

**HGI GROUP LIMITED  
ANNUAL REPORT AND ACCOUNTS  
31 DECEMBER 2008**

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## DIRECTORS' REPORT

The Directors present their report and the financial statements of HGI Group Limited ('the Company') for the year ended 31 December 2008.

### Directors

Gerald Aherne	(resigned 5.11.2008)
Duncan Ferguson	(resigned 5.11.2008)
Andrew Formica	(appointed 5.11.2008)
Toby Hiscock	
Anthony Hotson	(resigned 5.11.2008)
Steven O'Brien	(appointed 5.11.2008)
Rupert Pennant-Rea	(resigned 5.11.2008)
John Roques	(resigned 5.11.2008)
Roger Yates	(resigned 5.11.2008)

### Principal activities

The principal activity of the Group in 2008 was the provision of investment management services.

### Business review

	2008	2007
	£m	£m
<b>Income</b>	<b>273.9</b>	351.6
<b>Expenses</b>	<b>(179.9)</b>	(236.9)
<b>Finance costs</b>	<b>(13.7)</b>	(8.0)
<b>Profit before non-recurring items and tax</b>	<b>80.3</b>	106.7
Non-recurring items before tax	<b>(15.2)</b>	40.5
<b>Profit before tax</b>	<b>65.1</b>	147.2
Taxation – recurring operations	<b>(8.6)</b>	(12.4)
Taxation – non-recurring items	<b>4.8</b>	(2.6)
<b>Total taxation</b>	<b>(3.8)</b>	(15.0)
<b>Profit after tax</b>	<b>61.3</b>	132.2

The Group's profit before non-recurring items and tax for FY08 was £80.3m, a decrease of £26.4m (25%) on FY07 (£106.7m).

The decrease in income by £77.7m (22.1%) to £273.9m in FY08 (FY07: £351.6m) reflects the subdued market conditions which impacted on management and performance fees during the year. Average management fees and net margins in FY08 were 41.3bps (FY07: 42.2bps) and 18.6bps (FY07: 17.9bps) respectively. Total fee margin decreased from 53.3bps in FY07 to 48.0bps in FY08, largely due to lower net performance fees.

A reduction in costs was achieved in all expense categories, apart from investment administration, which showed a slight increase compared to FY07, mainly due to a higher level of institutional client assets, particularly fixed income assets taken on in the year. In particular, significant reductions were made in both fixed and variable staff costs primarily as a result of the profit protection exercise carried out during the year.

The increase in finance costs reflects the full year impact of interest costs associated with the debt instrument issued in May 2007.

The following non-recurring items before tax were recognised in FY08:

- a £34.2m profit on Henderson Group restructuring;
- a charge of £20.9m in respect of the write down of a loan to a fellow subsidiary;
- a £1.5m profit on the unwinding of an interest rate swap on the Corporate debt;
- a £7.2m impairment of an investment in a Henderson structured product;
- a charge of £15.7m in respect of business restructuring;
- a charge of £4.5m in respect of the scheme of arrangement; and
- a charge of £2.6m in respect of a review of most of the Group's third party administration arrangements.

There were two non-recurring items before tax recognised in FY07:

- an accounting gain of £31.8m on the Group's investment in BP; and
- a £8.7m past service credit relating to the Henderson Group Pension Scheme.

Further details of the non-recurring items are given in note 7 to the financial statements.

## **DIRECTORS' REPORT** (continued)

### **Group taxation**

The tax charge on recurring operations in FY08 was £8.6m (FY07: £12.4m), giving an effective tax rate of 10.7% (FY07: 11.7%). The primary reasons for the effective tax rate on recurring operations being less than the current UK statutory rate of 28.5% (prorata) were the recognition of previously unrecognised deferred tax assets and the release of surplus provisions in respect of prior years.

### **Scheme of arrangement**

As announced on 31 October 2008, a scheme of arrangement under sections 895 to 899 of the UK Companies Act (the Scheme) became effective on 31 October 2008 following shareholder and UK Court approval.

The Scheme and associated corporate restructure is designed to help achieve a more efficient taxation position for the Group and should deliver an effective corporate tax rate on profits before non-recurring items of approximately 20% per annum from 2009 onwards.

The cost of implementing the Scheme was approximately £4.5m, as previously disclosed, and is reflected as a non-recurring item in the consolidated income statement for 2008.

### **Going concern and financial instruments**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review above. The financial position of the Group, its cash flows and liquidity position are described in the financial statements and notes. In particular, note 29 to the financial statements summarises the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to liquidity and credit risks.

