ING Emerging Markets High Dividend Equity Fund
Form N-CSRS
November 01, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF

REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-22004

ING Emerging Markets High Dividend Equity Fund

(Exact name of registrant as specified in charter)

7337 E. Doubletree Ranch Rd., Scottsdale AZ	**85258**
(Address of principal executive offices)	(Zip code)

Huey P. Falgout, Jr., 7337 Doubletree Ranch Rd. Scottsdale, AZ 85258
(Name and address of agent for service)

Registrant s telephone number, including area code: **1-800-992-0180**

Date of fiscal year end: **February 29**

Date of reporting period: **August 31, 2012**

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Item 1. Reports to Stockholders.

The following is a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Act (17 CFR 270.30e-1):

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Semi-Annual Report

August 31, 2012

ING Emerging Markets High Dividend Equity Fund

E-Delivery Sign-up   details inside

This report is submitted for general information to shareholders of the ING Funds. It is not authorized for distribution to prospective shareholders unless accompanied or preceded by a prospectus which includes details regarding the fund s investment objectives, risks, charges, expenses and other information. This information should be read carefully.

MUTUAL FUNDS

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Sign up now for on-line prospectuses, fund reports, and proxy statements. In less than five minutes, you can help reduce paper mail and lower fund costs.

Just go to www.inginvestment.com, click on the E-Delivery icon from the home page, follow the directions and complete the quick 5 Steps to Enroll.

You will be notified by e-mail when these communications become available on the internet. Documents that are not available on the internet will continue to be sent by mail.

PROXY VOTING INFORMATION

A description of the policies and procedures that the Fund uses to determine how to vote proxies related to portfolio securities is available (1) without charge, upon request, by calling Shareholder Services toll-free at (800) 992-0180; (2) on the Fund s website at www.inginvestment.com and (3) on the SEC s website at www.sec.gov. Information regarding how the Fund voted proxies related to portfolio securities during the most recent 12-month period ended June 30 is available without charge on the Fund s website at www.inginvestment.com and on the SEC s website at www.sec.gov.

QUARTERLY PORTFOLIO HOLDINGS

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. This report contains a summary portfolio of investments for the Fund. The Fund s Forms N-Q are available on the SEC s website at www.sec.gov. The Fund s Form N-Q may be reviewed and copied at the SEC s Public Reference Room in Washington, DC, and information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The Fund s Forms N-Q, as well as a complete portfolio of investments, are available without charge upon request from the Fund by calling Shareholder Services toll-free at (800) 992-0180.

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PRESIDENT S LETTER

Dear Shareholder,

ING Emerging Markets High Dividend Equity Fund (the Fund) is a diversified closed-end management investment company whose shares are traded on the New York Stock Exchange under the symbol IHD. The Fund s investment objective is total return through a combination of current income, capital gains and capital appreciation.

The Fund seeks to achieve its investment objective by investing principally in a portfolio of equity securities, primarily of issuers in emerging market countries. The sub-adviser seeks to construct a portfolio with a weighted average gross dividend yield that exceeds the dividend yield of the MSCI Emerging Markets Index^{SM}. The Fund will also normally seek to secure gains and enhance the stability of returns over a market cycle by writing (selling) call options on selected exchange-traded funds (ETFs) and/or international, regional or country indices of equity securities, and/or on equity securities.

For the period ended August 31, 2012, the Fund made quarterly distributions totaling $0.80 per share, which were characterized as $0.54 per share return of capital and $0.26 per share of net investment income.

Based on net asset value (NAV), the Fund provided a total return of (10.58)% for the period ended August 31, 2012[1]. This NAV return reflects a decrease in the Fund s NAV from $16.60 on

February 29, 2012 to $14.06 on August 31, 2012. Based on its share price, the Fund provided a total return of (7.38)% for the period ended August 31, 2012[2]. This share price return reflects a decrease in the Fund s share price from $15.89 on February 29, 2012 to $13.94 on August 31, 2012.

The global equity markets have witnessed a challenging and turbulent period. Please read the Market Perspective and Portfolio Managers Report for more information on the market and the Fund s performance.

At ING Funds, our mission is to set the standard in helping our clients manage their financial future. We seek to assist you and your financial advisor by offering a range of global investment solutions. We invite you to visit our website at www.inginvestment.com. Here you will find information on our products and services, including current market data and fund statistics on our open-and closed-end funds. You will see that we offer a broad variety of equity, fixed income and multi-asset funds that aim to fulfill a variety of investor needs.

We thank you for trusting ING Funds with your investment assets, and we look forward to serving you in the months and years ahead.

Sincerely,

Shaun Mathews

President and Chief Executive Officer

ING Funds

October 5, 2012

The views expressed in the President s Letter reflect those of the President as of the date of the letter. Any such views are subject to change at any time based upon market or other conditions and ING Funds disclaim any responsibility to update such views. These views may not be relied on as investment advice and because investment decisions for an ING Fund are based on numerous factors, may not be relied on as an indication of investment intent on behalf of any ING Fund. Reference to specific company securities should not be construed as recommendations or investment advice. International investing does pose special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic.

For more complete information, or to obtain a prospectus for any ING Fund, please call your Investment Professional or the fund s Shareholder Service Department at (800) 992-0180 or log on to www.inginvestment.com. The prospectus should be read carefully before investing. Consider the fund s investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this information and other information about the fund. Check with your Investment Professional to determine which funds are available for sale within their firm. Not all funds are available for sale at all firms.

(1) Total investment return at net asset value has been calculated assuming a purchase at net asset value at the beginning of each period and a sale at net asset value at the end of each period and assumes reinvestment of dividends, capital gain distributions and return of capital distributions/allocations, if any, in accordance with the provisions of the Fund s dividend reinvestment plan.

(2) Total investment return at market value measures the change in the market value of your investment assuming reinvestment of dividends, capital gain distributions, and return of capital distributions/allocations, if any, in accordance with the provisions of the Fund s dividend reinvestment plan.

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MARKET PERSPECTIVE: SIX MONTHS ENDED AUGUST 31, 2012

As our new fiscal year started, global equities in the form of the MSCI World Index^{SM} measured in local currencies including net reinvested dividends were enjoying what would become the best first quarter rally since 1998. But in the two months from early April the MSCI World Index^{SM} slumped 11% as, for the third consecutive year, the basis of the earlier optimism was undermined by events. From there the recovery was almost as dramatic and for the six month period the index gained just 0.72%. (The MSCI World Index^{SM} returned (0.14)% for the six months ended August 31, 2012, measured in U.S. dollars.)

Much of the first quarter s upbeat sentiment rested on a sharp improvement in the employment situation, probably the most important driver of economic activity. In March, the Bureau of Labor Statistics announced a three-month average of 245,000 new jobs created and the unemployment rate down to 8.3%. But the deterioration was fast, culminating in the July report which showed only 80,000 jobs created the prior month with the three month average down to 75,000 and the labor force participation rate languishing near decades-low levels.

By the end of July, the trend in other economic statistics was mixed to negative. Retail sales had fallen for three months. The national purchasing managers index of manufacturing activity signaled contraction. Personal spending was practically stagnant; wages & salaries sluggish. Gross domestic product (GDP) growth was reported at 1.5% (quarter over quarter annualized) in the second quarter, down from 2.0% in the first.

Also clearly slowing was China, responsible for much of the global GDP growth in recent years. GDP increased by 7.6% in the second quarter of 2012 over the same quarter in 2011, the lowest rise in three years.

And yet despite all this gloom, global equities ended July having already recovered 8% (in fits and starts) from the low point in early June. What was propelling stocks higher was the subject of much debate.

The answer seemed to lie in a sense that the euro zone s enduring sovereign debt crisis was approaching some kind of end game. Disillusionment with the European Central Bank s (ECB) Longer Term Refinancing Operations (LTRO) had set in, amid a growing backlash against fiscal austerity. Attention became focused on Spain, with its uncompetitive markets, restrictive practices, nearly 25% unemployed and shaky banking system.

Matters came to a head after a recapitalization bailout for Spanish banks worth up to 100 billion was finally requested in June. This was approved by euro zone leaders, but it took a number of attempts before a workable plan emerged in the last few days of June.

Attention returned to Greece in July where bailout creditors prepared to examine the country s fiscal state. The continuation of Greece s bailout would rest on the outcome, and it did not look good. With prospects for the euro looking increasingly tenuous, ECB President Draghi came out on July 26 with a statement unprecedented in its explicitness, that the ECB was ready to do whatever it takes to preserve the euro. Details would be scarce until September, but the plan appeared to imply another step towards the mutualization of euro zone bonds, which many consider to be a key part of the ultimate solution. In early August, German Chancellor Merkel crucially expressed support.

This and rather better economic news from the U.S. in August on employment, a rise in home prices and an upward revision to GDP growth supported markets until the end of our reporting period.

In U.S. fixed income markets, the Barclays Capital U.S. Aggregate Bond Index (BCAB) of investment grade bonds rose 2.97% in the six months through August. While a sub-index of the BCAB, the Barclays Capital U.S Treasury Index, underperformed slightly with a return of 2.70%, long-dated Treasuries returned a remarkable 8.75%. Another sub-index of the BCAB, the Barclays Capital U.S. Corporate Investment Grade Bond Index, outperformed, rising 4.69%. The Barclays Capital High Yield Bond 2% Issuer Constrained Composite Index (not part of the BCAB) was slightly stronger, gaining 4.80%.

U.S. equities, represented by the S&P 500® Index including dividends, rose by 4.14% in the six months, not helped by Goldman Sachs recommendation on June 21st to sell the index short. With almost all S&P 500® companies having reported, operating earnings per share reached a new record in the second quarter and stood just over 2% higher than in the same quarter of 2011. By sector, only telecommunications showed a double-digit return, returning19.99%, followed by consumer staples with a return of 8.83%. Energy was the worst performer, losing 3.16% followed by materials losing 2.65%.

In currency markets, the ongoing euro zone crisis drove the dollar up 7.18% against the euro. But the dollar barely moved against the pound, gaining just 0.16%. Since the U.K. prints its own currency, U.K. government bonds acquired their own safe haven status as the euro zone crisis played out, despite the U.K. s close links to the euro zone. The dollar lost 2.30% to the yen, perhaps the ultimate safe haven with its strength apparently impervious to years of low interest rates and supported by a still considerable, if falling, current account surplus.

In international markets, the MSCI Japan® Index slumped 11.94% for the six months through August, falling harder than other markets in April and May as investors fretted about the effect of the euro zone crisis and the slowdown in China on Japan s export-focused economy. The MSCI Europe ex UK® Index edged up 1.34%, the relief from LTRO all too short as fears for the euro loomed large. Sentiment was also depressed by flat to falling GDP and unemployment reaching 11.3%. The MSCI UK® Index slipped 0.20%. The U.K. economy re-entered recession in the face of slumping construction activity and austerity measures aimed at cutting the budget deficit.

Parentheses denote a negative number.

Past performance does not guarantee future results. The performance quoted represents past performance. Investment return and principal value of an investment will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. The Fund s performance is subject to change since the period s end and may be lower or higher than the performance data shown. Please call (800) 992-0180 or log on to www.inginvestment.com to obtain performance data current to the most recent month end.

Market Perspective reflects the views of ING s Chief Investment Risk Officer only through the end of the period, and is subject to change based on market and other conditions.

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BENCHMARK DESCRIPTIONS

Index	Description
MSCI World Index℠	An unmanaged index that measures the performance of over 1,400 securities listed on exchanges in the U.S., Europe, Canada, Australia, New Zealand and the Far East.
Barclays Capital U.S. Aggregate Bond Index	An unmanaged index of publicly issued investment grade U.S. Government, mortgage-backed, asset-backed and corporate debt securities.
Barclays Capital U.S. Corporate Investment Grade Bond Index	An unmanaged index consisting of publicly issued, fixed rate, nonconvertible, investment grade debt securities.
Barclays Capital U.S. Treasury Index	An unmanaged index that includes public obligations of the U.S. Treasury. Treasury bills, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS and STRIPS, are excluded.
Barclays Capital High Yield Bond 2% Issuer Constrained Composite Index	An unmanaged index that includes all fixed-income securities having a maximum quality rating of Ba1, a minimum amount outstanding of $150 million, and at least one year to maturity.
S&P 500® Index	An unmanaged index that measures the performance of securities of approximately 500 large-capitalization companies whose securities are traded on major U.S. stock markets.
MSCI Japan® Index	A free float-adjusted market capitalization index that is designed to measure developed market equity performance in Japan.
MSCI Europe ex UK® Index	A free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe, excluding the UK.
MSCI UK® Index	A free float-adjusted market capitalization index that is designed to measure developed market equity performance in the UK.
MSCI Emerging Markets Index℠	An unmanaged index that measures the performance of securities listed on exchanges in developing nations throughout the world.

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ING EMERGING MARKETS HIGH DIVIDEND EQUITY FUND

PORTFOLIO MANAGERS REPORT

Geographic Diversification

as of August 31, 2012

(as a percentage of net assets)

China	17.6%
Brazil	14.1%
South Korea	9.8%
South Africa	7.6%
Taiwan	7.2%
Hong Kong	6.4%
Russia	5.0%
Poland	4.1%
Malaysia	3.5%
India	3.4%
Countries between 0.5%-3.2%^	17.8%
Assets in Excess of Other Liabilities*	3.5%
Net Assets	100.0%

* Includes short-term investments.
^ Includes 13 countries, which each represents 0.5%-3.2% of net assets.

Portfolio holdings are subject to change daily.

ING Emerging Markets High Dividend Equity Fund s (the Fund) primary investment objective is to provide total return through a combination of current income, capital gains and capital appreciation. The Fund seeks to achieve its investment objectives by investing principally in a portfolio of equity securities, primarily of issuers in emerging market countries. The Fund will also normally seek to secure gains and enhance the stability of returns over a market cycle by writing (selling) call options on selected exchange-traded funds (ETFs) and/or international, regional or country indices of equity securities, and/or on equity securities.

Portfolio Management: The Fund is managed by Manu Vandenbulck, Nicolas Simar, Robert Davis, Willem van Dommelen and Edwin Cuppen, Portfolio Managers, ING Investment Management Advisors B.V. (Europe) the Sub-Adviser.*

***Equity Portfolio Construction**:* Under normal market conditions, the Fund will seek to achieve its investment objective by investing at least 80% of its managed assets in dividend producing equity securities of, or derivative shaving economic characteristics similar to the equity securities of, issuers in emerging markets. The Sub-Adviser seeks to

construct a portfolio with a weighted average gross dividend yield that exceeds the dividend yield of the MSCI Emerging Markets Index^{SM}.

The Fund will invest in approximately 60 to 120 equity securities and will select securities through a bottom-up process that is based upon quantitative screening and fundamental industry, sector and company analysis.

For the purpose of the Fund s investments, the following countries are considered emerging markets: Argentina, Bahrain, Brazil, Bulgaria, Chile, China, Colombia, Czech Republic, Egypt, Estonia, Hungary, India, Indonesia, Israel, Korea, Jordan, Kuwait, Latvia, Lithuania, Malaysia, Mauritius, Mexico, Morocco, Nigeria, Oman, Pakistan, Peru, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Slovakia, South Africa, Sri Lanka, Taiwan, Thailand, Turkey, United Arab Emirates, and Zimbabwe.

In addition, the Fund may invest up to 20% of its Managed Assets in the equity securities of issuers in countries which are not considered emerging markets.

The Fund s Options Strategy: The Fund writes (sells) call options on selected ETFs and/or international, regional or country indicies of equity securities, and/or on equity securities, with the underlying value of such calls having 15% to 50% of total value of the Fund s portfolio. The Fund seeks to generate gains from the call writing strategy over a market cycle to supplement the dividend yield of its underlying portfolio.

Performance: Based on net asset value (NAV), the Fund had a total return of (10.58)% for the period ended August 31, 2012. This NAV return reflects a decrease in the Fund s NAV from \$16.60 on February 29, 2012 to \$14.06 on August 31, 2012. Based on its share price as of August 31, 2012, the Fund provided a total return of (7.38)% for the period. This share price return reflects a decrease in the Fund s share price from \$15.89 on February 29, 2012 to \$13.94 on August 31, 2012. The Fund is not benchmarked to an index but uses the MSCI Emerging Markets Index^{SM} as a reference index, which returned (10.51)% for the reporting period. During the period, the Fund made quarterly distributions totaling \$0.80 per share, which were characterized as \$0.54 per share return of capital and \$0.26 per share of net investment income. As of August 31, 2012, the Fund had 19,402,130 shares outstanding.

Top Ten Holdings

as of August 31, 2012*

(as a percentage of net assets)

Petroleo Brasileiro SA ADR	3.2%
Posco	2.6%
Gazprom OAO ADR	2.4%
China Petroleum & Chemical Corp.	2.2%
China Resources Power Holdings Co.	2.2%
China Mobile Ltd. ADR	2.0%
Porto Seguro SA	1.6%
Woongjin Coway Co., Ltd.	1.5%
Mobile Telesystems OJSC ADR	1.4%
CIMB Group Holdings Bhd	1.4%

* Excludes short-term investments.

