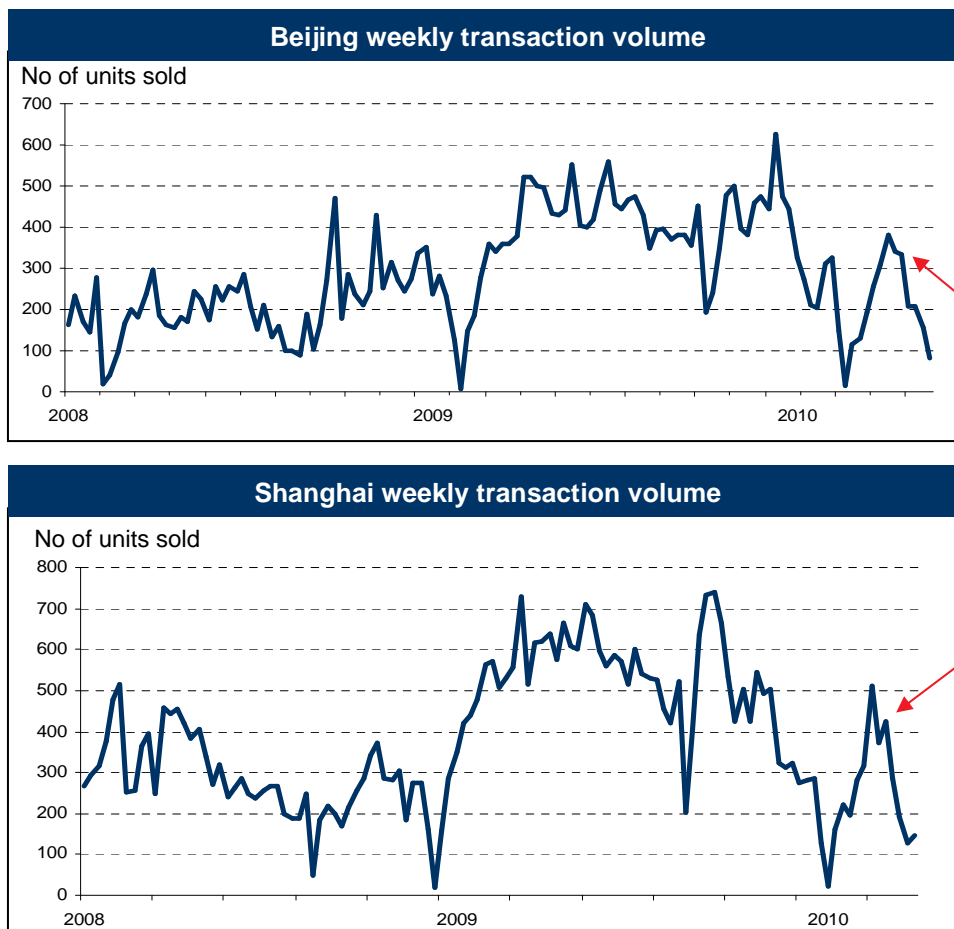
In this update, Andrew Mattock and Caroline Maurer, Fund Managers of the Henderson Horizon Fund – China Fund (the “Fund”) share with us their views on the Chinese property market.

1. What has been the impact of the property measures on demand and prices so far?

The Chinese central government announced another round of tightening measures on 15th April. Measures include:

- Minimum 30% downpayment (vs. 20% previously) for 1st home > 90 sqm
- Minimum 50% downpayment (vs. 40% previously) and at least 10% above the standard lending rate for mortgage rates on 2nd home
- Substantially higher downpayments and mortgage rates should be requested by banks for 3rd home and beyond

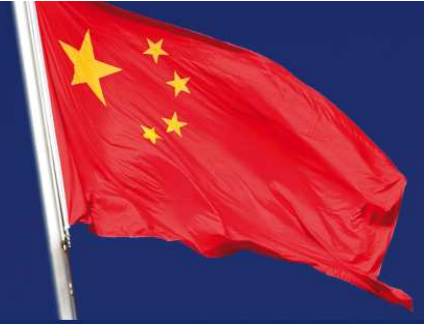
These measures have had an immediate effect on property transaction volumes across China, especially in certain first tier cities such as Beijing and Shanghai (see charts) where property prices have appreciated significantly in the past year driven by more speculative demand compared to second and third tier cities. The measures had less of an impact on some second tier cities where transaction volume remains resilient.



15th April:
Announcement
of property
measures

Source: Goldman Sachs, China Index Academy, 16 May 2010

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2. Do you think the current measures are enough to rein in the property market? What else may the government do to reduce speculation?

The measures specifically target speculative demand and aims to influence the market's expectations of price appreciation. Policy makers' key agenda remains at improving the housing conditions of the general public and avoiding a boom bust scenario in the property sector. This may result in a slow down in housing sector activity in the near term but bodes well for the sustainable long term growth of the property sector and overall economy. The fundamental issue for the Chinese property market is a lack of affordable housing for the masses. It is encouraging to see the government tackling this head-on by increasing land supply and speeding up construction of economic/social housing.

Despite the measures introduced in April, the Average Selling Price (ASP) continued to rise in April though we may be starting to see some signs of a slight drop in prices based on the latest available data for May.

We think that possible measures the government may consider next could be a property holding tax or a higher secondary transaction tax. A property holding tax would require homeowners to pay an annual tax based on value of their property. This can further increase the costs of speculating in property and could also potentially provide a recurring income stream for local governments.

