The Board is committed to creating shareholder value. We believe the Group is well placed for the future and will, over time, deliver the right returns to shareholders.

Rupert Pennant-Rea, Chairman, HHG

Chairman's Statement

A significant year

I am pleased to report to you as your new Chairman after what has been a challenging and rewarding year for HHG. In 2004, our first 12 months as a listed group, we built a strong independent Group and produced significantly better financial results. The improvement in the businesses has culminated in the proposed sale of the Life Services business, which was overwhelmingly approved at our recent Extraordinary General Meeting. This step has strategic as well as financial significance, and has realised encouraging value for shareholders.

Financial results and Group structure

For the year to 31 December 2004, HHG made a profit before tax of £41 million (compared with a loss of £864 million in 2003). This improvement was due to good growth in profits at Henderson Global Investors and a turnaround in Life Services. Henderson Global Investors' performance reflects the recovery in equity markets and a shift to higher margin business. In Life Services we improved efficiency, embedded value and capital strength – essential steps to increasing the value of this business.

During the year, we simplified the Group structure. The proceeds from an additional placing of ordinary shares enabled us to acquire full ownership of Henderson Global Investors by purchasing the remaining interest of HHG Invest plc from Pearl. We also sold our 50% equity interest in Virgin Money Group Limited in April 2004, and, taking account of difficult market conditions and following a strategic review, we closed the operations of Towry Law International to new business.

Sale of the Life Services business and return of capital to shareholders

When HHG listed in December 2003, the Board said that a key part of HHG's strategy was to maximise shareholder value from the closed life insurance books. The proposed sale of the Life Services business accelerates the release of capital and also removes exposure to the UK life insurance sector and its associated regulatory, solvency, mortality and surrender risks. The Life Services management and staff have done an excellent job of creating value for shareholders while maintaining the quality of service they provide for policyholders.

Once we receive the cash from the sale of the Life Services business, we intend to return approximately £885 million directly to shareholders in a two-stage process that will reduce issued share capital. The first step involves a pro-rata cancellation of 52 out of every 100 shares held, at a price of 55 pence per share. The remaining organisation will be considerably smaller, and could not sensibly afford to service 875,000 shareholders. So, as a second step, we will cancel smaller holdings in return for a cash payment. This will reduce the number of shareholders to around 150,000.

Looking ahead

Following the expected completion of the sale of the Life Services business, HHG will be renamed Henderson Group plc and its stock ticker code will be changed from HHG to HGI. The Henderson Group will consist of the asset management business of Henderson Global Investors and the smaller financial advisory business of Towry Law. Our central goal is to develop Henderson Global Investors as a leading pan-European investment manager.

Corporate Responsibility Policy

During the year, HHG developed its Corporate Responsibility Policy (outlined on page 16). This sets out the Group's commitment to responsible business conduct with all stakeholders.

The Board

Last year, the Board undertook an evaluation of its own performance to assess its effectiveness and to ensure we have the right blend of experience and skills. The Board is responsible for securing the interests of shareholders, and we need to be sure we are doing that.

During 2004, four new Directors were appointed: John Roques (January 2004), Duncan Ferguson (July 2004), Gerry Aherne and myself (October 2004). Biographies of all the Directors are on pages 12 and 13.

Departures included the two AMP Limited Directors appointed as part of the Demerger, Andrew Mohl, who resigned in February 2004 and Pat Handley in May. Peter Costain, who served the Group for just over 10 years, retired from the Board in February 2005. I thank them all for their support and advice.

The most significant change on the Board was the retirement in February 2005 of Sir Malcolm Bates as HHG's Chairman. He steered the Board through every phase of the Group's evolution to where it now is. The Board and the Group will miss his wealth of experience and constant guidance.

There will be two more changes in the near future. Sir William Wells will retire at the 2005 Annual General Meeting. Ian Laughlin will be staying with the Life Services business, so will retire from the Board when the sale is completed.

From June 2005, the Board will then consist of two Executive Directors and five Non-Executive Directors. This should be the right size and balance for the smaller business, and is in line with the UK's Combined Code and the ASX Corporate Governance Council's Principles of Good Corporate Governance.

The Board operates under formal corporate governance codes, principles and processes. These are described in detail on pages 17 to 20.

Dividends

Your Board knows that shareholders value dividends and we want to provide these in the next year. We aim to ensure that the Henderson Group can sustain a flow of dividends into the future. Assuming the sale of the Life Services business goes through, we expect to pay a final 2005 dividend in early 2006.

Shareholders

Henderson Group will continue to be listed on both the London and Australian Stock Exchanges, and is expected to remain in the FTSE 250 and ASX 200 indices.