Portfolio holdings are subject to change daily.

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PORTFOLIO MANAGERS REPORT

ING EMERGING MARKETS HIGH DIVIDEND EQUITY FUND

Equity Portfolio: The equity portfolio underperformed its reference index, the MSCI Emerging Markets Index^{SM}, for the six-month period. The equity portfolio lagged in the latter part of the period as markets improved. The Fund s stock selection in China was a headwind for the dividend style investment philosophy. As a result, our stock selection was negative relative to the index. The largest detractor was the materials sector where Eurasian Natural Resources Corp. PLC was the worst detractor. Pricing pressure and rising costs put additional downward momentum on this company s stock price. The negative effect was offset slightly by our underweight position towards the sector. Stock picking in the energy, telecommunication services and utilities sectors contributed to results. The total contribution from sector allocation positioning was positive and partially offset the relative drag from security selection.

Options Portfolio: During the reporting period call options were written against the emerging markets portfolio. The option portfolio consists of a series of short-dated call options on the iShares ETF, with the MSCI Emerging Markets Index Fund as underlying. The MSCI Emerging Markets Index^{SM} is the reference index for the Fund. Therefore, the options portfolio keeps a low tracking error with its reference index.

The options generally were sold having a maturity in the range of four to five weeks. The overall portfolio coverage was approximately 20%. Options were sold generally at-the-money and implemented in the over-the-counter market to enable the Fund managers to profit from its flexibility, liquidity and opportunities.

Emerging markets were in decline during the months of March until May, and only partially rebounded in the second half of the reporting period. Increased implied volatility, which accompanied the decline, enabled us to collect more option premium. As a consequence, the option strategy contributed to the Fund s performance: the overall amount collected by writing call options exceeded what was needed to settle at expiry. Since then, implied volatility has leveled off.

Outlook and Current Strategy: We believe prospects are better for emerging markets (EM) than for developed markets. We believe EM may again perform in line with their superior fundamentals (low indebtedness, high growth, vast counter-cyclical policy ammunition and attractive valuations). A necessary condition for EM to outperform is a soft landing in China. Lately, doubts about this have popped up and fears for a hard landing have crept into investors minds. Nevertheless, we think China is still on track for a soft landing and that it will ease policy if necessary.

In terms of sector allocation, the Fund has relatively low exposure to the information technology sector. It also has limited exposure to capital goods. Instead, we favor utilities and telecommunications services. Within financials we prefer insurance companies over banks. In terms of countries, we find limited numbers of attractively valued dividend stocks in India and Mexico. Also, due to concerns regarding dividend sustainability, we refrain from overweight exposure to South Korea or Taiwan. On the other hand, we have increased our exposure to Chinese dividend stocks due to what we believe are attractive valuations. Poland was well represented in the portfolio at the end of the period.

* Effective June 1, 2012, Patrick den Besten is no longer a portfolio manager to the Fund. Effective September 15, 2012, Robert Davis is added as a portfolio manager to the Fund.

Portfolio holdings and characteristics are subject to change and may not be representative of current holdings and characteristics. The outlook for this Fund is based only on the outlook of its portfolio managers through the end of this period, and may differ from that presented for other ING Funds. Performance data represents past performance and is no guarantee of future results. Past performance is not indicative of future results. The indices do not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index.

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STATEMENT OF ASSETS AND LIABILITIES AS OF AUGUST 31, 2012 (UNAUDITED)

ASSETS:	
Investments in securities at fair value*	$ 263,111,885
Short-term investments at fair value**	8,829,256
Total Investments at fair value	$ 271,941,141
Cash	68
Foreign currencies at value***	180,524
Receivables:	
Dividends	1,464,620
Foreign tax reclaims	2,436
Reimbursement due from manager	41,709
Total assets	273,630,498
LIABILITIES:	
Payable for investment management fees	270,038
Payable for administrative fees	23,481
Payable for trustee fees	1,650
Other accrued expenses and liabilities	171,031
Written options, at fair value^	360,765
Total liabilities	826,965
NET ASSETS	$ 272,803,533
NET ASSETS WERE COMPRISED OF:	
Paid-in capital	$ 338,934,970
Undistributed net investment income	242,374
Accumulated net realized loss	(18,289,555)
Net unrealized depreciation	(48,084,256)
NET ASSETS	$ 272,803,533
* Cost of investments in securities	$ 312,280,260
** Cost of short-term investments	$ 8,829,256
*** Cost of foreign currencies	$ 180,501
^ Premiums received on written options	$ 1,441,398
Net assets	$ 272,803,533
Shares authorized	unlimited
Par value	$ 0.01
Shares outstanding	19,402,130
Net asset value and redemption price per share	$ 14.06

See Accompanying Notes to Financial Statements

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STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED AUGUST 31, 2012 (UNAUDITED)

INVESTMENT INCOME:	
Dividends, net of foreign taxes withheld*	$ 7,005,882
Total investment income	7,005,882
EXPENSES:	
Investment management fees	1,649,568
Transfer agent fees	9,522
Administrative service fees	143,439
Shareholder reporting expense	20,331
Professional fees	35,860
Custody and accounting expense	167,152
Trustee fees	5,156
Miscellaneous expense	26,523
Total expenses	2,057,551
Net investment income	4,948,331
REALIZED AND UNREALIZED GAIN (LOSS):	
Net realized gain (loss) on:	
Investments	(7,837,890)
Foreign currency related transactions	(311,511)
Written options	5,089,796
Net realized loss	(3,059,605)
Net change in unrealized appreciation (depreciation) on:	
Investments (net of Indian capital gains tax accrued#)	(35,969,810)
Foreign currency related transactions	(11,110)
Written options	617,842
Net change in unrealized appreciation (depreciation)	(35,363,078)
Net realized and unrealized loss	(38,422,683)
Decrease in net assets resulting from operations	$ (33,474,352)

*	Foreign taxes withheld	$ 704,222
#	Foreign taxes accrued on Indian investments	$ 2,577

See Accompanying Notes to Financial Statements

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STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)

	Six Months Ended August 31, 2012	April 26, 2011[1] to February 29, 2012
FROM OPERATIONS:		
Net investment income	$ 4,948,331	$ 4,710,885
Net realized (loss)	(3,059,605)	(16,324,063)
Net change in unrealized (depreciation)	(35,363,078)	(12,721,178)
Decrease in net assets resulting from operations	(33,474,352)	(24,334,356)
FROM DISTRIBUTIONS TO SHAREHOLDERS:		
Net investment income	(4,990,801)	(3,346,360)
Return of capital	(10,442,372)	(19,759,640)
Total distributions	(15,433,173)	(23,106,000)
FROM CAPITAL SHARE TRANSACTIONS:		
Net proceeds from sale of shares[2]		367,005,000
Reinvestment of distributions	2,146,414	
	2,146,414	367,005,000
Net increase in net assets resulting from capital share transactions	2,146,414	367,005,000
Net increase (decrease) in net assets	(46,761,111)	319,564,644
NET ASSETS:		
Beginning of year or period	319,564,644	
End of year or period	$ 272,803,533	$ 319,564,644
Undistributed net investment income at end of year or period	$ 242,374	$ 284,844

(1) Commencement of operations.
(2) Proceeds from sales of shares net of sales load paid of $17,335,000 and offering costs of $770,000.

See Accompanying Notes to Financial Statements

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FINANCIAL HIGHLIGHTS (UNAUDITED)

Selected data for a share of beneficial interest outstanding throughout each year or period.

	Per Share Operating Performance												Ratios and Supplemental Data				
		Income (loss) from investment operations			Less distributions									Ratios to average net assets			
Year or period ended	Net asset value, beginning of year or period ($)	Net investment income gain (loss) ($)	Net realized and unrealized gain (loss) ($)	Total from investment operations ($)	From net investment income ($)	From net realized gains ($)	From return of capital ($)	Total distributions ($)	Net asset value, end of year or period ($)	Market value, end of year or period ($)	**Total investment return at net asset value[1] (%)**	**Total investment return at market value[2] (%)**	Net assets, end of period (000 s) ($)	Gross expenses prior to expense waiver[3] (%)	Net expenses after expense waiver[3][4] (%)	Net investment income after expense waiver[3][4] (%)	Portfolio turnover rate (%)
08-31-12	16.60	0.26·	(2.00)	(1.74)	0.26		0.54	0.80	14.06	13.94	**(10.58)**	**(7.38)**	272,804	1.43	1.43	3.45	35
04-26-11[5] - 02-29-12	19.06[6]	0.24·	(1.50)	(1.26)	0.17		1.03	1.20	16.60	15.89	**(5.96)**	**(14.21)**	319,565	1.43	1.41	1.77	61

(1) Total investment return at net asset value has been calculated assuming a purchase at net asset value at the beginning of each period and a sale at net asset value at the end of each period and assumes reinvestment of dividends, capital gain distributions and return of capital distributions/allocations, if any, in accordance with the provisions of the dividend reinvestment plan. Total investment return at net asset value is not annualized for periods less than one year.

(2) Total investment return at market value measures the change in the market value of your investment assuming reinvestment of dividends, capital gain distributions and return of capital distributions/allocations, if any, in accordance with the provisions of the Fund s dividend reinvestment plan. Total investment return at market value is not annualized for periods less than one year.

(3) Annualized for periods less than one year.

(4) The Investment Adviser has entered into a written expense limitation agreement with the Fund under which it will limit the expenses of the Fund (excluding interest, taxes, leverage expenses and extraordinary expenses) subject to possible recoupment by the Investment Adviser within three years of being incurred.

(5) Commencement of operations.

(6) Net asset value at beginning of period reflects the deduction of the sales load of $0.90 per share and offering costs of $0.04 per share paid by the shareholder from the $20.00 offering price.

· Calculated using average number of shares outstanding throughout the period.

See Accompanying Notes to Financial Statements

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NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2012 (UNAUDITED)

NOTE 1 ORGANIZATION

ING Emerging Markets High Dividend Equity Fund (the Fund) is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund is organized as a Delaware statutory trust.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are consistently followed by the Fund in the preparation of its financial statements, and such policies are in conformity with U.S. generally accepted accounting principles (GAAP) for investment companies.

A. ***Security Valuation.*** All investments in securities are recorded at their estimated fair value, as described below. Investments in equity securities traded on a national securities exchange are valued at the last reported sale price. Securities reported by NASDAQ are valued at the NASDAQ official closing prices. Securities traded on an exchange or NASDAQ for which there has been no sale and equity securities traded in the over-the-counter-market are valued at the mean between the last reported bid and ask prices. All investments quoted in foreign currencies are valued daily in U.S. dollars on the basis of the foreign currency exchange rates prevailing at that time. Debt securities with more than 60 days to maturity are fair valued using matrix pricing methods determined by an independent pricing service which takes into consideration such factors as yields, maturities, liquidity, ratings and traded prices in similar or identical securities. Securities for which valuations are not readily available from an independent pricing service may be valued by brokers which use prices provided by market makers or estimates of fair market value obtained from yield data relating to investments or securities with similar characteristics. Investments in open-end mutual funds are valued at the net asset value. Investments in securities of sufficient credit quality maturing in 60 days or less from date of acquisition are valued at amortized cost which approximates fair value.

Securities and assets for which market quotations are not readily available (which may include certain restricted securities that are subject to limitations as to their sale) are valued at their fair values, as defined by the 1940 Act, and as determined in good faith by or under the supervision of the Fund s Board of Trustees (Board), in accordance with methods that are specifically authorized by the Board. Securities traded on exchanges, including foreign exchanges, which close

earlier than the time that the Fund calculates its net asset value (NAV) may also be valued at their fair values, as defined by the 1940 Act, and as determined in good faith by or under the supervision of the Board, in accordance with methods that are specifically authorized by the Board. The value of a foreign security traded on an exchange outside the United States is generally based on its price on the principal foreign exchange where it trades as of the time the Fund determines its NAV or if the foreign exchange closes prior to the time the Fund determines its NAV, the most recent closing price of the foreign security on its principal exchange. Trading in certain non-U.S. securities may not take place on all days on which the NYSE Euronext (NYSE) is open. Further, trading takes place in various foreign markets on days on which the NYSE is not open. Consequently, the calculation of the Fund s NAV may not take place contemporaneously with the determination of the prices of securities held by the Fund in foreign securities markets. Further, the value of the Fund s assets may be significantly affected by foreign trading on days when a shareholder cannot purchase or redeem shares of the Fund. In calculating the Fund s NAV, foreign securities denominated in foreign currency are converted to U.S. dollar equivalents. If an event occurs after the time at which the market for foreign securities held by the Fund closes but before the time that the Fund s NAV is calculated, such event may cause the closing price on the foreign exchange to not represent a readily available reliable market value quotation for such securities at the time the Fund determines its NAV. In such a case, the Fund will use the fair value of such securities as determined under the Fund s valuation procedures. Events after the close of trading on a foreign market that could require the Fund to fair value some or all of its foreign securities include, among others, securities trading in the U.S. and other markets, corporate announcements, natural and other disasters, and political and other events. Among other elements of analysis in the determination of a security s fair value, the Board has authorized the use of one or more independent research services to assist with such determinations. An independent research service may use statistical analyses and quantitative models to help determine fair value as of the time the Fund calculates its NAV. There can be no assurance that such models accurately reflect the behavior of the applicable markets or the effect of the behavior of such markets on the fair value of securities, or that such markets will continue to behave in a fashion that is consistent with such models. Unlike the closing price of a security on an

NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2012 (UNAUDITED) (CONTINUED)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

exchange, fair value determinations employ elements of judgment. Consequently, the fair value assigned to a security may not represent the actual value that the Fund could obtain if it were to sell the security at the time of the close of the NYSE. Pursuant to procedures adopted by the Board, the Fund is not obligated to use the fair valuations suggested by any research service, and valuation recommendations provided by such research services may be overridden if other events have occurred or if other fair valuations are determined in good faith to be more accurate. Unless an event is such that it causes the Fund to determine that the closing prices for one or more securities do not represent readily available reliable market value quotations at the time the Fund determines its NAV, events that occur between the time of the close of the foreign market on which they are traded and the close of regular trading on the NYSE will not be reflected in the Fund s NAV.

Options that are traded over-the-counter will be valued using one of three methods: (1) dealer quotes; (2) industry models with objective inputs; or (3) by using a benchmark arrived at by comparing prior-day dealer quotes with the corresponding change in the underlying security or index. Exchange traded options will be valued using the last reported sale. If no last sale is reported, exchange traded options will be valued using an industry accepted model such as Black Scholes. Options on currencies purchased by the Fund are valued using industry models with objective inputs at their last bid price in the case of listed options or at the average of the last bid prices obtained from dealers in the case of over-the-counter options.

Fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. Each investment asset or liability of the Fund is assigned a level at measurement date based on the significance and source of the inputs to its valuation. Quoted prices in active markets for identical securities are classified as Level 1 , inputs other than quoted prices for an asset or liability that are observable are classified as Level 2 and unobservable inputs, including the sub-adviser s judgment about the assumptions that a market participant would use in pricing an asset or liability are classified as Level 3 . The inputs used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. Short-term securities of

sufficient credit quality which are valued at amortized cost, which approximates fair value, are generally considered to be Level 2 securities under applicable accounting rules. A table summarizing the Fund s investments under these levels of classification is included following the Summary Portfolio of Investments.

The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated the responsibility for applying the valuation methods to the Pricing Committee as established by the Fund s Administrator. The Pricing Committee considers all facts they deem relevant that are reasonably available, through either public information or information available to the Investment Adviser or sub-adviser, when determining the fair value of the security. In the event that a security or asset cannot be valued pursuant to one of the valuation methods established by the Board, the fair value of the security or asset will be determined in good faith by the Pricing Committee. When the Fund uses these fair valuation methods that use significant unobservable inputs to determine its NAV, securities will be priced by a method that the Pricing Committee believes accurately reflects fair value and are categorized as Level 3 of the fair value hierarchy. The methodologies used for valuing securities are not necessarily an indication of the risks of investing in those securities valued in good faith at fair value nor can it be assured the Fund can obtain the fair value assigned to a security if they were to sell the security.

To assess the continuing appropriateness of security valuations, the Pricing Committee may compare prior day prices, prices on comparable securities, and traded prices to the prior or current day prices and the Pricing Committee challenges those prices exceeding certain tolerance levels with the third party pricing service or broker source. For those securities valued in good faith at fair value, the Pricing Committee reviews and affirms the reasonableness of the valuation on a regular basis after considering all relevant information that is reasonably available.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to total realized and unrealized gains or losses, purchases and sales, and transfers in or out of the

Level 3 category during the period. The end of period timing recognition is used for the transfers between Levels of the Fund s assets and

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NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2012 (UNAUDITED) (CONTINUED)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

liabilities. A reconciliation of Level 3 investments is presented when the Fund has a significant amount of Level 3 investments.