The Group has considerable financial resources together with diverse revenue streams. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have made appropriate enquiries into the material uncertainties inherent in current and expected future market conditions, the trading performance of the Group and the debt instrument issued by the Group in 2007 which matures in 2012. Furthermore, the Directors have considered the Financial Reporting Council guidance on going concern (reprinted in November 2008) and the key questions for audit committees contained within that guidance. After thorough examination, the Directors are satisfied that the Company has and will maintain sufficient financial resources to enable it to continue operating in the foreseeable future and therefore, continue to adopt the going concern basis in preparing the Annual Report and Accounts.

### **Events after the balance sheet date**

The Board has not received, as at 26 June 2009, being the date on which these financial statements were approved, any information concerning significant conditions in existence at the balance sheet date which have not been reflected in the financial statements as presented.

### **Dividends**

The Directors declared an interim dividend of £12,700,000 (2007: £14,000,000). The directors do not recommend the payment of a final dividend (2007: £30,200,000, special dividend £230,500,000).

### **Indemnification and insurance of Directors and Officers**

Henderson Group plc provides a Deed of Indemnity to the Directors to the extent permitted by UK Law, including indemnification against any liabilities incurred in defending any proceedings in which judgement is given in that Director's favour or he is acquitted, against liabilities incurred otherwise than to the Company, if the Director acted in good faith with a view to the best interests of the Company or against any liabilities incurred in successfully applying to the Court for relief where the Director acted honestly.

In addition, the Deed of Indemnity provides that Directors will have access to the Board/Committee papers of the Company for the period of their office and for seven years after ceasing to be a Director for the purpose of defending legal proceedings, and that the Company will maintain Directors' and Officers' liability insurance cover for the Directors to the extent permitted by law for the period of their office.

### **Charitable donations**

Donations by the Group during the year towards community and charitable causes amounted to £59,322 (2007: £75,265), which comprised social and welfare £21,969 (2007: £6,700); education and international £4,115 (2007: £13,000); and medical and other projects £33,238 (2007: £55,565).

### **Political donations**

The Group made no political donations, incurred no European Union political expenditure and made no contribution to a non-European Union political party during the year.

### **Supplier payment policy**

The Company has no trade creditors. However, the Group's policy that payments to suppliers are made in accordance with the terms and conditions agreed between Group companies and their suppliers, provided that all trading terms and conditions have been complied with.

## **DIRECTORS' REPORT** (continued)

### **Independent auditors**

Ernst & Young LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the meeting to approve these accounts.

### **Disabled employees**

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

### **Directors' emoluments**

A full Report on Directors' Remuneration has been included in the Annual Report and Accounts of Henderson Group plc. A copy of those accounts can be obtained as set out in note 33.

### **Directors' statement as to disclosure of information to auditors**

Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- so far as the Director is aware, there is no relevant audit information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

This report was approved by the Board of Directors on 26 June 2009 and signed on its behalf by:

### **Henderson Secretarial Services Limited**

Secretary

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and Accounts. The Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and have elected to prepare the Company financial statements in accordance with IFRSs. UK Company Law requires the Directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS regulation.

International Accounting Standard (IAS) 1 Presentation of Financial Statements requires that financial statements present fairly for each financial year the Group's and Company's financial position, financial performance and cash flows. In preparing the Group and Company financial statements, the Directors are also required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and
- state that the Group and Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group and Company, for safeguarding the assets, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT to the Members of HGI Group Limited**

We have audited the Group and Company financial statements (the financial statements) of HGI Group Limited for the year ended 31 December 2008, which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Company Statement of Recognised Income and Expense, Company Balance Sheet, Company Cash Flow Statement and the related notes 1 to 36. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs), as adopted by the European Union, are set out in the Statement of Directors' Responsibilities in Relation to the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985, and, as regards the Group financial information, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of the profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