However bearing in mind what happened in 2008 - when draconian credit tightening measures resulted in developers holding back from investing, leading to an undersupply of housing in 2008 and 2009 and the subsequent strong rebound in demand in 2009 outstripped supply dramatically, pushing prices up across the country – we expect policymakers to have learnt from this and do not expect a repeat of the 2008 scenario this time around.

3. Should the policies succeed in bringing down prices and demand, what would be the impact on the earnings outlook for property developers?

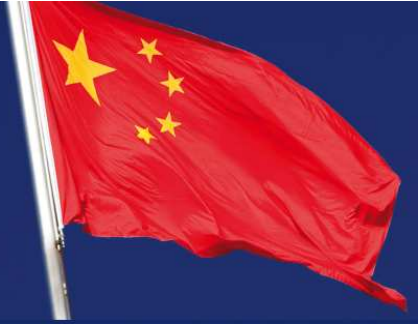
Sensitivity analysis shows that if we assume a price drop of 15% in 2010 from end 2009 levels and if transaction volume decreases 30% year on year, the earnings impact on 2010 is around 15-20% based on consensus estimates. The sector is now trading at around 9x 2010 consensus earnings. It is difficult to predict how much prices will correct. Year to date, the average price increase of 13 tier 1 and tier 2 cities has been 25% above 2009's ASP. Even if prices were to correct by 20%, it will only bring the ASP back to 2009 levels which is nowhere near disastrous for developers.

4. What is the Henderson Horizon Fund – China Fund's (the "Fund") current allocation to property?

Share prices of property developers have underperformed the broader market since August 2009. The buoyant physical market before the introduction of the tightening measures was not reflected in their stock prices. Conversely, a lot of the downside risk in the physical market has already been priced in.

We are aware of the near term uncertainties faced by the sector, therefore the Fund is not currently positioned aggressively in this sector. As at 25 May 2010, our exposure to China property is 8%, slightly overweight against the MSCI China Index. We favour property companies with healthy balance sheets and diversified land banks in second and third tier cities, such as Shimao Property. From a longer term perspective, we think that the outlook of the property sector remains positive and the Fund intends to invest in property names that have been sold off aggressively to benefit from the growth of the sector.

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5. What would also be the impact on other sectors such as construction and materials?

At the end of April, year to date gross floor area starts for construction is up 64% year on year. This reflects that developers are keeping to their original development plans set at the beginning of the year. The progress of new developments may slow in response to market conditions but projects already under construction are unlikely to be affected. However should the government become overly aggressive in tightening both the property and infrastructure sectors, the construction and materials sector are likely to be adversely affected as well, though some of that may be buffered by demand coming from the construction of social housing. The Fund is neutral towards construction and materials and exposure is 5.7% as at 25 May 2010.

6. How would the tightening measures affect real estate investment, which accounts for a significant portion of fixed asset investment?

The Government has increased their efforts in preventing developers from hoarding land and increasing property construction. Land supply is expected to increase significantly as well though it remains to be seen whether developers will remain keen on land purchases in the face of softening demand. These measures will ultimately address the issue of undersupply in the property sector.

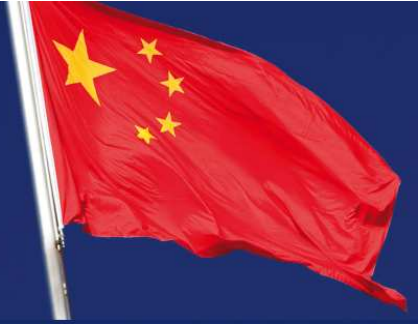
Local government officials are for the first time being held accountable for maintaining the stability of housing prices and increasing social economic housing in their local administrative regions. A sound public housing program is expected to help offset the slow down in the housing market as well.

In the coming months when more supply is brought to the market, we expect to see a reasonable correction in prices and a stabilisation of transaction volume. By then the risk of overheating in the property sector and the likelihood of further tightening would probably have eased off. We therefore hold the view that a soft landing in the property sector is the likely outcome and policy makers will not let the overall economy suffer from a meltdown in the property market.

Key investment risks to be considered before investing

- The Fund primarily invests in equity securities and equity instruments of companies listed in China, Hong Kong and Taiwan and may also invest in companies incorporated elsewhere that have significant assets, business, production, trading activity or other interests in China, Hong Kong or Taiwan.
- The Fund may invest a substantial amount of its assets in companies in China (emerging market) which may involve a higher concentration of risk and also may experience higher risks of economic, political, regulatory and social development changes. Investments in emerging market may be less liquid and more volatile than funds that invest in developed and more geographically diversified markets.
- The Fund uses trading strategies that use financial derivative instruments ("FDI") which may be unsuccessful due to a number of reasons; including volatile market conditions, imperfect correlation between the movements in securities on which derivatives are based, lack of liquidity within markets and counterparty default risk.
- The Fund typically holds long and short positions mainly through the use of FDI combining with direct investments and its total gross market exposure may exceed 100%. Such investment strategy and the use of FDI are inherently volatile and depending on market condition, the Fund could potentially be exposed to additional risk and costs should the market move against it and incur losses consequently.
- Investments in the Fund involve varying degree of investment risks (eg. market, legal, financial, interest rate, currency, etc). In extreme market conditions, you may lose your entire investment in the Fund.

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- The Fund may not be suitable for all investors. You should not invest unless the intermediary who sells it to you has advised you that the product is suitable for you and explained how it is consistent with your investment objectives.

Note: You should not make investment decisions based solely on marketing material. The above investment risks summary may not have set out all the risks and other significant aspects involved in investing in the Fund. You should read the Prospectus of the Fund for more details of the investment risks and seek independent professional advice where appropriate.

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Date of issue: 26 May 2010