For the period ended August 31, 2012, there have been no significant changes to the fair valuation methodologies.

B. ***Security Transactions and Revenue Recognition.*** Security transactions are recorded on the trade date. Realized gains or losses on sales of investments are calculated on the identified cost basis. Interest income is recorded on the accrual basis. Premium amortization and discount accretion are determined using the effective yield method. Dividend income is recorded on the ex-dividend date, or in the case of some foreign dividends, when the information becomes available to the Fund.

C. ***Foreign Currency Translation.*** The books and records of the Fund are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

(1) Market value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the day.

(2) Purchases and sales of investment securities, income and expenses at the rates of exchange prevailing on the respective dates of such transactions.

Although the net assets and the market values are presented at the foreign exchange rates at the end of the day, the Fund does not isolate the portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gains or losses from investments. For securities, which are subject to foreign withholding tax upon disposition, liabilities are recorded on the Statement of Assets and Liabilities for the estimated tax withholding based on the securities current market value. Upon disposition, realized gains or losses on such securities are recorded net of foreign withholding tax. Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest,

and foreign withholding taxes recorded on the Fund s books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at period end, resulting from changes in the exchange rate. Foreign security and currency transactions may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, revaluation of currencies and future adverse political and economic developments which could cause securities and their markets to be less liquid and prices more volatile than those of comparable U.S. companies and U.S. government securities.

D. ***Distributions to Shareholders.*** The Fund intends to make quarterly distributions from its cash available for distribution, which consists of the Fund s dividends and interest income after payment of Fund expenses, net option premiums and net realized and unrealized gains on investments. Such quarterly distributions may also consist of return of capital. At least annually, the Fund intends to distribute all or substantially all of its net realized capital gains. Distributions are recorded on the ex-dividend date. Distributions are determined annually in accordance with federal tax principles, which may differ from U.S. generally accepted accounting principles for investment companies.

The tax treatment and characterization of the Fund s distributions may vary significantly from time to time depending on whether the Fund has gains or losses on the call options written on its portfolio versus gains or losses on the equity securities in the portfolio. Each quarter, the Fund will provide disclosures with distribution payments made that estimate the percentages of that distribution that represent net investment income, other income or capital gains, and return of capital, if any. The final composition of the tax characteristics of the distributions cannot be determined with certainty until after the end of the Fund s tax year, and will be reported to shareholders at that time. A significant portion of the Fund s distributions may constitute a return of capital. The amount of quarterly distributions will vary, depending on a number of factors. As portfolio and market conditions change, the rate of dividends on the common shares will change. There can be no assurance that the Fund will be able to declare a dividend in each period.

E. ***Federal Income Taxes.*** It is the policy of the Fund to comply with the requirements of subchapter M of the

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Revenue Code that are applicable to regulated investment companies and to distribute substantially all of its net investment income and any net realized capital gains to its shareholders. Therefore, a federal income tax or excise tax provision is not required. Management has considered the sustainability of the Fund s tax positions taken on federal income tax returns for all open tax years in making this determination. No capital gain distributions shall be made until the capital loss carryforwards have been fully utilized or expire.

F. ***Use of Estimates.*** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

G. ***Risk Exposures and the use of Derivative Instruments.*** The Fund s investment strategies permit the Fund to enter into various types of derivatives contracts, including, but not limited to, forward foreign currency exchange contracts and purchased and written options. In doing so, the Fund will employ strategies in differing combinations to permit it to increase or decrease the level of risk, or change the level or types of exposure to market risk factors. This may allow the Fund to pursue its objectives more quickly, and efficiently than if it were to make direct purchases or sales of securities capable of affecting a similar response to market factors.

Market Risk Factors. In pursuit of its investment objectives, the Fund may seek to use derivatives to increase or decrease its exposure to the following market risk factors:

Credit Risk. Credit risk relates to the ability of the issuer to meet interest and principal payments, or both, as they come due. In general, lower-grade, higher-yield bonds are subject to credit risk to a greater extent than lower-yield, higher-quality bonds.

Equity Risk. Equity risk relates to the change in value of equity securities as they relate to increases or decreases in the general market.

Foreign Exchange Rate Risk. Foreign exchange rate risk relates to the change in U.S. dollar value of a security held that is denominated in a foreign currency. The U.S. dollar value of a foreign currency denominated security will decrease as the dollar appreciates against the currency, while the U.S. dollar value will increase as the dollar depreciates against the currency.

Interest Rate Risk. Interest rate risk refers to the fluctuations in value of fixed-income securities resulting from the inverse relationship between price and yield. For example, an increase in general interest rates will tend to reduce the market value of already issued fixed-income investments, and a decline in general interest rates will tend to increase their value. In addition, debt securities with longer durations, which tend to have higher yields, are subject to potentially greater fluctuations in value from changes in interest rates than obligations with shorter durations.

Risks of Investing in Derivatives. The Fund s use of derivatives can result in losses due to unanticipated changes in the market risk factors and the overall market. In instances where the Fund is using derivatives to decrease, or hedge, exposures to market risk factors for securities held by the Fund, there are also risks that those derivatives may not perform as expected resulting in losses for the combined or hedged positions.

The use of these strategies involves certain special risks, including a possible imperfect correlation, or even no correlation, between price movements of derivative instruments and price movements of related investments. While some strategies involving derivative instruments can reduce the risk of loss, they can also reduce the opportunity for gain or even result in losses by offsetting favorable price movements in related investments or otherwise, due to the possible inability of the Fund to purchase or sell a portfolio security at a time that otherwise would be favorable or the possible need to sell a portfolio security at a disadvantageous time because the Fund is required to maintain asset coverage or offsetting positions in connection with transactions in derivative instruments. Additional associated risks from investing in derivatives also exist and potentially could have significant effects on the valuation of the derivative and the Fund. Associated risks are not the risks that the Fund is attempting to increase or decrease exposure to, per its investment objectives, but are the additional risks from investing in derivatives. Examples of these associated risks are liquidity risk, which is the risk that the Fund will not be able to sell the derivative in the open

NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2012 (UNAUDITED) (CONTINUED)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

market in a timely manner, and counterparty credit risk, which is the risk that the counterparty will not fulfill its obligation to the Fund. Associated risks can be different for each type of derivative and are discussed by each derivative type in the following notes.

Counterparty Credit Risk and Credit Related Contingent Features. Certain derivative positions are subject to counterparty credit risk, which is the risk that the counterparty will not fulfill its obligation to the Fund. The Fund s derivative counterparties are financial institutions who are subject to market conditions that may weaken their financial position. The Fund intends to enter into financial transactions with counterparties that it believes to be creditworthy at the time of the transaction. To reduce this risk, the Fund generally enters into master netting arrangements, established within the Fund s International Swap and Derivatives Association, Inc. (ISDA) Master Agreements (Master Agreements). These agreements are with select counterparties and they govern transactions, including certain over-the-counter (OTC) derivative and forward foreign currency contracts, entered into by the Fund and the counterparty. The Master Agreements maintain provisions for general obligations, representations, agreements, collateral, and events of default or termination. The occurrence of a specified event of termination may give a counterparty the right to terminate all of its contracts and affect settlement of all outstanding transactions under the applicable Master Agreement.

The Fund may also enter into collateral agreements with certain counterparties to further mitigate credit risk associated with OTC derivative and forward foreign currency contracts. Subject to established minimum levels, collateral is generally determined based on the net aggregate unrealized gain or loss on contracts with a certain counterparty. Collateral pledged to the Fund is held in a segregated account by a third-party agent and can be in the form of cash or debt securities issued by the U.S. government or related agencies.

The Fund s maximum risk of loss from counterparty credit risk on OTC derivatives is generally the aggregate unrealized gain in excess of any collateral pledged by the counterparty to the Fund. For purchased OTC options, the Fund bears the risk of loss in the amount of the premiums paid and the change in market value of the options should the counterparty not perform under the contracts. The Fund did not enter into any

purchased OTC options during the period ended August 31, 2012. There were no credit events during the period ended August 31, 2012 that triggered any credit related contingent features.

The Fund s master agreements with derivative counterparties have credit related contingent features that if triggered would allow its derivatives counterparties to close out and demand payment or additional collateral to cover their exposure from the Fund. Credit related contingent features are established between the Fund and its derivatives counterparties to reduce the risk that the Fund will not fulfill its payment obligations to its counterparties. These triggering features include, but are not limited to, a percentage decrease in the Fund s net assets and or a percentage decrease in the Fund s NAV, which could cause the Fund to accelerate payment of any net liability owed to the counterparty. The contingent features are established within the Fund s Master Agreements.

Written options by the Fund do not give rise to counterparty credit risk, as written options obligate the Fund to perform and not the counterparty. As of August 31, 2012, the total value of written OTC call options subject to Master Agreements in a net liability position was $360,765. If a contingent feature had been triggered, the Fund could have been required to pay this amount in cash to its counterparties. The Fund did not hold or post collateral for its open written OTC call options at period end. There were no credit events during the period ended August 31, 2012 that triggered any credit related contingent features.

H. ***Options Contracts.*** The Fund may purchase put and call options and may write (sell) put options and covered call options. The premium received by the Fund upon the writing of a put or call option is included in the Statement of Assets and Liabilities as a liability which is subsequently marked-to-market until it is exercised or closed, or it expires. The Fund will realize a gain or loss upon the expiration or closing of the option contract. When an option is exercised, the proceeds on sales of the underlying security for a written call option or purchased put option or the purchase cost of the security for a written put option or a purchased call option is adjusted by the amount of premium received or paid. The risk in writing a call option is that the Fund gives up the opportunity for profit if the market price of the security increases and the option is exercised. The risk in buying an option is that the Fund pays a premium whether or not the option is exercised. Risks may also arise from an illiquid

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NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2012 (UNAUDITED) (CONTINUED)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

secondary market or from the inability of counterparties to meet the terms of the contract.

The Fund seeks to generate gains from the OTC call options writing strategy over a market cycle to supplement the dividend yield of its underlying portfolio of high dividend yield equity securities. Please refer to Note 7 for the volume of written OTC call option activity during the period ended August 31, 2012.

I. ***Indemnifications.*** In the normal course of business, the Fund may enter into contracts that provide certain indemnifications. The Fund s maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated; however, based on experience, management considers the risk of loss from such claims remote.

NOTE 3 INVESTMENT MANAGEMENT AND ADMINISTRATIVE FEES

ING Investments, LLC (ING Investments or the Investment Adviser), an Arizona limited liability company, is the Investment Adviser of the Fund. The Fund pays the Investment Adviser for its services under the investment management agreement (Management Agreement), a fee, payable monthly, based on an annual rate of 1.15% of the Fund s average daily managed assets. Managed assets are defined as the Fund s average daily gross asset value, minus the sum of the Fund s accrued and unpaid dividends on any outstanding preferred shares and accrued liabilities (other than liabilities for the principal amount of any borrowings incurred, commercial paper or notes issued by the Fund and the liquidation preference of any outstanding preferred shares). As of August 31, 2012, there were no preferred shares outstanding.

The Investment Adviser entered into a sub-advisory agreement (a Sub-Advisory Agreement) with ING Investment Management Advisors B.V. (IIMA) a subsidiary of ING Groep, domiciled in The Hague, The Netherlands. Subject to policies as the Board or the Investment Adviser might determine, IIMA manages the Fund s assets in accordance with the Fund s investment objectives, policies and limitations.

The Investment Adviser has also retained ING Investment Management Co. LLC (ING IM or Consultant), a Delaware limited liability company, to provide certain consulting services for the Investment

Adviser. These services include, among other things, furnishing statistical and other factual information; providing advice with respect to potential investment strategies that may be employed for the Fund, including, but not limited to, potential options strategies; developing economic models of the anticipated investment performance and yield for the Fund; and providing advice to the Investment Adviser and/or Sub-Adviser with respect to the Fund s level and/or managed distribution policy. For its services, the Consultant will receive a consultancy fee from the Investment Adviser. No fee will be paid by the Fund directly to the Consultant.

ING Funds Services, LLC (the Administrator), a Delaware limited liability company, serves as Administrator to the Fund. The Fund pays the Administrator for its services a fee based on an annual rate of 0.10% of the Fund s average daily managed assets. The Investment Adviser, IIMA, and the Administrator are indirect, wholly-owned subsidiaries of ING Groep. ING Groep is a global financial institution of Dutch origin offering banking, investments, life insurance and retirement services.

ING Groep has adopted a formal restructuring plan that was approved by the European Commission in November 2009 under which the ING life insurance businesses, including the retirement services and investment management businesses, which include the Adviser and its immediate affiliates, would be separated from ING Groep by the end of 2013. To achieve this goal, in a series of announcements beginning November 2010, ING Groep announced that it plans to pursue transactions to restructure certain businesses, including an initial public offering for its U.S. based insurance, retirement services, and investment management operations; and other transactions, which could include an initial public offering or other type of transaction, for its European based insurance and investment management operations and Asian based insurance and investment management operations. There can be no assurance that all or part of the restructuring plan will be carried out.

The restructuring plan and the uncertainty about its implementation, whether implemented through the planned public offerings or through other means, in whole or in part, may be disruptive to the businesses of ING entities, including the ING entities that service the Fund, and may cause, among other things, interruption or reduction of business and services, diversion of management s attention from day-to-day operations, and loss of key employees or customers. A failure to

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NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2012 (UNAUDITED) (CONTINUED)

NOTE 3 INVESTMENT MANAGEMENT AND ADMINISTRATIVE FEES (continued)

complete the offerings or other means of implementation on favorable terms could have a material adverse impact on the operations of the businesses subject to the restructuring plan. The restructuring plan may result in the Investment Adviser s loss of access to services and resources of ING Groep, which could adversely affect its businesses and profitability. In addition, the divestment of ING businesses, including the Investment Adviser, may potentially be deemed a change of control of each entity. A change of control would result in the termination of the Fund s advisory and sub-advisory agreements, which would trigger the necessity for new agreements that would require approval of the board, and may trigger the need for shareholder approval. Currently, the Investment Adviser does not anticipate that the restructuring will have a material adverse impact on the Fund or its operations and administration.

NOTE 4 OTHER TRANSACTIONS WITH AFFILIATED AND RELATED PARTIES

The Fund has adopted a Deferred Compensation Plan (the Plan), which allows eligible non-affiliated trustees as described in the Plan to defer the receipt of all or a portion of the trustees fees payable. Amounts deferred are treated as though invested in various notional funds advised by ING Investments until distribution in accordance with the Plan.

NOTE 5 PURCHASES AND SALES OF INVESTMENT SECURITIES

The cost of purchases and proceeds from sales of investments for the period ended August 31, 2012, excluding short-term securities, were $98,766,839 and $109,417,555, respectively.

NOTE 6 EXPENSE LIMITATION

The Investment Adviser has entered into a written expense limitation agreement (Expense Limitation Agreement) with the Fund under which it will limit the expenses of the Fund, excluding interest, taxes, leverage expenses, and extraordinary expenses to 1.50% of average daily managed assets. The Investment Adviser may at a later date recoup from the Fund fees waived and other expenses assumed by the Investment Adviser during the previous 36 months, but only if, after such reimbursement, the Fund s expense ratio

does not exceed the percentage described above. The Expense Limitation Agreement is contractual and shall renew automatically for one-year terms unless ING Investments or the Fund provides written notice of the termination within 90 days of the end of the then current term or upon written termination of the Management Agreement.

Waived and reimbursed fees and any recoupment by the Investment Adviser of such waived and reimbursed fees are reflected on the accompanying Statement of Operations for the Fund.

As of August 31, 2012, there are no amounts of waived and reimbursed fees that are subject to possible recoupment by the Investment Adviser.

NOTE 7 TRANSACTIONS IN WRITTEN OPTIONS

Transactions in written OTC call options on indices were as follows:

	Number of Contracts	Premiums Received
Balance at 02/29/12	1,433,100	$ 1,604,535
Options Written	9,208,200	9,965,257
Options Expired	(4,244,500)	(4,468,946)
Options Exercised		
Options Terminated in Closing Purchase Transactions	(5,016,300)	(5,659,448)
Balance at 08/31/12	1,380,500	$ 1,441,398

NOTE 8 CONCENTRATION OF INVESTMENT RISKS

All mutual funds involve risk some more than others and there is always the chance that you could lose money or not earn as much as you hope. The Fund s risk profile is largely a factor of the principal securities in which it invests and investment techniques that it uses. For more information regarding the types of securities and investment techniques that may be used by the Fund and its corresponding risks, see the Fund s Prospectus and/or the Statement of Additional Information.