### **Ernst & Young LLP**

London  
26 June 2009

**CONSOLIDATED INCOME STATEMENT**  
**For the year ended 31 December 2008**

	Notes	2008 £m	2007 £m
<b>Income</b>			
Gross fee income and commission receivable on sales	3	323.5	430.2
Finance income	3	13.6	25.7
Total income		<b>337.1</b>	455.9
Commissions and fees payable against income	3	<b>(63.2)</b>	(104.3)
Net fee and commission income		<b>273.9</b>	351.6
<b>Expenses</b>			
Operating costs	4.1	<b>(177.5)</b>	(234.4)
Other charges	4.2	<b>(2.4)</b>	(2.5)
Total expenses before finance costs and non-recurring items		<b>(179.9)</b>	(236.9)
Finance costs	6	<b>(13.7)</b>	(8.0)
Profit before non-recurring items and tax		<b>80.3</b>	106.7
Non-recurring items before tax	8	<b>(15.2)</b>	40.5
<b>Profit before tax</b>		<b>65.1</b>	147.2
Taxation	9	<b>(3.8)</b>	(15.0)
<b>Profit after tax</b>		<b>61.3</b>	132.2
<b>Attributable to:</b>			
Equity holders of the parent	27	<b>61.2</b>	132.1
Minority interests	27	<b>0.1</b>	0.1
		<b>61.3</b>	132.2
<b>Dividends</b>			
Dividends declared and charged to equity in the year	11	<b>42.9</b>	264.8
Dividends proposed	11	-	32.2

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**For the year ended 31 December 2008**

	<b>Notes</b>	<b>2008</b> <b>£m</b>	<b>2007</b> <b>£m</b>
Exchange differences on translation of foreign operations	27	<b>6.9</b>	1.5
Exchange differences on translation of available-for-sale financial assets	27	<b>4.4</b>	0.7
Translation reserve transfer on sale of available-for-sale financial assets	27	-	0.8
Revaluation reserve transfer on sale of available-for-sale financial assets	27	<b>3.6</b>	(28.6)
Revaluation reserve transfer on impairment of available-for-sale financial assets	27	<b>7.2</b>	-
Losses on revaluation of available-for-sale financial assets	27	<b>(51.4)</b>	(17.6)
Actuarial gains on defined benefit pension schemes	21, 27	<b>65.0</b>	34.7
Tax charge on items taken directly to equity	9, 27	<b>(15.9)</b>	(11.5)
Net income/(expense) recognised directly in equity		<b>19.8</b>	(20.0)
Profit after tax		<b>61.3</b>	132.2
<b>Total recognised income and expense</b>		<b>81.1</b>	112.2
<b>Attributable to:</b>			
Equity holders of the parent		<b>81.0</b>	112.1
Minority interests	27	<b>0.1</b>	0.1
		<b>81.1</b>	112.2

**CONSOLIDATED BALANCE SHEET**  
**As at 31 December 2008**

	Notes	2008 £m	2007 £m
<b>Non-current assets</b>			
Intangible assets	13	226.1	224.3
Investments accounted for using the equity method	14.2	5.5	3.8
Plant and equipment	15	22.5	5.7
Retirement benefit assets	21	152.5	62.3
Deferred tax assets	23	5.4	6.9
Deferred acquisition and commission costs	17	16.9	14.5
		<b>428.9</b>	317.5
<b>Current assets</b>			
Available-for-sale financial assets	16	48.2	101.7
Financial assets at fair value through profit or loss	16	0.4	0.6
Trade and other receivables	18	379.0	97.1
Deferred acquisition and commission costs	17	17.7	17.3
Cash and cash equivalents	19.1	132.7	248.0
		<b>578.0</b>	464.7
<b>Total assets</b>		<b>1,006.9</b>	782.2
<b>Non-current liabilities</b>			
Debt instrument in issue	20	184.5	178.0
Retirement benefit obligations	21	4.7	5.2
Provisions	22	20.1	26.4
Deferred tax liabilities	23	44.7	15.8
Deferred income		15.7	14.4
		<b>269.7</b>	239.8
<b>Current liabilities</b>			
Trade and other payables	25	234.7	203.3
Provisions	22	7.7	5.7
Deferred income		17.0	18.2
Current tax liabilities		23.5	41.1
		<b>282.9</b>	268.3
<b>Total liabilities</b>		<b>552.6</b>	508.1
<b>Net assets</b>		<b>454.3</b>	274.1
<b>Capital and reserves</b>			
Share capital	26.2	90.6	90.6
Share premium	27	195.1	194.6
Treasury shares	27	-	(6.7)
Own shares held	27	-	(85.5)
Translation reserve	27	5.9	(1.8)
Revaluation reserve	27	(2.1)	(16.3)
Profit and loss account	27	111.5	99.0
<b>Shareholders' equity</b>		<b>401.0</b>	273.9
Minority interests	27	53.3	0.2
<b>Total equity</b>	28	<b>454.3</b>	274.1

