



# HHG PLC

## Interim Statement 2004

For the six months ended 30 June 2004

HHG has continued to build on the solid financial base established since listing in late 2003. In the first half 2004, good progress was made against the business objectives set by the Board and there were solid improvements in both operating profit\* and efficiency.

- Profit on ordinary activities before tax of £46 million (1H2003: £902 million loss)
- Henderson operating profit of £25 million (1H2003: £13 million)
- Life Services operating profit of £32 million (1H2003: £40 million loss)
- Henderson assets under management of £68.4 billion (31 Dec 2003: £70.6 billion)
- Life Services traditional embedded value of £1.3 billion (31 Dec 2003: £1.1 billion)

HHG is on track to deliver its objectives to maintain margins for Henderson and continue efficiency improvements in Life Services in 2004.

### Henderson – growth in revenues

Operating profit before tax was £25 million, up 92% from £13 million in first half 2003. This reflects the recovery in equity markets from their low in early 2003 and improvement in fee margins, a core business objective.

Henderson total fee income in first half 2004 of £116 million was 23% higher than in the same period 2003, reflecting higher management fees and greater transaction and performance fees. Henderson's cost to income ratio improved further in first half 2004 to 79%, compared to 86% in first half 2003 and ahead of our targets for full year 2004.

**Life Services – improved efficiency and stronger reserving**  
Operating profit before tax of £32 million for first half 2004 compared favourably to the loss of £40 million for first half 2003. Life Services continued to make efficiency gains and its service company is in profit well ahead of schedule. The embedded value for Life Services rose to £1.3 billion (31 Dec 2003: £1.1 billion) due to additional capital and improved investment returns. Action was also taken to strengthen mortality reserves by £82 million and we continued to maintain prudent provisions.

### Other business

The sale of HHG Group's 50% holding in Virgin Money Group to the Virgin Group resulted in a non-operating exceptional profit of £18 million. The closure of Towry Law International (TLI) operations to new business resulted in a non-operating exceptional loss of £7 million. The closure of TLI has no impact on the operations of Towry Law in the United Kingdom which reported an ongoing profit of £0.4 million for first half 2004.

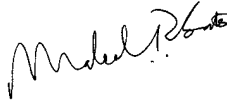
The effective tax rate increased from a relief of 3.2% in first half 2003 to a charge of 19.6% in first half 2004.

On 31 March 2004, HHG PLC issued 246,160,000 new ordinary shares for a net consideration of £115 million. The proceeds from this capital raising together with internal cash resources were used by HHG PLC to acquire full ownership of HHG Invest plc from Pearl Assurance plc's shareholder fund.

No ordinary dividends are proposed for first half 2004 (1H2003: nil).

Cash flow improved to a net inflow of £46 million when compared to a net outflow of £421 million in first half 2003. The current year has benefited from the capital raising referred to above and the first instalment (£50 million) of sale proceeds from the shareholding in Virgin Money Group.

In July 2004, the Accounting Standards Board issued Financial Reporting Exposure Draft 34 "Life Assurance" (FRED 34). This has not been adopted by HHG Group at 30 June 2004 as it is currently in draft form only, but it is anticipated that a new accounting standard based on FRED 34 will be adopted in the 2004 HHG PLC Full Annual Financial Report and Accounts.

  
Sir Malcolm Bates  
Chairman

25 August 2004

### Summarised Consolidated Profit and Loss Account

For the half year ended 30 June 2004

	Unaudited 6 months 2004 £m	Unaudited 6 months 2003 £m	Audited Full year 2003 £m
Henderson	25	13	32
Life Services	32	(40)	81
Other Businesses	–	(2)	(3)
Business unit operating profit/(loss)	57	(29)	110
Corporate costs	(6)	(5)	(12)
Operating profit/(loss)	51	(34)	98
Unallocated interest costs	–	(33)	(60)
Operating profit/(loss) before tax based on longer term investment return before other operating exceptional costs, amortisation of goodwill and acquired Present Value of In Force Business (PVIF)	51	(67)	38
Other operating exceptional costs, excluding impairment of goodwill and acquired PVIF	–	(507)	(543)
Amortisation and impairment of goodwill	(10)	(297)	(307)
Impairment of goodwill arising on acquisition of associates	–	(9)	(9)
Amortisation and impairment of acquired PVIF	–	(27)	(33)
Short term fluctuation in investment return	(6)	(2)	(13)
Profits on disposal/termination of businesses	11	7	3
<b>Profit/(loss) on ordinary activities before tax</b>	<b>46</b>	<b>(902)</b>	<b>(864)</b>
Tax (charge)/credit on profit/(loss) on ordinary activities	(9)	29	17
<b>Profit/(loss) on ordinary activities after tax</b>	<b>37</b>	<b>(873)</b>	<b>(847)</b>
Preference dividend on non-equity shares	–	–	(1)
<b>Retained profit/(loss) for the period</b>	<b>37</b>	<b>(873)</b>	<b>(848)</b>
<b>Basic and diluted earnings per share</b>	<b>1.4p</b>	<b>(191.5p)</b>	<b>(119.7p)</b>
Gross premiums written	479	877	1,664