Foreign Securities and Emerging Markets. The Fund makes significant investments in foreign securities and securities issued by companies located in countries with emerging markets. Investments in foreign securities may entail risks not present in domestic investments. Since investments in securities are denominated in foreign currencies, changes in the relationship of these foreign currencies to the U.S. dollar can significantly affect the value of the investments and earnings of the Fund. Foreign investments may also subject the Fund to foreign government exchange restrictions,

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NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2012 (UNAUDITED) (CONTINUED)

NOTE 8 CONCENTRATION OF INVESTMENT RISKS (continued)

expropriation, taxation or other political, social or economic developments, as well as from movements in currency, security value and interest rate, all of which could affect the market and/or credit risk of the investments. The risks of investing in foreign securities can be intensified in the case of investments in issuers located in countries with emerging markets.

Leverage. Although the Fund has no current intention to do so, the Fund is authorized to utilize leverage through the issuance of preferred shares and/or borrowings, including the issuance of debt securities. In the event that the Fund determines in the future to utilize investment leverage, there can be no assurance that such a leveraging strategy will be successful during any period in which it is employed.

NOTE 9 CAPITAL SHARES

Transactions in capital shares and dollars were as follows:

Year or period ended	Shares sold #	Reinvestment of distributions #	Net increase (decrease) in shares outstanding #	Shares sold ($)	Reinvestment of distributions ($)	Net increase (decrease) ($)
8/31/2012		147,130	147,130		2,146,414	2,146,414
4/26/2011[1] - 2/29/2012	19,255,000		19,255,000	367,005,000[2]		367,005,000

(1) Commencement of operations.
(2) Proceeds from sales of shares net of sales load paid of $17,325,000 and offering costs of $770,000.

NOTE 10 FEDERAL INCOME TAXES

The amount of distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles for investment companies. These book/tax differences may be either temporary or permanent. Permanent differences are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences are not reclassified. Key differences include the treatment of short-term capital gains, foreign currency transactions, income from passive foreign investment companies (PFICs) and wash sale deferrals. Distributions in excess of net investment income and/or net realized capital gains for tax purposes are reported as return of capital.

Dividends paid by the Fund from net investment income and distributions of net realized short-term capital gains are, for federal income tax purposes, taxable as ordinary income to shareholders.

The tax composition of dividends and distributions in the current period will not be determined until after the Fund s tax year-end of December 31, 2012. The tax

composition of dividends and distributions as of the Fund s most recent tax year-end was as follows:

Tax Year Ended December 31, 2011	
Ordinary Income	**Return of Capital**
$3,346,360	$ 19,759,640

The tax-basis components of distributable earnings and the capital loss carryforwards which may be used to offset future realized capital gains for federal income tax purposes as of December 31, 2011 are detailed in the table below. Capital loss carryforwards with no expiration, if any, must be utilized prior to those with expiration dates.

Unrealized Appreciation/ (Depreciation)	**Post-October Capital Loss Deferred**	**Short-term Capital Loss Carryforwards**	**Expiration**
$(61,993,287)	$ (1,870,065)	$ (4,372,549)	None

The Fund s major tax jurisdictions are U.S. federal and Arizona. The earliest tax year that remains subject to examination by these jurisdictions is the Fund s initial tax year of 2011.

NOTE 10 FEDERAL INCOME TAXES (continued)

As of August 31, 2012, no provision for income tax is required in the Fund s financial statements as a result of tax positions taken on federal and state income tax returns for open tax years. The Fund s federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state department of revenue.

NOTE 11 SUBSEQUENT EVENTS

Dividends: Subsequent to August 31, 2012, the Fund made distributions of:

Per Share Amount	Declaration Date	Payable Date	Record Date
$ 0.360	9/17/2012	10/15/2012	10/3/2012

Each quarter, the Fund will provide disclosures with distribution payments made that estimate the percentages of that distribution that represent net investment income, capital gains, and return of capital, if any. A significant portion of the quarterly distribution payments made by the Fund may constitute a return of capital.

The Fund has evaluated events occurring after the Statement of Assets and Liabilities date (subsequent events) to determine whether any subsequent events necessitated adjustment to or disclosure in the financial statements. Other than the above, no such subsequent events were identified.

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SUMMARY PORTFOLIO OF INVESTMENTS

ING EMERGING MARKETS HIGH DIVIDEND EQUITY FUND

AS OF AUGUST 31, 2012 (UNAUDITED)

Shares			Value	Percentage of Net Assets
COMMON STOCK: 96.5%				
		Belgium: 1.4%		
107,813		Oriflame Cosmetics S.A.	$ 3,755,296	1.4
		Brazil: 14.1%		
308,436		Banco do Brasil S.A.	3,555,546	1.3
587,300		EDP - Energias do Brasil S.A.	3,674,422	1.4
165,900		Itau Unibanco Holding S.A.	2,621,022	1.0
428,409		Petroleo Brasileiro SA ADR	8,816,657	3.2
477,863		Porto Seguro SA	4,413,977	1.6
836,000		Tim Participacoes SA	3,249,441	1.2
220,476		Vale SA	3,562,546	1.3
1,372,258		Other Securities	8,476,772	3.1
			38,370,383	**14.1**
		Chile: 1.1%		
9,225,258		Enersis SA	3,044,544	1.1
		China: 17.6%		
872,000		BOC Hong Kong Holdings Ltd.	2,767,236	1.0
5,497,000		China Construction Bank	3,625,862	1.3
1,072,800		China Pacific Insurance Group Co., Ltd.	3,203,432	1.2
6,530,000		China Petroleum & Chemical Corp.	6,159,898	2.2
2,756,000		China Resources Power Holdings Co.	5,904,342	2.2
1,116,000	#	CITIC Securities Co. Ltd.	1,880,447	0.7
1,810,000		CNOOC Ltd.	3,443,019	1.3
3,452,000		Harbin Electric Co. Ltd	2,795,005	1.0
6,642,000		Industrial and Commercial Bank of China Ltd.	3,609,555	1.3
3,292,500		Parkson Retail Group Ltd.	2,687,265	1.0
19,964,000		Other Securities	11,941,652	4.4
			48,017,713	**17.6**
		Colombia: 1.2%		
341,400		Petrominerales Ltd.	3,224,381	1.2

Shares		Value	Percentage of Net Assets
COMMON STOCK: (continued)			
	Czech Republic: 2.1%		
94,881	CEZ A/S	$ 3,724,692	1.4
10,500	Other Securities	2,041,678	0.7
		5,766,370	**2.1**
	Hong Kong: 6.4%		
102,000	China Mobile Ltd. ADR	5,476,380	2.0
1,329,000	Chow Sang Sang Holdings International Ltd.	2,694,499	1.0
6,424,000	Pacific Basin Shipping Ltd.	2,687,266	1.0
31,565,100	Other Securities	6,542,261	2.4
		17,400,406	**6.4**
	Hungary: 0.5%		
8,599	Other Securities	1,464,029	0.5
	India: 3.4%		

769,760		Oil & Natural Gas Corp., Ltd.	3,822,386	1.4
1,374,690		Other Securities	5,582,567	2.0
			9,404,953	**3.4**
		Indonesia: 3.2%		
6,479,500		Indofood Sukses Makmur Tbk PT	3,672,809	1.3
2,755,000		Telekomunikasi Indonesia Tbk PT	2,689,908	1.0
6,396,500		Other Securities	2,484,920	0.9
			8,847,637	**3.2**
		Malaysia: 3.5%		
1,583,400		CIMB Group Holdings Bhd	3,949,766	1.4
2,274,800		IOI Corp. Bhd	3,744,954	1.4
1,295,600		Other Securities	1,827,736	0.7
			9,522,456	**3.5**
		Poland: 4.1%		
636,229		PGE SA	3,584,401	1.3
3,031,181	@	Polskie Gornictwo Naftowe I Gazownictwo SA	3,720,728	1.4
37,429		Powszechny Zaklad Ubezpieczen SA	3,895,567	1.4
			11,200,696	**4.1**

See Accompanying Notes to Financial Statements

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SUMMARY PORTFOLIO OF INVESTMENTS

ING EMERGING MARKETS HIGH DIVIDEND EQUITY FUND

AS OF AUGUST 31, 2012 (UNAUDITED) (CONTINUED)

Shares		Value	Percentage of Net Assets
COMMON STOCK: (continued)			
	Qatar: 2.7%		
197,031	Commercial Bank of Qatar	$ 3,930,693	1.4
89,315	Industries Qatar QSC	3,394,779	1.3
		7,325,472	**2.7**
	Russia: 5.0%		
374,400	CTC Media, Inc.	3,171,168	1.2
669,018	Gazprom OAO ADR	6,466,059	2.4
216,649	Mobile Telesystems OJSC ADR	3,988,508	1.4
		13,625,735	**5.0**
	Singapore: 1.3%		
239,000	United Overseas Bank Ltd.	3,666,784	1.3
	South Africa: 7.6%		
287,444	Gold Fields Ltd.	3,517,679	1.3
247,562	Impala Platinum Holdings Ltd.	3,912,786	1.4
204,847	MTN Group Ltd.	3,819,148	1.4
86,339	Sasol Ltd.	3,729,715	1.4
273,053	Standard Bank Group Ltd.	3,599,601	1.3
297,976	Other Securities	2,040,478	0.8
		20,619,407	**7.6**
	South Korea: 9.8%		
187,402	Hite Jinro Co. Ltd.	3,694,854	1.4
102,617	KB Financial Group, Inc.	3,335,819	1.2
51,723	KT&G Corp.	3,915,836	1.4
21,299	Posco	6,934,059	2.6
117,210	Woongjin Coway Co., Ltd.	4,062,589	1.5
425,770	Other Securities	4,686,294	1.7
		26,629,451	**9.8**
	Taiwan: 7.2%		
1,814,959	Cheng Uei Precision Industry Co., Ltd.	3,626,092	1.3
6,535,000	Chinatrust Financial Holding Co., Ltd.	3,930,108	1.4
153,000	Largan Precision Co. Ltd.	3,211,508	1.2

Shares		Value	Percentage of Net Assets
COMMON STOCK: (continued)			
	Taiwan: (continued)		
1,376,000	Taiwan Semiconductor Manufacturing Co., Ltd.	$ 3,853,646	1.4
3,168,700	Other Securities	5,071,013	1.9
		19,692,367	**7.2**
	Thailand: 1.4%		
355,400	PTT PCL	3,747,414	1.4
	Turkey: 1.4%		
938,022	Turk Telekomunikasyon AS	3,710,716	1.4
	United Kingdom: 1.0%		
545,796	Eurasian Natural Resources Corp.	2,618,664	1.0

	United States: 0.5%		
44,776	Other Securities	1,457,011	0.5
	Total Common Stock (Cost $312,280,260)	**263,111,885**	**96.5**
SHORT-TERM INVESTMENTS: 3.2%			
	Mutual Funds: 3.2%		
8,829,256	BlackRock Liquidity Funds, TempFund, Institutional Class (Cost $8,829,256)	8,829,256	3.2
	Total Short-Term Investments (Cost $8,829,256)	**8,829,256**	**3.2**
	Total Investments in Securities (Cost $321,109,516)	**$ 271,941,141**	**99.7**
	Assets in Excess of Other Liabilities	**862,392**	**0.3**
	Net Assets	**$ 272,803,533**	**100.0**

Other Securities represents issues not identified as the top 50 holdings in terms of market value and issues or issuers not exceeding 1% of net assets individually or in aggregate respectively as of August 31, 2012.

See Accompanying Notes to Financial Statements

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ING Emerging Markets High Dividend Equity Fund

SUMMARY PORTFOLIO OF INVESTMENTS AS OF AUGUST 31, 2012 (UNAUDITED) (CONTINUED)

The following footnotes apply to either the individual securities noted or one or more of the securities aggregated and listed as a single line item.

#	Securities with purchases pursuant to Rule 144A or section 4(2), under the Securities Act of 1933 and may not be resold subject to that rule except to qualified institutional buyers.
@	Non-income producing security
ADR	American Depositary Receipt
	Cost for federal income tax purposes is $322,666,813.

Net unrealized depreciation consists of:		
Gross Unrealized Appreciation	$	4,906,761
Gross Unrealized Depreciation		(55,632,433)
Net Unrealized Depreciation	$	(50,725,672)

Sector Diversification	Percentage of Net Assets
Financials	23.2%
Energy	15.9%
Materials	9.7%
Telecommunication Services	9.5%
Utilities	9.2%
Consumer Discretionary	7.9%
Consumer Staples	6.9%
Information Technology	6.4%
Industrials	5.6%
Health Care	2.2%
Short-Term Investments	3.2%
Assets in Excess of Other Liabilities	0.3%
Net Assets	**100.0%**

Fair Value Measurements^

The following is a summary of the fair valuations according to the inputs used as of August 31, 2012 in valuing the assets and liabilities:

	Quoted Prices in Active Markets for Identical Investments (Level 1)	Significant Other Observable Inputs# (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at August 31, 2012

Asset Table				
Investments, at fair value				
Common Stock				
Belgium	$	$ 3,755,296	$	$ 3,755,296
Brazil	38,370,383			38,370,383
Chile	3,044,544			3,044,544
China		48,017,713		48,017,713
Colombia	3,224,381			3,224,381
Czech Republic	3,724,692	2,041,678		5,766,370
Hong Kong	5,476,380	11,924,026		17,400,406
Hungary		1,464,029		1,464,029
India		9,404,953		9,404,953
Indonesia		8,847,637		8,847,637
Malaysia		9,522,456		9,522,456
Poland		11,200,696		11,200,696
Qatar		7,325,472		7,325,472
Russia	13,625,735			13,625,735
Singapore		3,666,784		3,666,784
South Africa		20,619,407		20,619,407
South Korea	3,915,836	22,713,615		26,629,451
Taiwan		19,692,367		19,692,367
Thailand		3,747,414		3,747,414
Turkey		3,710,716		3,710,716
United Kingdom		2,618,664		2,618,664
United States	1,457,011			1,457,011
Total Common Stock	72,838,962	190,272,923		263,111,885
Short-Term Investments	8,829,256			8,829,256
Total Investments, at fair value	$ 81,668,218	$ 190,272,923	$	$ 271,941,141
Liabilities Table				
Other Financial Instruments+				
Written Options	$	$ (360,765)	$	$ (360,765)
Total Liabilities	$	$ (360,765)	$	$ (360,765)

See Accompanying Notes to Financial Statements

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ING Emerging Markets High Dividend Equity Fund

SUMMARY PORTFOLIO OF INVESTMENTS AS OF AUGUST 31, 2012 (UNAUDITED) (CONTINUED)

^ See Note 2, Significant Accounting Policies in the Notes to Financial Statements for additional information.

\+ Other Financial Instruments are derivatives not reflected in the Portfolio of Investments and may include open forward foreign currency contracts, equity forwards, futures, swaps, and written options. Forward foreign currency contracts, equity forwards and futures are valued at the unrealized gain (loss) on the instrument. Swaps and written options are valued at the fair value of the instrument.

\# The earlier close of the foreign markets gives rise to the possibility that significant events, including broad market moves, may have occurred in the interim and may materially affect the value of those securities. To account for this, the Fund may frequently value many of its foreign equity securities using fair value prices based on third party vendor modeling tools to the extent available. Accordingly, a portion of the Fund s investments are categorized as Level 2 investments.

There were no transfers in or out of Levels 1, 2 or 3 of the fair value hierarchy during the six months ended August 31, 2012.

ING Emerging Markets High Dividend Equity Fund Written OTC Options on August 31, 2012:

# of Contracts	Counterparty	Description	Exercise Price		Expiration Date	Premiums Received	Fair Value
Options on Indices							
684,300	BNP Paribas Bank	Call on iShares MSCI Emerging Markets Index Fund	40.519	USD	09/21/12	$ 693,401	$ (227,665)
696,200	Societe Generale	Call on iShares MSCI Emerging Markets Index Fund	40.024	USD	09/07/12	747,997	(133,100)
		Total Written OTC Options				$ 1,441,398	$ (360,765)

A summary of derivative instruments by primary risk exposure is outlined in the following tables.

The fair value of derivative instruments as of August 31, 2012 was as follows:

Derivatives not accounted for as hedging instruments	Location on Statement of Assets and Liabilities	Fair Value
Liability Derivatives		
Equity contracts	Written options, at fair value	$ 360,765
Total Liability Derivatives		$ 360,765

The effect of derivative instruments on the Fund s Statement of Operations for the period ended August 31, 2012 was as follows:

Derivatives not accounted for as hedging instruments	Amount of Realized Gain or (Loss) on Derivatives Recognized in Income Written options

Equity contracts	$	5,089,796
Total	$	5,089,796

Derivatives not accounted for as hedging instruments		Change in Unrealized Appreciation or Depreciation on Derivatives Recognized in Income Written options
Equity contracts	$	617,842
Total	$	617,842

Supplemental Option Information (Unaudited)

Supplemental Call Option Statistics as of August 31, 2012:	
% of Total Net Assets against which calls written	20.12%
Average Days to Expiration at time written	35 days
Average Call Moneyness* at time written	ATM
Premiums received for calls	$ 1,441,398
Value of calls	$ (360,765)

* Moneyness is the term used to describe the relationship between the price of the underlying asset and the option s exercise or strike price. For example, a call (buy) option is considered in-the-money when the value of the underlying asset exceeds the strike price. Conversely, a put (sell) option is considered in-the-money when its strike price exceeds the value of the underlying asset. Options are characterized for the purpose of Moneyness as, in-the-money (ITM), out-of-the-money (OTM) or at-the-money (ATM), where the underlying asset value equals the strike price.