The financial statements were approved by the Board of Directors and authorised for issue on 26 June 2009. They were signed on its behalf by:

**N T Hiscock**  
 Director

**CONSOLIDATED CASH FLOW STATEMENT**  
**For the year ended 31 December 2008**

	Notes	2008 £m	2007 £m
<b>Cash flows from operating activities</b>			
Profit before tax		65.1	147.2
Adjustments to reconcile (loss)/profit before tax to net cash flows from operating activities:			
- depreciation of plant and equipment and amortisation of computer software		2.4	2.5
- net loss on disposal of plant and equipment		2.3	-
- net profit on group restructuring		(34.2)	-
- share-based payments		22.3	23.6
- net deferred acquisition and commission costs and deferred income amortisation		(0.1)	(5.5)
- fair value losses/(gains) on available-for-sale financial assets		17.0	(27.0)
- profit on disposal of available-for-sale financial assets		(3.9)	-
- defined benefit service credit		(0.2)	(8.2)
- contributions to the Henderson Group Pension Scheme		(25.5)	(24.6)
- share of profit of associates and joint ventures		(2.4)	(2.0)
- movement in minority interests		0.1	0.1
- profit on unwinding of an interest rate swap on Corporate debt		(1.5)	-
- debt instrument interest expense		12.3	8.0
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>53.7</b>	<b>114.1</b>
Changes in operating assets and liabilities	19	(51.1)	12.0
Tax (paid)/received		(8.0)	1.6
<b>Net cash flows from operating activities</b>		<b>(5.4)</b>	<b>127.7</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of available-for-sale financial assets		26.9	37.5
Cash transferred on group restructuring		(30.7)	-
Dividends from associates and distributions from joint ventures		1.4	0.8
Purchases of:			
- plant and equipment and intangible assets		(22.3)	(1.6)
- debt or equity instruments and investments in associates and joint ventures		(31.8)	(37.2)
<b>Net cash flows from investing activities</b>		<b>(56.5)</b>	<b>(0.5)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares or other equity instruments		0.2	0.9
Proceeds from short and long-term borrowings		-	174.0
Cash payments to owners to acquire or redeem treasury shares		-	(6.7)
Cash payments to owners to acquire or redeem own shares		(16.2)	(87.1)
Dividends paid to equity shareholders		(42.9)	(264.8)
Proceeds from unwinding of an interest rate swap on Corporate debt		11.4	-
Interest paid on long-term borrowings		(12.2)	(5.7)
<b>Net cash flows from financing activities</b>		<b>(59.7)</b>	<b>(189.4)</b>
Effects of exchange rate changes		6.3	1.1
<b>Net decrease in cash and cash equivalents</b>		<b>(115.3)</b>	<b>(61.1)</b>
Cash and cash equivalents at beginning of year		248.0	309.1
<b>Cash and cash equivalents at end of year</b>	19	<b>132.7</b>	<b>248.0</b>

**COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**For the year ended 31 December 2008**

	<b>Notes</b>	<b>2008</b> <b>£m</b>	<b>2007</b> <b>£m</b>
Actuarial gains/(losses) on defined benefit pension schemes	27	<b>63.9</b>	33.9
Tax charge on items taken directly to equity	27	<b>(17.9)</b>	(9.6)
Income recognised directly in equity		<b>46.0</b>	24.3
(Loss)/profit after tax	27	<b>(26.3)</b>	21.5
<b>Total recognised income and expense</b>		<b>19.7</b>	45.8

**COMPANY BALANCE SHEET**  
As at 31 December 2008

	Notes	2008 £m	2008 £m
<b>Non-current assets</b>			
Investment in subsidiaries	14	825.2	1,872.7
Retirement benefit assets	21	152.5	62.3
		<b>977.7</b>	1,935.0
<b>Current assets</b>			
Available-for-sale financial assets	16	-	6.0
Current tax assets		29.5	22.9
Trade and other receivables	18	330.4	233.4
Cash and cash equivalents	19	11.2	18.4
		<b>371.1</b>	280.7
<b>Total assets</b>		<b>1,348.8</b>	2,215.7
<b>Non-current liabilities</b>			
Debt instrument in issue	20	184.5	178.0
Provisions	22	4.2	6.3
Deferred tax liabilities	23	25.2	16.7
		<b>213.9</b>	201.0
<b>Current liabilities</b>			
Borrowings	24	422.0	422.0
Trade and other payables	25	266.6	1,209.8
Provisions	22	2.1	4.4
		<b>690.7</b>	1,636.2
<b>Total liabilities</b>		<b>904.6</b>	1,837.2
<b>Net assets</b>		<b>444.2</b>	378.5
<b>Capital and reserves</b>			
Share capital	26	90.6	90.6
Share premium	27	195.1	194.6
Treasury shares	27	-	(6.7)
Own shares held	27	-	(85.5)
Profit and loss account	27	158.5	185.5
<b>Total equity</b>	28	<b>444.2</b>	378.5