In February 2005, 65% of HHG shares were held by investors in Australasia (including the 10% held by AMP as part of the Demerger and some 25% held by retail shareholders). Approximately 30% were held by investors in Europe and the remainder was split across the rest of the world.

Let me end by thanking all employees for their hard work, and particularly for not being distracted during a year of many changes. I would also like to thank all shareholders for their support and encouragement during our first year on the public market.

The Group has a solid platform on which to build further value for shareholders – we look forward to the future with confidence.

Roger Yates, Chief Executive, HHG

Chief Executive's Statement

2004 was the first full year for the Group after its Demerger from AMP and it is satisfying to report a much improved set of results, as well as a simplification of the Group structure. The Chairman's Statement covers the initiatives which we undertook to streamline the Group.

As regards the underlying performance of the businesses, operating profit before tax, exceptionals and other items rose by just over 9% in 2004 to £107 million. This reflected solid performances in both Henderson Global Investors and Life Services, where profits increased by 63% and 6% respectively.

The rise in Henderson Global Investors' operating profit from £32 million in 2003 to £52 million in 2004 was driven by a recovery in equity markets and by improving fee margins. In addition, growth in revenue ensured a significant drop in the cost to income ratio from 84% in 2003 to 79% in 2004. Assets under management remained relatively stable year-on-year at £69.1 billion in 2004, down slightly from £70.6 billion in 2003, as the expected outflows from the closed life books and institutional funds were partly offset by market growth and inflows elsewhere in the business.

Life Services produced a stable operating profit of £86 million, up 6% on 2003. The first half of 2004 was impacted negatively by a necessary adjustment to the annuitant mortality assumptions which was mitigated to some extent by the release of prudential margins. The Service Company turned an £8 million loss in 2003 into an £8 million profit in 2004 as a result of significant cost reduction initiatives which ensured the cost base fell below £120 million. In relation to our Other Businesses, we exited non-core or non-performing businesses during the period, completing the sales of AMPLE and our 50% equity holding in Virgin Money Group Limited and announcing the closure of Towry Law International. Towry Law UK remains within the Group and open to new business. It reported a breakeven position in 2004.

During the year, Corporate costs were tightly managed, although the overall level increased as a result of the establishment of additional provisions – the majority of which related to Towry Law International. Corporate costs should return to the levels experienced in the first half of 2004. However, from mid-way through 2005, the Group should also start to benefit from the anticipated £4 million annual saving on shareholder servicing costs.

Strategy

When the sale of the Life Services business completes, the new company, Henderson Group plc, will be a simpler organisation comprising Henderson Global Investors and the much smaller financial advisory business, Towry Law. The strategic focus of the Henderson Group will be asset management.

Our objective is to build Henderson Global Investors into a more profitable and more valuable business. This will be based on both our core equities and fixed income capabilities and our range of alternative products such as property, private capital and hedge funds. In particular, we intend to continue to improve margins measured by revenues as a percentage of funds under management by continuing to reorient the business to higher margin areas such as UK and European mutual funds and the alternative products referred to above. This was demonstrated in 2004 by the rise in total margins on average assets under management to 34 basis points (bps) (2003: 28 bps).

In addition, we remain committed to improving Henderson Global Investors' expense ratio to a target of 75% over the medium term. We expect that this will be achieved principally by revenue growth as opposed to cost cutting – in fact, costs could increase in 2005 as we continue important investment in people and infrastructure. The principal financial measures of success will be the trends in revenues, margins and profits, rather than the growth in assets under management. Given the likely outflows of assets in Life Services (which we will continue to manage under revised investment management agreements) and from the institutional area, it is possible that assets under management could fall while profits rise, as was the case in 2004.

Ultimately, a good financial outcome for Henderson Global Investors must be based upon delivering successful results to its clients. Investment performance remains the lifeblood of any fund management business. We have recently completed a reorganisation of our investment operations to ensure that we deliver on that score. Clearly, longer term investment success will depend on our ability to retain talented investment managers at a time when demand for and rewards to them have never been greater.

As regards Towry Law in the UK, our plan is to develop it as a standalone business. The first task is to generate acceptable margins on revenues and the management of Towry Law has worked hard on cost reduction in 2004 to create a platform for a better business unit result in 2005.

People

As I stated in the 2003 Annual Report, I see great benefit in building share ownership amongst employees. This allows us to align employee interests with those of shareholders. We introduced a number of share incentive schemes, of which more detail is provided on pages 71 to 73. We expect to introduce further share incentive schemes in 2005 which we hope will encourage the delivery of real outperformance.

Outlook

The Group has a solid platform on which to build further value for shareholders. Fund management is a growth business with potential for good margins and good returns on capital. The medium and long-term prospects for the business are good and we look forward to the future with confidence.