See Accompanying Notes to Financial Statements

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SHAREHOLDER MEETING INFORMATION (UNAUDITED)

An annual meeting of shareholders of the ING Emerging Markets High Dividend Equity Fund was held July 5, 2012, at the offices of ING Funds, 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258.

ING Emerging Markets High Dividend Equity Fund, Class I Trustees

At this meeting, a proposal was submitted to elect three members of the Board of Trustees to represent the interests of the holders of Common Shares of the Fund, with all three individuals to serve as Class I Trustees, for a term of three-years, and until the election and qualification of their successors. The proposal passed with the following votes recorded.

	Proposal	Shares voted for	Shares voted against or withheld	Shares abstained	Total Shares Voted
Class I Trustees	**Colleen D. Baldwin**	18,053,056.336	195,310.557		18,248,366.893
	Robert W. Crispin	15,668,126.225	2,580,240.668		18,248,366.893
	Peter S. Drotch	18,024,017.122	224,349.771		18,248,366.893

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ADDITIONAL INFORMATION (Unaudited)

During the period, there were no material changes in the Fund s investment objective or policies that were not approved by the shareholders or the Fund s charter or by-laws or in the principal risk factors associated with investment in the Fund. Effective June 1, 2012, Patrick den Besten was removed as a person responsible for the day-to-day management of the Fund. Effective September 15, 2012, Robert Davis was added as a person responsible for the day-to-day management of the Fund.

Dividend Reinvestment Plan

Unless the registered owner of Common Shares elects to receive cash by contacting Computershare Shareowner Services LLC (the Plan Agent), all dividends declared on Common Shares of the Fund will be automatically reinvested by the Plan Agent for shareholders in additional Common Shares of the Fund through the Fund s Dividend Reinvestment Plan (the Plan). Shareholders who elect not to participate in the Plan will receive all dividends and other distributions in cash paid by check mailed directly to the shareholder of record (or, if the Common Shares are held in street or other nominee name, then to such nominee) by the Plan Agent. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by notice if received and processed by the Plan Agent prior to the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend or other distribution. Some brokers may automatically elect to receive cash on your behalf and may re-invest that cash in additional Common Shares of the Fund for you. If you wish for all dividends declared on your Common Shares of the Fund to be automatically reinvested pursuant to the Plan, please contact your broker.

The Plan Agent will open an account for each Common Shareholder under the Plan in the same name in which such Common Shareholder s Common Shares are registered. Whenever the Fund declares a dividend or other distribution (together, a Dividend) payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in Common Shares. The Common Shares will be acquired by the Plan Agent for the participants accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized Common Shares from the Fund (Newly Issued Common Shares) or (ii) by purchase of outstanding Common Shares on the open market

(Open-Market Purchases) on the NYSE or elsewhere. Open-market purchases and sales are usually made through a broker affiliated with the Plan Agent.

If, on the payment date for any Dividend, the closing market price plus estimated brokerage commissions per Common Share is equal to or greater than the net asset value per Common Share, the Plan Agent will invest the Dividend amount in Newly Issued Common Shares on behalf of the participants. The number of Newly Issued Common Shares to be credited to each participant s account will be determined by dividing the dollar amount of the Dividend by the net asset value per Common Share on the payment date; provided that, if the net asset value is less than or equal to 95% of the closing market value on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per Common Share on the payment date. If, on the payment date for any Dividend, the net asset value per Common Share is greater than the closing market value plus estimated brokerage commissions, the Plan Agent will invest the Dividend amount in Common Shares acquired on behalf of the participants in Open-Market Purchases. In the event of a market discount on the payment date for any Dividend, the Plan Agent will have until the last business day before the next date on which the Common Shares trade on an ex-dividend basis or 30 days after the payment date for such Dividend, whichever is sooner (the Last Purchase Date), to invest the Dividend amount in Common Shares acquired in Open-Market Purchases.

The Fund pays quarterly Dividends. Therefore, the period during which Open-Market Purchases can be made will exist only from the payment date of each Dividend through the date before the next ex-dividend date, which typically will be approximately ten days. If, before the Plan Agent has completed its Open-Market Purchases, the market price per common share exceeds the net asset value per Common Share, the average per Common Share purchase price paid by the Plan Administrator may exceed the net asset value of the Common Shares, resulting in the acquisition of fewer Common Shares than if the Dividend had been paid in Newly Issued Common Shares on the Dividend payment date. Because of the foregoing difficulty with respect to Open-Market Purchases, the Plan provides that if the Plan Agent is unable to invest the full Dividend amount in Open-Market Purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent will cease

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ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED)

making Open-Market Purchases and will invest the un-invested portion of the Dividend amount in Newly Issued Common Shares at the net asset value per common share at the close of business on the Last Purchase Date provided that, if the net asset value is less than or equal to 95% of the then current market price per Common Share, the dollar amount of the Dividend will be divided by 95% of the market price on the payment date.

The Plan Agent maintains all shareholders accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instructions of the participants.

In the case of shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder s name and held for the account of beneficial owners who participate in the Plan.

There will be no brokerage charges with respect to Common Shares issued directly by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred in connection with Open-Market Purchases. The automatic reinvestment of Dividends will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such Dividends. Participants that request a partial or full sale of shares through the Plan Agent are subject to a $15.00 sales fee and a $0.10 per share brokerage commission on purchases or sales, and may be subject to certain other service charges.

The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants with regard to purchases in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All questions concerning the Plan should be directed to the Fund s Shareholder Service Department at (800) 992-0180.

KEY FINANCIAL DATES CALENDAR 2012 DISTRIBUTIONS:

DECLARATION DATE	EX DATE	PAYABLE DATE
March 15, 2012	April 2, 2012	April 16, 2012
June 15, 2012	July 2, 2012	July 16, 2012
September 17, 2012	October 1, 2012	October 15, 2012
December 17, 2012	December 27, 2012	January 15, 2013

Record date will be two business days after each Ex-Dividend Date. These dates are subject to change.

Stock Data

The Fund s common shares are traded on the NYSE (Symbol: IHD).

Repurchase of Securities by Closed-End Companies

In accordance with Section 23(c) of the 1940 Act, and Rule 23c-1 under the 1940 Act the Fund may from time to time purchase shares of beneficial interest of the Fund in the open market, in privately negotiated transactions and/or purchase shares to correct erroneous transactions.

Number of Shareholders

The approximate number of record holders of Common Stock as of August 31, 2012 was 10,532, which does not include beneficial owners of shares held in the name of brokers of other nominees.

Certifications

In accordance with Section 303A.12 (a) of the New York Stock Exchange Listed Company Manual, the Fund s CEO submitted the Annual CEO Certification on August 2, 2012 certifying that he was not aware, as of the date of submission, of any violation by the Fund of the NYSE s Corporate governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Fund s principal executive and financial officers have made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q, relating to, among other things, the Fund s disclosure controls and procedures and internal controls over financial reporting.

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Investment Adviser

ING Investments, LLC

7337 East Doubletree Ranch Road, Suite 100

Scottsdale, Arizona 85258

Administrator

ING Funds Services, LLC

7337 East Doubletree Ranch Road, Suite 100

Scottsdale, Arizona 85258

Transfer Agent

Computershare Shareowner Services LLC.

480 Washington Boulevard

Jersey City, New Jersey 07310-1900

Custodian

The Bank of New York Mellon

One Wall Street

New York, New York 10286

Legal Counsel

Dechert LLP

1775 I Street, N.W.

Washington, D.C. 20006

Toll-Free Shareholder Information

Call us from 9:00 a.m. to 7:00 p.m. Eastern time on any business day for account or other information, at (800) 992-0180

SAR-UIHD (0812-102412)

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Item 2. Code of Ethics.

Not required for semi-annual filing.

Item 3. Audit Committee Financial Expert.

Not required for semi-annual filing.

Item 4. Principal Accountant Fees and Services.

Not required for semi-annual filing.

Item 5. Audit Committee Of Listed Registrants.

Not required for semi-annual filing.

Item 6. Schedule of Investments.

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ING EMERGING MARKETS HIGH DIVIDEND EQUITY FUND

SUMMARY PORTFOLIO OF INVESTMENTS
as of August 31, 2012 (Unaudited)

Shares			Value	Percentage of Net Assets
COMMON STOCK: 96.5%				
		Belgium: 1.4%		
107,813		Oriflame Cosmetics S.A.	**$ 3,755,296**	**1.4**
		Brazil: 14.1%		
308,436		Banco do Brasil S.A.	3,555,546	1.3
431,563		BM&F Bovespa S.A.	2,321,626	0.9
403,447		Cia Siderurgica Nacional S.A.	1,963,671	0.7
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Shares		Value	Percentage of Net Assets
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10,500	Komercni Banka AS	2,041,678	0.7
		5,766,370	**2.1**

		Hong Kong: 6.4%									
102,000		China Mobile Ltd. ADR		5,476,380	2.0						
1,329,000		Chow Sang Sang Holdings International Ltd.	&nVALIGN="bottom">		(51)	(51)					
Translation loss							(6)			(6)	(6)
Balance December 31, 2007	14,927		$	149	$ 40,796	$ 1,674	$ (1,337)	(138)	$ (356)	$ 40,926	$ 6,248

The notes to consolidated financial statements are an integral part of the above statements.

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Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss in Stockholders equity:

	Translation gain / (loss)	Minimum pension liability adjustment	Accumulated other comprehensive loss
January 1, 2005	$ (2)	$ (758)	$ (760)
2005 activity	2	(33)	(31)
Balance December 31, 2005		(791)	(791)
2006 activity	3	(492)	(489)
Balance December 31, 2006	3	(1,283)	(1,280)
2007 activity	(6)	(51)	(57)
Balance December 31, 2007	$ (3)	$ (1,334)	$ (1,337)

The notes to consolidated financial statements are an integral part of the above statements.

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CECO ENVIRONMENTAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2007	2006	2005
	Dollars in thousands		
Cash flows from operating activities:			
Net income (loss)	$ 6,305	$ 3,094	$ (435)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,623	1,229	1,167
Non cash interest expense included in net income (loss)	887	207	357
Non cash warrant valuation (income) expense included in net income (loss)		(842)	806
Non cash gains included in net income (loss)		(29)	(81)
Non cash loss from disposal of fixed assets		25	174
Share based compensation	741	143	
Deferred income taxes	(489)	(160)	423
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(15,033)	(13,774)	904
Costs and estimated earnings in excess of billings on uncompleted contracts	(29)	(6,085)	(500)
Inventories	(547)	(774)	(292)
Prepaid expenses and other current assets	(508)	92	101
Deferred charges and other assets	(175)	101	(193)
Accounts payable and accrued expenses	14,670	5,862	(158)
Other liabilities	(186)	(503)	17
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,884)	5,793	296
Accrued income taxes	583	1,340	
Net cash provided by (used in) operating activities	3,958	(4,281)	2,586
Cash flows from investing activities			
Acquisitions of property and equipment	(1,692)	(898)	(661)
Net cash paid for acquisitions	(9,955)		
Net cash used in investing activities	(11,647)	(898)	(661)
Cash flows from financing activities:			
Net borrowings (repayments) on revolving credit line	(3,352)	4,377	(866)
Proceeds from secondary stock offering	14,137		
Proceeds from exercise of warrants and options not under plan	4,687	3,082	
Proceeds from exercise of stock options	172	280	
Excess income tax benefit realized from share based compensation	531	131	
Subordinated debt repayments	(5,743)	(1,988)	
Proceeds from term debt	5,000		
Repayments of debt	(7,532)	(568)	(1,088)
Net cash provided by (used in) financing activities	7,900	5,314	(1,954)
Net increase (decrease) in cash and cash equivalents	211	135	(29)
Cash and cash equivalents at beginning of year	445	310	339
Cash and cash equivalents at end of year	$ 656	$ 445	$ 310

Supplemental Schedule of Non-Cash Activities:			
Addition to goodwill through earn-out payable	$ 1,000	$	$

The notes to consolidated financial statements are an integral part of the above statements.

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CECO ENVIRONMENTAL CORP.

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2007	2006	2005
	Dollars in thousands		
Cash paid during the year for:			
Interest	$ 1,152	$ 2,950	$ 1,514
Income taxes	$ 5,244	$ 350	$ 30

The notes to consolidated financial statements are an integral part of the above statements.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2007, 2006 and 2005

1. Nature of Business and Summary of Significant Accounting Policies

Nature of business The principal businesses of CECO Environmental Corp. is to provide innovative solutions to industrial ventilation and air quality problems through dust, mist and fume control systems and particle and chemical technologies to industrial and commercial customers, primarily in the United States.

Principles of consolidation Our consolidated financial statements include the accounts of the following subsidiaries:

	% Owned As Of December 31, 2007
CECO Group, Inc. (Group)	100%
CECO Filters, Inc. and Subsidiaries (CFI)	99%
The Kirk & Blum Manufacturing Company (K&B)	100%
kbd/Technic, Inc (kbd)	100%
CECO Abatement Systems, Inc (CAS) .	100%
CECOaire, Inc (CAI) .	100%
H.M. White, Inc. (White)	100%
Effox, Inc. (Effox)	100%
GMD Environmental Technologies, Inc. (GMD)	100%

CFI includes two wholly owned subsidiaries, New Busch Co., Inc. (Busch) and CECO Filters India Private Limited. Minority interest in CFI is not material and is included in other liabilities in the consolidated financial statements.

All intercompany balances and transactions have been eliminated.

Business Segment Information Our structure and operational integration results in one segment that focuses on engineering, designing, building and installing systems that remove airborne contaminants from industrial facilities, as well as equipment that controls emissions from such facilities. Accordingly, the condensed consolidated financial statements herein reflect the operating results of the segment.

Use of estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents We consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment generally within 30 days from the invoice date unless otherwise determined by specific contract. The Company s estimate of the allowance for doubtful accounts for trade receivables is primarily determined based upon the length of time that the receivables are past due. In addition, management estimates are used to determine probably losses based upon an analysis of prior collection experience, specific account risks and economic conditions.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

The Company has a series of actions that occur based upon the aging of past due trade receivables, including letters, statements, direct customer contact and liens. Accounts are deemed uncollectible based on past account experience and current account financial condition.

Inventories The Company s inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) inventory costing method.

Accounting for long-lived assets Our policy is to assess the recoverability of long-lived assets when there are indications of potential impairment and the undiscounted cash flows estimated to be generated by those assets are less than the carrying value of such assets.

Property and equipment Property and equipment are recorded at cost. Expenditures for repairs and maintenance are charged to income as incurred. Depreciation and amortization are computed using the straight-line and accelerated methods over the estimated useful lives of the assets, which range from 12 to 40 years for building and improvements and 3 to 10 years for machinery and equipment.

Intangible assets Indefinite life intangible assets are comprised of tradenames, while finite life intangible assets are comprised of patents, Effox backlog, customer lists and employment contracts. The ratable amortization of the goodwill associated with acquisitions and other intangible assets with indefinite lives was replaced with periodic tests for impairment with our adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets on January 1, 2002. Other intangible assets with finite lives are being amortized on a straight-line basis over their estimated useful lives, which range from 18 months to 17 years. In accordance with SFAS No. 142, we ceased amortization of goodwill and intangible assets with indefinite lives effective January 1, 2002. In the fourth quarter of 2007, we completed our annual tests for impairment and determined that the fair values of these net assets are in excess of the carrying values of such assets.

Cash Surrender Value of Life Insurance We have whole life insurance policies in force on the lives of six former shareholders of certain subsidiaries. These policies were purchased by these subsidiaries prior to their acquisition by CECO Environmental, Inc. in 1999 and were originally intended to provide funding for repurchasing shares in the event of the death of a shareholder. The policies are fully paid up and the cash surrender values have been borrowed to pay premiums and interest on the policy loans, and to provide an occasional low cost source of financing for the Company. Interest on the policy loans is recorded to interest expense and the loan amounts on the cash surrender values are increased to cover payment of this expense. The net value of these policies, reported as other long term assets, was $374,000, $357,000 and $384,000 as of December 31, 2007, 2006 and 2005, respectively. The net cash surrender value approximates fair value.