### Consolidated Statement of Total Recognised Gains and Losses

For the half year ended 30 June 2004

	Unaudited 6 months 2004 £m	Unaudited 6 months 2003 £m	Audited Full year 2003 £m
Profit/(loss) on ordinary activities after tax	37	(873)	(847)
Foreign exchange losses	(1)	–	(3)
<b>Total recognised gains/(losses) arising in the period</b>	<b>36</b>	<b>(873)</b>	<b>(850)</b>

### Summarised Consolidated Balance Sheet

As at 30 June 2004

	Unaudited 30 Jun 2004 £m	Restated Unaudited 30 Jun 2003 £m	Restated Audited 31 Dec 2003 £m
<b>Assets</b>			
Goodwill	270	288	280
Investments	23,009	25,194	23,780
Assets held to cover linked liabilities	4,161	4,317	4,349
Other assets	1,416	1,601	1,698
<b>Total assets</b>	<b>28,856</b>	<b>31,400</b>	<b>30,107</b>
<b>Liabilities</b>			
Capital and reserves	1,839	172	1,689
Fund for future appropriations	522	138	612
Gross technical provisions	20,865	23,924	21,881
Technical provisions for linked liabilities	4,161	4,317	4,349
Other liabilities	1,469	2,849	1,576
<b>Total liabilities</b>	<b>28,856</b>	<b>31,400</b>	<b>30,107</b>

### Summarised Consolidated Cash Flow Statement

For the half year ended 30 June 2004

	Unaudited 6 months 2004 £m	Unaudited 6 months 2003 £m	Audited Full year 2003 £m
Net cash outflow from operating activities	(118)	(373)	(362)
Returns on investments and servicing of finance	–	(29)	(74)
Tax	1	15	(3)
Capital expenditure	1	–	4
Acquisitions and disposals	50	–	3
Financing activities	112	(34)	414
<b>Net cash flows available for investment</b>	<b>46</b>	<b>(421)</b>	<b>(18)</b>
<b>Cash flows were invested as follows:</b>			
Decrease in cash holdings	(68)	(2)	(99)
Net purchases/(sales) of investments	114	(419)	81
<b>Net investment of cash flows</b>	<b>46</b>	<b>(421)</b>	<b>(18)</b>

\* Operating profit represents trading results of the combined business units excluding non-trading, exceptional items and short term investment fluctuations

**Basis of preparation** The results for the six months ended 30 June 2004 have been prepared on the basis of accounting policies set out in HHG PLC's 2003 Full Annual Financial Report and Accounts, subject to the following changes:

- The provisions of the Statement of Recommended Practice on Accounting for Insurance Business, issued by the Association of British Insurers in November 2003, have been adopted in these financial statements and resulted in the derecognition of a securitised asset (30 Jun 2003: £135m; 31 Dec 2003: £111m), the recognition of additional deferred acquisition costs (30 Jun 2003: £nil; 31 Dec 2003: £45m) and a reduction in the long term business provision (30 Jun 2003: £135m; 31 Dec 2003: £66m). This has had no impact on current or comparative period HHG Group results but has resulted in reallocations between captions within the balance sheet and within the profit and loss account.

- In April 2004, the Accounting Standards Board issued FRS 20 "Share based payments" which sets out the accounting treatment for employee share schemes. HHG PLC has adopted this accounting standard for all share based payment schemes established in first half 2004 resulting in an expense of £1m being recognised. No prior period adjustments are required.

The Urgent Issues Task Force ("UITF") Abstract 37 "Purchases and sales of own shares" requires HHG Group's holdings in its own shares to be deducted from equity shareholders' funds and not included in assets. In addition, movements in

own shares are taken directly to shareholders' funds. The UITF Abstract 38 "Accounting for ESOP trusts" requires own shares held by employee share trusts to be deducted from capital in arriving at shareholders' funds rather than being held as assets. In respect of these, £2m of own shares have been deducted in arriving at capital and reserves at 30 June 2004. No prior period adjustments were required as no own shares were held in 2003.

**Statutory accounts** The financial information contained in this interim statement is unaudited and does not constitute statutory accounts. The 2003 HHG PLC Full Annual Financial Report and Accounts have been delivered to the UK Registrar of Companies; the report of the auditors on those accounts was unqualified. The auditors have carried out a review of the interim financial information and their report follows.

### Independent review report to HHG PLC

**Introduction** We have been instructed by the company to review the financial information for the six months ended 30 June 2004 which comprises the Summarised Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Summarised Consolidated Balance Sheet and the Summarised Consolidated Cash Flow Statement. We have read the other information contained in the interim statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

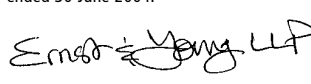
This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 "Review of interim

financial information" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work for this report, or for the conclusions we have formed.

**Directors' responsibilities** The interim statement, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim statement in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

**Review work performed** We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of interim financial information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

**Review conclusion** On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

  
**Ernst & Young LLP**  
Registered Auditor, London  
25 August 2004

### HHG PLC

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Company Registration Number: 2072534

This advertisement is a summary of certain information contained in the stock exchange announcements dated 25 August 2004 (relating to the interim results for the six months to 30 June 2004 of the HHG Group). All announcements are posted on the HHG website at [www.hhg.com](http://www.hhg.com) for shareholders to access.

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