Deferred charges Deferred charges primarily represent deferred financing costs, which are amortized to interest expense over the life of the related loan. Amortization expense was $43,000, $109,000 and $71,000 for 2007, 2006 and 2005, respectively.

Financial Instruments On January 1, 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities . Under this guidance all derivative instruments, including those embedded in other contracts are recognized as either assets or liabilities and those financial instruments are measured at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

We are exposed to market risk from changes in interest rates. Our policy is to manage interest rate costs using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner, we may enter into interest rate swaps or other hedge type arrangements, in which we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. We currently have no interest rate swap agreements.

Revenue recognition Revenues from contracts, representing the majority of our revenues, are recognized on the percentage of completion method, measured by the percentage of contract costs incurred to date compared to estimated total contract costs for each contract. This method is used because management considers contract costs to be the best available measure of progress on these contracts. Our remaining revenues are recognized when risk and title passes to the customer, which is generally upon shipment of product.

Contract costs include direct material, labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Selling and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability may result in revisions to contract revenue and costs and are recognized in the period in which the revisions are made. Our reserve for estimated losses on uncompleted contracts is $167,000, $79,000 and $6,000 as of December 31, 2007, 2006 and 2005, respectively.

The asset, Costs and estimated earnings in excess of billings on uncompleted contracts, represents revenues recognized in excess of amounts billed. The liability, Billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

Sales Taxes Under Emerging Issues Task Force (EITF) Issue No. 06-03, the Company is permitted to record taxes collected from customers and remitted to governmental authorities on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues). The Company classifies sales taxes on a net basis in the Consolidated Statements of Operations.

Product Warranties The Company s warranty reserve is to cover the products sold and is principally at our Effox subsidiary. The warranty accrual is based on historical claims information. The warranty reserve is reviewed and adjusted as necessary on a quarterly basis. Warranty accrual is not significant at the Company s other operations due to the nature of the work of including installation. The change in accrued warranty expense at Effox is summarized in the following table:

(in thousands)	Balance at time of acquisition	Warranty provision	Warranty payments	Balance at end of year
Year ended 2007	$ 489	$ 249	$ (182)	$ 556

Claims The Company recognizes certain significant claims for recovery of incurred costs when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably estimated. Unapproved change orders are accounted for in revenue and cost when it is probable that the costs will be recovered through a change in the contract price. In circumstances where recovery is considered probable but the revenues cannot be reliably estimated, costs attributable to change orders are deferred pending determination of contract price. Claims against customers are recognized as income by us when collectability of the claim is probable and the amount can be reasonably estimated.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

Cost of sales Cost of sales amounts include materials, direct labor and associated benefits, inbound freight charges, purchasing and receiving, inspection, warehousing and internal transfer costs. Customer freight charges are included in sales and actual freight expenses are included in cost of sales.

Income taxes Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Selling and administrative expenses Selling and administrative expenses include sales and administrative wages and associated benefits, selling and office expenses, bad debt expense and change in life insurance cash surrender value.

Advertising costs Advertising costs are charged to operations in the year incurred and totaled $638,000, $283,000 and $157,000 in 2007, 2006 and 2005, respectively.

Research and development Research and development costs are charged to expense as incurred. The amounts charged to operations were $12,000, $0 and $10,000 in 2007, 2006 and 2005, respectively.

Earnings per share For the year ended December 31, 2007, basic weighted average common shares outstanding were 13,456,580, while diluted average common shares outstanding were 14,042,324. For the years ended December 31, 2006 and 2005, basic weighted average common shares outstanding were 11,260,459 and 9,993,260, respectively, and diluted weighted average common shares outstanding were 12,890,401 and 9,993,260, respectively. We consider outstanding non-vested awards in computing diluted net loss per share only when they are dilutive. Options and warrants to purchase 95,000 and 0 shares for the years ended December 31, 2007 and 2006, respectively, were not included in the computation of diluted earnings per share due to their having an anti-dilutive effect. There were no adjustments to net income (loss) for the basic or diluted earnings per share computations for any year presented.

The number of shares outstanding for calculation of earnings per share (EPS) is as follows:

	2007	**2006**	**2005**
Weighted-average shares outstanding-basic	13,456,580	11,260,459	9,993,260
Effect of potentially dilutive securities	585,744	1,629,942	
Weighted-average shares outstanding-diluted	14,042,324	12,890,401	9,993,260

Share-based compensation The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, effective January 1, 2006. SFAS No. 123(R) requires public entities to measure the cost of employee services received in exchange for an award of equity instruments and recognize this cost over the period during which an employee is required to provide the services. The Company has adopted SFAS No. 123(R) using the modified prospective application as defined in the Statement, and therefore financial statements from periods ending prior to January 1, 2006 have not been restated. As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company s income before income taxes for the years ended December 31, 2007 and 2006 was $741,000 and $143,000 lower respectively and net income was $444,600 and $94,000 lower respectively than if it had continued to account for share-based compensation under APB No. 25. Basic and diluted net income per share for the year ended December 31, 2007 and 2006 would have been increased from $.47 to $.50 and $.45 to $.48 respectively if the Company had not adopted SFAS No. 123(R). See further discussion in Note 11.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

Prior to January 1, 2006, the Company applied the provisions of Accounting Principles Board Opinion No. 25 (APB No. 25), Accounting for Stock Issued to Employees. Accordingly, no compensation expense was reflected in the financial statements as the exercise price of options granted to employees and non-employee directors equaled the fair market value of the Company s common shares on the date of grant. The Company had adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock Based Compensation.

If the Company had adopted the expense recognition provisions of SFAS No. 123 prior to January 1, 2006, net income and earnings per share for the twelve month period ended December 31, 2005 would have been as follows:

(In thousands except earnings per share)	**Year ended 12/31/05**	
Net loss as reported	$	(435)
Stock-based compensation expense included in reported net income, net of related tax effects		
Deduct: Total stock-based compensation determined under the fair value based method for all awards, net of tax effects		(39)
Proforma net loss	$	(474)
Loss per common share basic and diluted		
As reported	$	(.04)
Pro forma	$	(.05)

Foreign Currency Translation Assets and liabilities of foreign operations are translated using period-end exchange rates, and revenues and expenses are translated using average exchange rates during each period. Translation gains and losses are reported in accumulated other comprehensive earnings as a component of shareholders equity.

Reclassifications Certain prior year amounts have been reclassified in order to conform to the current year presentation. Prepaid pension balance of $558,000 for 2006 has been reclassified from the balance sheet line Prepaid expenses and other current assets to the line Other liabilities to represent the funded status of the plan according to SFAS No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans-an Amendment of FASB Statements No. 87, 88, 106 and 132(R). The amount was considered immaterial for restatement purposes. Additional details on the Company s pension and employee benefit plans are provided in Note 12.

New Financial Accounting Pronouncement Adopted

FIN 48 In June 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 became effective for the Company on January 1, 2007. The adoption of FIN 48 included recognition of a liability for unrecognized tax obligations of $653,000, which was accounted for as an increase to the January 1, 2007 balance of accumulated deficit. The Company recognizes penalties and interest, if any, related to unrecognized tax obligations as a tax provision expense. Actual results may differ substantially from our estimates. Additional details about the adoption of FIN 48 are provided in Note 14.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

Recently Issued Accounting Pronouncements

SFAS 157 In September 2006 the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for the Company s fiscal year beginning January 1, 2008. In February 2008, the FASB delayed the effective date one year for nonfinancial assets and liabilities not currently recognized or disclosed at fair value on a recurring basis (at least annually). Examples of non financial assets and liabilities to which the deferral would apply for the Company include (i) those acquired in a business combination and (ii) goodwill, indefinite-lived intangible assets, and long-lived assets measured at fair value for impairment testing. The Company is currently assessing the impact that this standard will have on its consolidated results of operations, financial position or cash flows.

SFAS 159 In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . This Statement provides companies with an option to report selected financial assets and liabilities at fair value in an effort to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 requires entities to display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the balance sheet. The standard, which will be effective for the Company as of January 1, 2008, is currently under evaluation by the Company s management. At this time, we do not expect to elect the fair value option for any eligible items and did not early adopt the standard in the first quarter of 2007 as permitted.

SFAS 141(R) In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations . This Statement defines the acquirer in a business combination as the entity that obtains control of one or more businesses, and establishes the acquisition date as the date the acquirer achieves this control. This Statement also refines the application of the purchase method by requiring the acquirer to recognize assets acquired and liabilities assumed at fair value and replacing the cost-allocation process previously required under SFAS 141. Included in fair value are contractual contingencies to the extent that it is more likely than not that such contingencies meet the definition of assets or liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The carrying value of such contractual contingencies remains unchanged until settled or until new information is obtained indicating the value of an asset is lower than acquisition-date fair value or that a liability is higher than acquisition-date fair value. Furthermore, acquisition-related costs and restructuring costs that are expected but not obligatory are required to be recognized separately from the business combination. SFAS 141(R) will be effective prospectively for business combinations with acquisition dates on or after January 1, 2009. Management believes this Statement could have a material impact on the Company s financial statements depending on future acquisition plans.

EITF No. 06-11 In March 2007, the FASB ratified Emerging Issues Task Force (EITF) No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for nonvested equity-classified employee share-based awards as an increase to additional paid-in capital instead of a credit to income tax expense. The amount recognized in additional paid-in capital will be available to absorb potential future tax deficiencies on share-based payment

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

awards. EITF 06-11 is effective for fiscal years beginning after December 15, 2007 and therefore is effective for the Company in fiscal year 2008. The Company does not expect the adoption of this standard will have a material effect on the Company s consolidated results of operations, financial position or cash flows.

SAB 110 In December 2007, the SEC issued Staff Accounting Bulletin No. 110 which extends the permitted use of the simplified method in developing an estimate of expected terms of plain vanilla share options beyond December 31, 2007, until more detailed external information about exercise behavior becomes readily available to companies. Management currently utilizes the simplified method in calculating the fair value of stock option grants and intends to continue this method until more detailed information about exercise behavior is obtained.

2. Financial Instruments

Our financial instruments consist primarily of investments in cash and cash equivalents, receivables and certain other assets, such as cash surrender life insurance, as well as obligations under accounts payable, long-term debt and subordinated notes. The carrying values of these financial instruments approximate fair value at December 31, 2007, 2006 and 2005 except for subordinated notes for which fair value was $0, $5,141,000 and $7,307,000 at December 31, 2007, 2006 and 2005, respectively.

Most of the debt obligations approximate their reported carrying amounts based on future payments discounted at current interest rates for similar obligations or interest rates which fluctuate with the market.

Concentrations of credit risk:

Financial instruments that potentially subject us to credit risk consist principally of cash and accounts receivable. We maintain cash and cash equivalents with various major financial institutions.

We perform periodic evaluations of the financial institutions in which our cash is invested. Concentrations of credit risk with respect to trade and contract receivables are limited due to the large number of customers and various geographic areas. Additionally, we perform ongoing credit evaluations of our customers financial condition.

Union Contracts:

As of December 31, 2007, the Company s continuing operations included approximately 699 employees. Approximately 406 employees are represented by international or independent labor unions, under various contracts that expire in the years 2008 through 2010.

3. Accounts Receivable

$ in thousands	**2007**	**2006**
Trade receivables	$ 2,763	$ 2,669
Contract receivables	45,306	24,604
Allowance for doubtful accounts	(333)	(348)
	$ 47,736	$ 26,925

Balances billed, but not paid by customers under retainage provisions in contracts, amounted to approximately $5,451,000, $198,000 and $374,000 at December 31, 2007, 2006 and 2005, respectively. Retainage receivables on contracts in progress are generally collected within a year after contract completion.

Contract receivables unbilled amounted to $720,000, $0 and $0 as of December 31, 2007, 2006 and 2005, respectively.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

Provision for doubtful accounts was approximately $210,000, $297,000 and $136,000 during 2007, 2006 and 2005, respectively, while accounts charged to the allowance were $225,000, $273,000 and $130,000 during 2007, 2006 and 2005, respectively.

4. Costs and Estimated Earnings on Uncompleted Contracts

$ in thousands	2007	2006
Costs incurred on uncompleted contracts	$ 161,604	$ 76,655
Estimated earnings	20,639	7,637
	182,243	84,292
Less billings to date	(178,726)	(83,085)
	$ 3,517	$ 1,207
Included in the accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 11,541	$ 10,766
Billings in excess of costs and estimated earnings on uncompleted contracts	(8,024)	(9,559)
	$ 3,517	$ 1,207

5. Inventories

$ in thousands	2007	2006
Raw material and subassemblies	$ 3,625	$ 1,743
Finished goods	293	285
Parts for resale	786	727
Obsolescence allowance	(10)	
	$ 4,694	$ 2,755

Amounts credited to the allowance for obsolete inventory and charged to cost of sales amounted to $10,000, $0 and $0 during 2007, 2006 and 2005, respectively. Items charged to the allowance for inventory recoveries were $0, $0 and $10,000 during 2007, 2006 and 2005, respectively.

6. Property and Equipment

$ in thousands	2007	2006
Land	$ 1,460	$ 1,460
Building and improvements	4,372	4,210
Machinery and equipment	13,722	12,031

	19,554	17,701
Less accumulated depreciation	(10,270)	(9,171)
	$ 9,284	$ 8,530

Depreciation expense was $1.2 million, $1.1 million and $1.1 million for 2007, 2006 and 2005, respectively.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

7. Goodwill and Intangible Assets

$ in thousands	2007		2006	
Goodwill / Tradename	Goodwill	Tradename	Goodwill	Tradename
Beginning balance	$ 9,527	$ 1,395	$ 9,527	$ 1,395
Effox acquisition	3,688	700		
GMD acquisition	1,546			
	$ 14,761	$ 2,095	$ 9,527	$ 1,395

$ in thousands	2007		2006	
Intangible assets finite life	Cost	Accum. Amort.	Cost	Accum. Amort
Patents	$ 1,342	$ 844	$ 1,342	$ 766
Effox backlog	304	169		
Customer lists	800	83		
Employment contracts	180	50		
	$ 2,626	$ 1,146	$ 1,342	$ 766

Indefinite life intangible assets are comprised of tradenames, while finite life intangible assets are comprised of patents, Effox backlog, customer lists and employment contracts. Amortization expense was $380,000, $78,000 and $79,000 for 2007, 2006 and 2005, respectively. Amortization of finite life intangible assets is on a straight line basis, and over the next five years is $433,000 in 2008, $297,000 in 2009, $247,000 in 2010, $236,000 in 2011 and $153,000 in 2012. The weighted average remaining amortization period at December 31, 2007 is 5.0 years.

8. Accounts Payable and Accrued Expenses

$ in thousands	2007	2006
Trade accounts payable	$ 29,187	$ 13,125
Compensation and related benefits	4,583	2,897
Accrued interest	225	287
Other accrued expenses	4,017	1,570
	$ 38,012	$ 17,879

9. Debt

$ in thousands	2007	2006
Bank credit facility	$ 4,707	$ 10,591
Less current portion	(278)	(620)

	$ 4,429	$ 9,971

We obtained a new credit facility (the Bank Facility) on December 29, 2005. The credit agreement was entered into by CECO Environmental Corp., the CECO group of companies and Fifth Third Bank, an Ohio banking corporation (Fifth Third). On June 8, 2006 we amended the Bank Facility pursuant to a First Amendment to Credit Agreement (Amendment). H.M. White, Inc., a wholly owned subsidiary of CECO

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

Group, Inc., was added as a borrower. The Amendment amended the Bank Facility by, among other things 1) extending the maturity date of the Credit Agreement from January 31, 2007 to January 31, 2009, 2) lowering the interest rate on the revolving loan and term loan from the prime rate plus 2.25% and the prime rate plus 2.0%, respectively, to either prime plus 0.5% or LIBOR plus 2.75%, at our option, and 3) establishing an incentive pricing grid pegged to performance. Fees paid in connection with this amendment were less than $10,000 and we deferred these fees and began amortizing them as an adjustment to interest expense over the remaining term of the arrangement.

We further amended the Facility pursuant to a Second Amendment to the Credit Agreement (Second Amendment) dated February 28, 2007. Effox, Inc., a wholly owned subsidiary of CECO Group, Inc., was added as a borrower. The Second Amendment amended the Bank Facility by, among other things 1) extending the maturity date of the Credit Agreement from January 31, 2009 to January 31, 2010, 2) increasing the maximum revolving loan commitment from $13.0 million to $20.0 million, and 3) adding a second term loan in the aggregate amount of $5.0 million. Fees paid in connection with this amendment were $30,000 and we deferred these fees and began amortizing them as an adjustment to interest expense over the remaining term of the arrangement.

In May 2007, all the outstanding subordinated debt of $5.7 million and all the outstanding term notes of $7.5 million were retired using the proceeds from a secondary offering as described in Note 11. The remaining $5.6 million was applied to the revolving credit line and accrued interest.

At December 31, 2007, the revolving credit line, permits borrowings of up to the lesser of 1) $20 million less outstanding letters of credit, or 2) borrowings which are limited to 70% of eligible accounts receivable, plus 50% of eligible inventory, minus outstanding letters of credit. Amounts unused and available under our revolving credit facility were $14.8 and $3.9 million at December 31, 2007 and 2006, respectively. Amounts borrowed were $4.4 and $8.1 million at December 31, 2007 and 2006, respectively. Amounts outstanding under letters of credit were $716,000 and $909,000 at December 31, 2007 and 2006, respectively. The line of credit matures January 31, 2010.

In connection with the acquisition of Fisher-Klosterman, Inc. our Bank Facility was amended on February 29, 2008. The amended agreement was entered into by CECO Environmental Corp., the CECO group of companies, FKI Acquisition Corp. and Fifth Third Bank, an Ohio banking corporation. The Bank Facility, as amended, consists of a new term loan in the amount of $5.0 million and an increased revolving line of credit of up to $30.0 million. Credit availability is determined under our revolver on an asset based calculation which is determined by multiplying qualified accounts receivable times a factor of 70% and raw material inventories by a factor of 50%. This resulting availability is then reduced by outstanding letters of credit. Terms of the agreement, which runs through January 31, 2010, include a continuation of the current borrowing rates for the credit line of LIBOR plus 2% and rates for the two term notes of LIBOR plus 2.25%. Fees paid in connection with this amendment were $20,000 and we deferred these fees and began amortizing them as an adjustment to interest expense over the remaining term of the arrangement.

As of December 31, 2007, maturities of all long-term debt are estimated as follows:

December 31,	Maturities $ in thousands
2008	$ 278
2009	
2010	$ 4,429

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Our property and equipment, accounts receivable, investments and inventory serve as collateral for our bank debt. Our debt agreements contain customary covenants and events of default.

10. Subordinated Notes

$ in thousands	2007	2006
Subordinated Notes due 2008, 12%	$	$ 3,876
Subordinated Note due 2008, 12%		1,025
	$	$ 4,901

The $5 million subordinated debt that was provided to us in connection with the Kirk & Blum transaction in December 1999 included investments of $4 million by Green Diamond, $500,000 by ICS Trustee Services, Ltd. and $500,000 by Harvey Sandler. On May 30, 2006, CECO entered into a letter agreement with Fifth Third Bank, CECO s lender, permitting CECO to pay accrued interest and unpaid interest on, and the entire unpaid principal balance of, all of the indebtedness and other obligations owing by CECO to each of ICS Trustee Services Ltd. and Harvey Sandler and on May 31, 2006, CECO repaid in full the ICS and Sandler Subordinated Debt using proceeds from the exercise of warrants of approximately $893,000 and advances under Fifth Third Bank loan proceeds in the aggregate approximate amount of $167,000.

On September 30, 2003, an additional $1.2 million of subordinated debt was raised from Green Diamond, a related party, with a maturity of April 30, 2005 and an interest rate of 6% per annum. On December 30, 2004, the principal balance of the notes owed to Green Diamond was increased for the unpaid accrued interest. The principal balance for the $4.0 million subordinated note was increased by the accrued interest of $1.4 million to $5.4 million and the principal balance for the $1.2 million subordinated note was increased by $90,000 to $1.3 million. In connection with the December 29, 2005 credit facility, the maturity was extended to April 1, 2007.

On December 28, 2006, the Company and Green Diamond further amended the subordinated notes to extend the maturity date under both notes from April 1, 2007 to July 1, 2008, which was later amended to January 31, 2010 on March 27, 2007. In consideration for such extension, the interest rate under Replacement Note 1 was increased from 6% to 12%. As additional consideration for the extension, the Company issued warrants for 250,000 shares of common stock to Green Diamond under a Warrant Agreement on December 28, 2006. The fair value of the warrants was determined to be $842,000 at the date of issuance and the subordinated debt was discounted by such amount. The discount was amortized as a component of interest expense over the remaining term of the notes. Green Diamond is an affiliate of Phillip DeZwirek and Jason DeZwirek, both of whom are executive officers and directors of CECO.

In May 2007, all the outstanding subordinated debt of $5.7 million was retired using the proceeds from a secondary offering as described in Note 11. The early retirement of the subordinated debt resulted in a non-cash interest charge of $740,000 to expense the remaining unamortized discount on the notes.

11. Shareholders Equity

Share-Based Compensation

The 2007 Equity Incentive Plan (the 2007 plan) was approved by shareholders on May 23, 2007 and replaces the 1997 Stock Option Plan (the 1997 Plan). The 1997 Plan remains in effect solely for the purpose of the continued administration of the options outstanding under the 1997 Plan. The plans are administered by the Compensation Committee (the Committee) of the Board of Directors.

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The 2007 Plan permits the granting of stock options and awards which are granted at a price equal to or greater than the fair market value of the Company s common stock at the date of grant. Generally, stock options or awards granted to non-employee directors vest in one year from the date of grant. Stock options granted to employees generally vest equally over a period of 3 years from the date of grant. Stock awards granted to employees generally vest equally over a period of up to 3 years from the date of grant for awards subject to service requirements. Certain stock awards are granted and vest based on the achievement of certain performance requirements as established by the Committee. Stock awards may be granted without service or performance requirements, as determined by the Committee. The Committee, at its discretion, may establish other vesting periods and performance requirements when appropriate. Currently 109,000 shares of stock awards subject to service requirements, 30,208 stock awards subject to performance requirements, 1,000 shares without restrictions, and 50,000 stock options were granted to plan participants under the 2007 Plan in 2007. The number of shares reserved for issuance is 2.0 million, of which 1,810,792 shares were available for future grant as of December 31, 2007.

The 1997 Plan permitted the granting of stock options which were granted at a price equal to or greater than fair market value of the Company s common stock at the date of grant. Generally, stock options granted to non-employee directors vest equally over a period of 3 years from the date of grant. Stock options granted to employees generally vest equally over a period of 3-5 years from the date of grant. The Committee, at its discretion, established other vesting periods when appropriate. The number of shares reserved for issuance was 1.5 million, of which 1,031,300 shares were left unused as of December 31, 2007.

In addition to the Company s share-based compensation plans, certain other warrants have been issued that are compensatory in nature. See further discussion in the Warrants to Purchase Common Stock section of Note 11 below.

Since the adoption of SFAS No. 123(R), share-based compensation expense of $741,000 and $143,000 was recorded in the years ended December 31, 2007 and 2006, respectively. No equity compensation expense has been capitalized in inventory or fixed assets. See Note 1 for accounting treatment of share based awards prior to January 1, 2006.

Stock Options

The weighted-average fair value of stock options granted during 2007, 2006 and 2005, was estimated at $8.42, $4.68, and $2.29 per share, respectively, using the Black-Scholes option-pricing model based on the following assumptions:

Expected Volatility: The Company utilizes a volatility factor based on the Company s historical stock prices for a period of time equal to the expected term of the stock option utilizing weekly price observations. For 2007, 2006, and 2005 the Company utilized weighted-average volatility factors of 60%, 60%, and 68%, respectively.

Expected Term: The Company utilizes the plain vanilla method of determining the expected term based on the vesting schedules and terms of the stock options. For 2007, 2006, and 2005 the Company utilized weighted-average expected term factors of 6.25 years, 6.75 years, and 10 years, respectively.

Risk-Free Interest Rate: The Company s risk-free interest rate factor utilized is based upon the implied yields currently available on U.S. Treasury zero-coupon issues with the expected term of the stock options. For 2007, 2006, and 2005 the Company utilized weighted-average risk-free interest rate factors of 4.4%, 5.2%, and 4.6%, respectively.

Expected Dividends: No assumptions were made for expected dividends as the Company has not historically paid dividends. This will be re-evaluated if and when dividends are expected to be paid.

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The fair value of the stock options granted is recorded as compensation expense on a straight-line basis over the vesting periods of the options adjusted for the Company s estimate of pre-vesting forfeitures. The pre-vesting forfeiture estimate is based on historical activity and is reviewed periodically and updated as necessary.

Information related to all stock options under the 2007 Plan and 1997 Plan for the year ended December 31, 2007 is shown in the table below:

(Shares in thousands)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at 12/31/06	283	$ 4.51		
Granted	135	13.95		
Forfeitures				
Exercised	(38)	3.85		
Outstanding at 12/31/07	380	7.93	7.9 years	$ 1,561
Exercisable at 12/31/07	126	3.13	6.1 years	$ 986

The Company received $144,000 of cash from employees who exercised 38,000 options during the year ended December 31, 2007 and $281,000 of cash from employees who exercised 101,000 options during the year ended December 31, 2006. The intrinsic value of these exercised options totaled $297,000 and $610,000 respectively.

Information related to all stock awards under the 2007 plan for the year ended December 31, 2007 is shown in the table below:

(Shares in thousands)	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of year		
Granted	140	$ 11.81
Vested	(1)	(12.69)
Forfeited		
Nonvested, end of year	139	$ 11.81

In 2007 the Company recorded expense for restricted stock awards of $396,000. At December 31, 2007 there was $1.2 million of total unrecognized compensation costs related to restricted stock awards that is expected to be recognized over a weighted average period of 2.1 years.

The total fair value of restricted shares vested during 2007 was $12,690.

Warrants to Purchase Common Stock

On December 31, 2001, we issued 706,668 shares of common stock at a price of $3.00 per share, and issued detachable stock warrants to purchase 353,334 shares of common stock at an initial exercise price of $3.60 per share to a group of accredited investors (the Investors). Gross proceeds of $2,120,000 were received from the issuance of these shares and were used to pay down the bank credit facility.

The right to purchase shares under the warrants vest immediately upon the issuance of the warrants, and the warrants contain various features to protect the Investors in the event of a merger or consolidation and from dilution in the event of a stock issuance at prices below the exercise price.

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We prepared and filed with the SEC a registration statement within 90 days of the issuance of such warrants and caused the registration statement to become effective within 150 days of the issuance.

In connection with this transaction, we were required to issue additional shares based on an earnings formula computed from fiscal year 2002 results (as defined in the Investors Subscription Agreement) to the Investors, at no additional cost to the Investors. Based on the results of the earnings formula, approximately 382,000 additional shares were issued to the Investors in 2003.

In connection with the issuance of the common shares and warrants to the investors, we estimated $440,000 of issuance costs and issued warrants to purchase 14,000 shares of common stock at an initial exercise price of $3.60. The total issuance costs including the fair value of the warrants to purchase 14,000 shares of common stock were allocated to common stock, detachable stock warrants and contingent stock warrants based on their respective fair market values.

In 2006, investors exercised warrants for 366,564 shares of our common stock. We received $1.3 million of proceeds from the exercise of such Warrants, which proceeds were used as working capital. As a result of this exercise the December 31, 2006 fair value of these warrants was reduced to $0 and $842,000 was recorded as other income in the 2006 consolidated financial statements.

Former K&B Shareholders

In December 1999, as part of their employment contracts, warrants were granted to three of the former owners of K&B to purchase a total of 1,000,000 shares of our common stock at an exercise price of $2.9375 per share which was the fair market value on the date granted. These warrants became exercisable at the rate of 25% per year over the four years following December 1999. The warrants have a term of ten years.

In May 2007, we completed a secondary offering and sale of CECO common stock which consisted of 1.4 million shares of newly issued stock and 2.3 million shares sold by related party selling stockholders. The shares sold by related party stockholders included 499,500 shares from the exercise of warrants by former K&B shareholders and 1,250,000 shares from the exercise of warrants by the Chief Executive Officer. The Company received a total of $4.7 million from the exercise of these related party selling shareholder warrants. The proceeds from such exercise were used to pay off a portion of the outstanding subordinated debt.

Related Party and Other

On December 28, 2006, the Company and Green Diamond further amended the subordinated notes to extend the maturity date under both notes from April 1, 2007 to July 1, 2008, which was later amended to January 31, 2010 on March 27, 2007. In consideration for such extension, the interest rate under Replacement Note 1 was increased from 6% to 12%. As additional consideration for the extension, the Company issued warrants for 250,000 shares of common stock to Green Diamond under a Warrant Agreement on December 28, 2006. The fair value of the warrants was determined to be $842,000 at the date of issuance and the subordinated debt was discounted by such amount. The discount will be amortized as a component of interest expense over the remaining term of the notes. Green Diamond is an affiliate of Phillip DeZwirek and Jason DeZwirek, both of whom are executive officers and directors of CECO.

The issuance of these warrants did not affect net income in 2006 and they should not be confused with the detachable stock warrants issued to Investors on December 31, 2001, which were exercised in 2006 resulting in $842,000 of non-cash other income.

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In May 2007, all the outstanding subordinated debt was retired using the proceeds from a secondary offering as described in this Note 11. The early retirement of the related party subordinated debt resulted in a non-cash interest charge of $740,000 to expense the remaining unamortized discount on the notes.

Chief Executive Officer

In January 1999, warrants were issued to the Chief Executive Officer to purchase 500,000 shares of the Company s common stock at an exercise price of $3.00 per share. Prior to 1999, warrants were issued to the Chief Executive Officer to purchase 1,250,000 shares, at exercise prices ranging from $1.625 to $2.75 per share. In August 2000, warrants were issued to the Chief Executive Officer to purchase 500,000 shares at an exercise price of $2.06 per share. The warrants expire 10 years from the date of issuance.

In December 2001, the Green Diamond Oil Corp. exercised warrants to purchase 800,000 shares at a price of $2.25 per share as previously disclosed.

On January 6, 2006, the Chief Executive Officer elected to exercise warrants for 1,000,000 shares of common stock for an aggregate amount of $1,718,750 paid to us. Proceeds from these exercises were used by us to pay accrued interest on the Green Diamond subordinated notes.

In May 2007, we completed a secondary offering and sale of CECO common stock which consisted of 1.4 million shares of newly issued stock and 2.3 million shares sold by related party selling stockholders. The shares sold by related party stockholders included 499,500 shares from the exercise of warrants by former K&B shareholders and 1,250,000 shares from the exercise of warrants by the Chief Executive Officer. The Company received a total of $4.7 million from the exercise of these related party selling shareholder warrants. The proceeds were used to pay off a portion of the outstanding subordinated debt.

In July, 2007, the Compensation Committee granted, 100,000 shares of restricted stock to the Chief Executive Officer under the 2007 Equity incentive plan. These shares vest ratably over a three year period.

Common Stock

In May 2007, we completed a secondary offering and sale of CECO common stock which consisted of 1.4 million shares of newly issued stock and 2.3 million shares sold by related party selling stockholders. The initial closing was on May 17, 2007 and the overallotment closing was on May 29, 2007. The Company received $14.2 million from this offering for the newly issued shares and $4.7 million from the exercise of 1.7 million related party selling shareholder warrants for a total of $18.8 million. The proceeds were used to pay off all the outstanding subordinated debt of $5.7 million and all of the outstanding term notes of $7.5 million with the remaining $5.6 million being applied to the revolving credit line and accrued interest.

Treasury Stock

In 2006 we retired 37,300 shares of our common stock previously held as treasury shares.

12. Pension and Employee Benefit Plans

We sponsor a non-contributory defined benefit pension plan for certain union employees. The plan is funded in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974.

We also sponsor a post-retirement health care plan for office employees retiring before January 1, 1990. The plan allows retirees who have attained the age of 65 to elect the type of coverage desired.

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On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension Plans and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS No. 158). SFAS No. 158 required the Company to recognize the funded status (i.e. the difference between the fair value of plan assets and the projected benefit obligations) of its benefit plans in the December 31, 2006 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive loss, net of tax, totaling $226,000.

The following tables set forth the plans changes in benefit obligations, plan assets and funded status on the measurement dates, December 31, 2007 and 2006, and amounts recognized in our consolidated balance sheets as of those dates.

	Pension Benefits		Other Benefits	
$ in thousands	**2007**	**2006**	**2007**	**2006**
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	$ 5,806	$ 5,064	n/a	n/a
Accumulated post retirement benefit obligation	n/a	n/a	$ 401	$ 461
Service cost	148	129		
Interest cost	326	285	21	24
Actuarial (gain)/loss	146	553	(95)	(12)
Benefits paid	(234)	(225)	(50)	(72)
Projected benefit obligation at end of year	6,192	5,806	277	401
Change in plan assets:				
Fair value of plan assets at beginning of year	4,243	3,649		
Actual return on plan assets	214	335		
Employer contribution	570	483	51	72
Benefits paid	(234)	(225)	(51)	(72)
Fair value of plan assets at end of year	4,793	4,242		
Funded status	$ (1,399)	$ (1,564)	$ (277)	$ (401)
Defined benefit liabilities included in accounts payable and accrued expenses			$ (45)	$ (60)
Defined benefit liabilities included in other liabilities	$ (1,399)	$ (1,564)	(232)	(341)
Deferred tax benefit/ (expense) associated with AOCL	921	849	(31)	7
AOCL, net of tax	1,381	1,273	(47)	10
Net amount recognized	$ 903	$ 558	$ (355)	$ (384)
Other comprehensive income:				
Net loss (gain)	$ 329	$ 555	$ (95)	$ (12)
Prior service cost (credit)				
Amortization of transition asset/(obligation)				
Amortization of prior service cost	(8)	(8)		
Amortization of net actuarial loss	(141)	(90)		

Total recognized in other comprehensive income	$ 180	$ 457	$ (95)	$ (12)
Accumulated other comprehensive income:				
Net loss (gain)	$ 2,266	$ 2,078	$ (78)	$ 17
Prior service cost	36	44		
Prior transition (asset)/obligation				
Amount recognized in accumulated other comprehensive income	$ 2,302	$ 2,122	$ (78)	$ 17
Weighted-average assumptions used to determine benefit Obligations for the year ended December 31:				
Discount rate	6.00%	5.75%	6.00%	5.75%
Expected long-term rate of return on assets	8.50%	8.50%	N/A	N/A
Compensation increase rate	N/A	N/A	N/A	N/A

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The basis of the long-term rate of return assumption reflects the current asset mix for the pension plan of approximately 45% debt securities and 55% equity securities with assumed average annual returns of approximately 5% to 6% for debt securities and 10% to 12% for equity securities. The investment portfolio for the pension plan will be adjusted periodically to maintain the current ratios of debt securities and equity securities. Additional consideration is given to the historical returns for the pension plan as well as future long range projections of investment returns for each asset category.

For the year ended December 31, 2006, the Company incorrectly recorded its transition adjustment related to the adoption of SFAS No. 158. The Company reported its transition adjustment of $226,000 as a component of 2006 other comprehensive income (loss), rather than as a direct adjustment to the ending balance of accumulated other comprehensive loss.

Benefits under the plans are not based on wages and, therefore, future wage adjustments have no effect on the projected benefit obligations.

The accumulated benefit obligation for our defined benefit plans was $6.0 million and $5.5 million at December 31, 2007 and 2006, respectively. Information with respect to our plans which have accumulated benefit obligations in excess of plan assets at December 31, 2007 and 2006 is as follows:

$ in thousands	2007	2006
Projected benefit obligation	$ 6,192	$ 5,806
Accumulated benefit obligation	5,953	5,537
Fair value of plan assets	4,793	4,243

Based on current assumptions, estimated contributions of $615,000 may be required in 2008 for the pension plan and $47,000 for the retiree healthcare plan.

Included in other comprehensive income, net of related tax effect, were an increase in the minimum liability of $51,000 in 2007 and an increase of $492,000 in 2006.

The details of net periodic benefit cost for pension benefits included in the accompanying consolidated statements of operations for the years ended December 31, 2007, 2006 and 2005 are as follows:

$ in thousands	2007	2006	2005
Service cost	$ 148	$ 129	$ 131
Interest cost	326	285	277
Expected return on plan assets	(398)	(338)	(303)
Net amortization and deferral	149	99	94
Net periodic benefit cost	$ 225	$ 175	$ 199
Weighted-average assumptions used to determine net periodic benefit costs for the years ended December 31:			
Discount rate	5.75%	5.75%	5.75%
Expected return on assets	8.50%	8.50%	8.50%
Compensation increase rate	N/A	N/A	N/A

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The net loss, prior service cost and transition (asset)/obligation for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2008 are $142,000, $8,000 and $0, respectively.

The net periodic benefit cost (representing interest cost only) for the healthcare plan included in the accompanying consolidated statements of operations was $21,000, $25,000 and $26,000 for the years ended December 31, 2007, 2006 and 2005 respectively. The weighted average discount rate to determine the net periodic benefit cost for 2007 and 2006 was 5.75%.

Pension plan assets are invested in trusts comprised primarily of investments in various debt and equity funds. A fiduciary committee establishes the target asset mix and monitors asset performance. The expected rate of return on assets includes the determination of a real rate of return for equity and fixed income investment applied to the portfolio based on their relative weighting, increased by an underlying inflation rate.

Changes in health care costs have no effect on the plan as future increases are assumed by the retirees.

Our defined benefit pension plan asset allocation by asset category is as follows:

	Target Allocation 2008	Percentage of Plan Assets 2007	2006
Asset Category:			
Equity Securities	55%	56%	66%
Debt Securities and cash	45%	44%	34%
Total	100%	100%	100%

Estimated pension plan cash obligations are $282,000, $303,000, $320,000, $350,000 and $386,000 for 2008 2012, respectively, and a total of $2,285,000 for the years 2013 through 2017.

In connection with collective bargaining agreements, we participate with other companies in defined benefit pension plans. These plans cover substantially all of our Kirk & Blum contracted union employees not covered in the aforementioned plan. If we were to withdraw from participation in these multi-employer plans, we would be required to contribute our share of the plans unfunded benefit obligation. We have no intention of withdrawing from any plan and, therefore, no liability has been provided in the accompanying consolidated financial statements.

Amounts charged to pension expense under the above plans including the multi-employer plans totaled $3.6 million, $3.4 million and $1.9 million for 2007, 2006 and 2005, respectively.

During July 2006, we merged the K&B and CFI s profit sharing and 401(k) savings retirement plans for non-union employees. The merged plan covers substantially all employees who have 6 months of service, completed 1,000 hours of service and who have attained 18 years of age. The Plan allows us to make discretionary contributions and provides for employee salary deferrals of up to 22%. We provide matching contributions of 50% of the first 6% of employee contributions.

We also made matching contributions and discretionary contributions of $353,000 and $202,000 during 2007 and 2006, respectively. In prior years, we made matching contributions and discretionary contributions of $52,000 during 2005 to the K&B plan, and $27,000 during 2005 to the CFI plan.

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13. Commitments and Contingencies

Rent

We lease certain facilities on a year-to-year basis. We also have future annual minimum rental commitments under noncancellable operating leases as follows:

December 31,	Commitment $ in thousands
2008	$ 1,344
2009	1,225
2010	1,129
2011	769
2012	88
	$ 4,555

Also as disclosed in Note 18, on February 29, 2008, the Company and Fisher-Klosterman, Inc. entered into an Asset Purchase Agreement whereby the Company acquired substantially all of the assets of Fisher-Klosterman, Inc. The future annual minimum rental commitments incurred in connection with the acquisition are $269,750 in 2008, $323,700 in 2009, $136,200 in 2010, $98,700 in 2011 and $98,700 in 2012.

Total rent expense under all operating leases for 2007, 2006 and 2005 was $1,313,000, $766,000 and $613,000, respectively.

Employment Agreements

In December 1999, we entered into five-year employment agreements with three of the former owners of K&B. In 2001, these agreements were amended by extending the term one additional year. In December 2005 these agreements expired and new agreements were entered into with two of the three former owners in May and June of 2006. The new agreements provide for annual salaries and a bonus, for each of the next three years, based on an incentive compensation plan tied to financial performance and attainment of goals.

In March 2007, we entered into one, two and three-year employment agreements with three executives of Effox, Inc. The agreements provide for annual salaries, retention bonuses and bonuses for each employee, based on an incentive compensation plan tied to financial performance and attainment of goals.

In October 2007, we entered into a three-year employment agreements with a key executive of GMD, Inc. The agreement provides for annual salary, a retention bonus and a bonus based on an incentive compensation plan tied to financial performance and attainment of goals.

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14. Income Taxes

Income tax provision (benefit) consisted of the following for the years ended December 31:

$ in thousands	2007	2006	2005
Current:			
Federal	$ 4,270	$ 1,420	$
State	962	539	215
	5,232	1,959	215
Deferred:			
Federal	(689)	(276)	328
State	(182)	85	104
	(871)	(191)	432
	$ 4,361	$ 1,768	$ 647

The income tax provision (benefit) differs from the statutory rate due to the following:

$ in thousands	2007	2006	2005
Tax expense at statutory rate	$ 3,626	$ 1,653	$ 74
Increase (decrease) in tax resulting from:			
State income tax, net of federal benefit	593	265	24
Permanent differences, principally warrants and interest	36	(320)	415
Other	106	170	134
	$ 4,361	$ 1,768	$ 647

Deferred income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax liability consisted of the following at December 31:

$ in thousands	2007	2006
Current deferred tax assets (liabilities) attributable to:		
Accrued expenses	$ 315	$ 105
Deferred state taxes	172	233
Reserves on assets	467	152
Inventory	24	(162)

Current deferred tax asset (included in prepaid expenses and other current assets)	978	328
Noncurrent deferred tax assets (liabilities) attributable to:		
Depreciation	(2,341)	(2,638)
Goodwill and intangibles	(1,548)	(1,408)
Other liabilities	(9)	63
Non-compete agreement	170	196
Minimum pension and postretirement liability	1,040	856
Federal and state net operating loss carryforwards		337
AMT credit carryforward		67
Net noncurrent deferred income tax liability	(2,688)	(2,527)
Net deferred tax liability	$ (1,710)	$ (2,199)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

Gross deferred tax assets were $2.2 and $2.0 million at December 31, 2007 and 2006, respectively. Gross deferred tax liabilities were $3.9 and $4.2 million at December 31, 2007 and 2006, respectively.

We have no Federal net operating loss carryforwards at December 31, 2007 to be utilized in future years

We file a consolidated Federal income tax return.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for uncertainty in income taxes, on January 1, 2007. As a result of the implementation of Interpretation 48, the Company recognized approximately a $653,000 increase in the liability for unrecognized tax expense, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. A reconciliation of the beginning and ending amount of unrecognized tax is as follows:

Balance as of January 1, 2007	$ 653,000
Additions based on tax positions related to the current year	
Additions for tax positions of prior years	244,000
Reductions for tax positions of prior years	(422,000)
Balance as of December 31, 2007	$ 475,000

Included in the balance at December 31, 2007, is a $148,000 tax position for which the ultimate outcome is highly certain. The Company recognizes interest accrued related to unrecognized tax expenses in interest expense and penalties in operating expenses. During the year ended December 31, 2007, the Company recognized approximately $96,000 in interest and penalties.

15. Related Party Transactions

During 2007, we reimbursed Green Diamond Oil Corp. $10,000 per month for use of the space and other office expenses of our Toronto office. In 2007, 2006 and 2005, reimbursements were $120,000, $105,000 and $60,000 respectively. During 2007, 2006 and 2005, we paid fees of $360,000, $334,000 and $340,000 respectively, to Green Diamond for management consulting services. These services were provided by Phillip DeZwirek, the Chief Executive Officer and Chairman of our Board, through Green Diamond.

16. Backlog of Uncompleted Contracts from Continuing Operations (unaudited)

Our backlog of uncompleted contracts from continuing operations was $85.5 million and $97.1 million at December 31, 2007 and 2006, respectively.

17. Acquisitions

On February 28, 2007, the Company, through its wholly owned subsidiary CECO Acquisition Corp., purchased substantially all of the assets of Effox, Inc. (Effox). We acquired Effox to continue the execution of our horizontal integration strategy. This acquisition broadens our exposure to the multibillion dollar electric power generation market, coal and gas, and the ethanol, metals and mineral products markets.

The purchase price was approximately $12.2 million, consisting of net cash paid of approximately $6.9 million and liabilities assumed of approximately $5.3 million. Additionally, the former owners of Effox were entitled to earn-out payments of up to $1.0 million upon the attainment of specified gross profit amounts through

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2007, 2006 and 2005

December 31, 2009. These gross profit amounts were attained in 2007 and $1.0 million has been recorded as an additional component of goodwill. The amortization of goodwill and intangibles is deductible for tax. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of closing adjusted for the final determination of the net asset values (dollars in thousands):

Current Assets	$ 6,522
Property and equipment	278
Intangible assets finite life	984
Intangible assets indefinite life	700
Goodwill	2,688
Other assets	1,049
Total assets acquired	12,221
Current liabilities assumed	(4,228)
Other liabilities assumed	(1,038)
Net assets acquired	$ 6,955

The following unaudited pro forma information represents the Company s results of operations as if the acquisition had occurred on the first day of each of the respective periods:

	Twelve Months Ended December 31,	
	2007	2006
Net sales	$ 240,049	$ 164,297
Net income	$ 6,394	$ 4,283
Earnings per share:		
Basic	$ 0.48	$ 0.38
Diluted	$ 0.46	$ 0.33

The pro forma results have been prepared for informational purposes only and include adjustments to convert Effox from the completed contract method of accounting to the percentage of completion method of accounting for contracts for which costs can reasonably be estimated, to amortize acquired intangible assets with finite lives, to reflect additional interest expense for debt incurred to finance the acquisition, and to adjust income tax expense based on the Company s effective income tax rates during the periods presented. These pro forma results do not purport to be indicative of the results of operations that would have occurred had the purchase been made as of the beginning of the periods presented or of the results of operations that may occur in the future.

On October 31, 2007, CECO Environmental Corp. (the Company), GMD Acquisition Corp. (Acquisition), an indirectly owned subsidiary of the Company, and GMD Environmental Technologies, Inc., GMD Properties, Inc. and GMD Services, Inc. (collectively, GMD) entered into an Asset Purchase Agreement (APA), pursuant to which Acquisition acquired, for a purchase price of $1,400,000, substantially all of the assets of GMD (the Asset Purchase), which relate to the business currently conducted by GMD, including the design, manufacture, and sale of its air pollution control systems and the furnishing of installation services to customers. We acquired GMD to further expand our air pollution control capabilities to include Acid Gas Treatment, Hazardous Dust Conditioning and Off-Gas Cooling plus Solid Waste Recycling.

Additionally, the Company and Acquisition also entered into a Goodwill Purchase Agreement (GPA) with Gerald J. Reier and Lynda Reier (the Sellers), pursuant to which Acquisition acquired, for a purchase price of $1,600,000, all of the Sellers goodwill in the business of GMD (the Goodwill Purchase). The amortization of goodwill and intangibles is deductible for tax.

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For the Years Ended December 31, 2007, 2006 and 2005

The Sellers are also entitled to an earn-out payment up to $1,000,000, payable approximately 39 months following closing, subject to GMD meeting certain financial thresholds. The closing for the Asset Purchase and Goodwill Purchase was completed on October 31, 2007.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of closing adjusted for the final determination of the net asset values (dollars in thousands):

Current Assets	$ 1,777
Property and equipment	15
Goodwill	1,546
Intangibles	300
Total assets acquired	3,638
Current liabilities assumed	(638)
Net assets acquired	$ 3,000

18. Subsequent Event

On February 29, 2009, the Company, through its wholly owned subsidiary FKI Acquisition Corp., purchased substantially all of the assets of Fisher-Klosterman, Inc. (FKI). We acquired FKI to obtain air pollution and particulate recovery products in the fields of petroleum refinery, power production, petrochemicals, and manufacturing. The acquisition also expands our operations into China with FKI s 40,000 square foot facility in Shanghai, China. The purchase price was approximately $23.5 million, consisting of net cash paid of approximately $15.5 million, liabilities assumed of approximately $7.0 million and restricted common stock of $1.0 million. Additionally, the former owners of FKI are entitled to earn-out payments of up to $3.5 million upon the attainment of specified gross profit amounts through February 28, 2011. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of closing.

Current Assets	$ 6,620
Property and equipment	1,810
Inventory	577
Goodwill and other intangibles	13,534
Other assets	941
Total assets acquired	23,482
Current liabilities assumed	(6,971)
Net assets acquired	$ 16,511

The purchase price allocation is preliminary and subject to further refinement based upon completion of asset valuations.

19. Major Customers

General Motors represented 26% of our consolidated net sales and 34% of our consolidated accounts receivable in 2007. No single customer represented greater than 10% of consolidated net sales or accounts receivable for 2006 or 2005.

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20. Quarterly Financial Data (unaudited)

The following quarterly financial data are unaudited, but in the opinion of management include all necessary adjustments for a fair presentation of the interim results, which are subject to significant seasonal variations.

$ in thousands except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Year ended December 31, 2007					
Net Sales	$ 43,463	$ 59,247	$ 65,257	$ 67,986	$ 235,953
Income from operations	2,494	3,307	4,050	2,783	12,634
Net income (loss)	1,144	1,147	2,196	1,818	6,305
Basic earnings (loss) per share	0.10	0.09	0.15	0.12	0.47
Diluted earnings (loss) per share .	0.08	0.08	0.14	0.12	0.45
Year ended December 31, 2006					
Net Sales	$ 24,382	$ 31,745	$ 37,734	$ 41,498	$ 135,359
Income from operations	696	1,240	1,664	2,447	6,047
Net income (loss)	(736)	1,562	1,067	1,201	3,094
Basic earnings (loss) per share	(0.07)	0.14	0.09	0.10	0.27
Diluted earnings (loss) per share .	(0.07)	0.12	0.08	0.09	0.24