The financial statements were approved by the Board of Directors and authorised for issue on 26 June 2009. They were signed on its behalf by:

**N T Hiscock**  
Director

**COMPANY CASH FLOW STATEMENT**  
**For the year ended 31 December 2008**

	Notes	2008 £m	2007 £m
<b>Cash flows from operating activities</b>			
(Loss)/profit before tax		(42.2)	11.5
Adjustments to reconcile profit before tax to net cash flows from operating activities:			
- fair value gains on financial assets		-	(46.4)
- Impairment of available-for sale financial assets		6.0	-
- defined benefit service credit		-	8.7
- contributions to the Henderson Group Pension Scheme		(25.5)	(24.6)
- profit on unwinding of an interest rate swap on Corporate debt		(1.5)	-
- finance costs		38.7	62.0
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>(24.5)</b>	11.2
Changes in operating assets and liabilities	19	75.6	90.4
Tax received		-	7.1
<b>Net cash flows from operating activities</b>		<b>51.1</b>	108.7
<b>Cash flows from investing activities</b>			
Purchases of debt or equity instruments		-	(11.0)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		0.2	0.9
Cash payments to owners to acquire or redeem treasury shares		-	(6.7)
Cash payments to owners to acquire or redeem own shares		(14.8)	(87.1)
Proceeds from long-term borrowings		-	174.0
Dividends paid to equity shareholders		(42.9)	(264.8)
Proceeds from unwinding of an interest rate swap on Corporate debt		11.4	-
Interest paid on long-term borrowings		(12.2)	(5.7)
<b>Net cash flows from financing activities</b>		<b>(58.3)</b>	(189.4)
<b>Net decrease in cash and cash equivalents</b>		<b>(7.2)</b>	(91.7)
Cash and cash equivalents at beginning of year		18.4	110.1
<b>Cash and cash equivalents at end of year</b>	19	<b>11.2</b>	18.4

## 1. Authorisation of financial statements and statement of compliance with IFRS

The Group and Company financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 26 June 2009 and the respective balance sheets were signed on the Board's behalf by Toby Hiscock. HGI Group Limited is a limited company incorporated in England and Wales. The Company's ordinary shares ceased to be traded on the London Stock Exchange and CHESS Depository Interests ceased to be traded on the Australian Securities Exchange on 31 October 2008. The Company was re-registered as a private company on 31 October 2008 pursuant to special resolutions passed on 30 September 2008 that approved a Scheme of Arrangement which took effect on 31 October 2008. The Company changed its name from Henderson Group plc to HGI Group Ltd on 31 October 2008 pursuant to a special resolution passed on 30 September 2008. The Company ceased to be the ultimate holding company of the Henderson Group on 31 October 2008 as a result of the Scheme and the associated Group restructuring.

The Group's and Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the provisions of the Companies Act 1985. The Company has taken advantage of the exemption under section 230 of the Companies Act 1985 not to present its own income statement within these financial statements.

The principal accounting policies adopted by the Group and by the Company are set out in note 2.

## 2. Accounting policies

### 2.1 Significant accounting policies

#### Basis of preparation

The Group's and Company's financial statements have been prepared on the historical cost basis, except for certain financial instruments that have been measured at fair value.

The Group's and Company's financial statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m), except when otherwise indicated.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of Henderson Group plc and its subsidiaries as at 31 December each year.

The financial statements of all the Group's subsidiaries are prepared to the same year end date as that of the holding company. The subsidiary accounts are not all prepared under IFRS. However, the accounts of all the material entities are prepared under either IFRS or UK GAAP. Where prepared under UK GAAP, balances reported by subsidiaries are adjusted to meet IFRS requirements for the purposes of the consolidated financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control. Minority interests represent the equity interests in subsidiaries not fully held by the Group.

Interests in property close-ended funds, private equity infrastructure funds, Open-Ended Investment Companies (OEICs) and unit trusts are accounted for as subsidiaries, associates, joint ventures or other financial investments depending on the holdings of the Group and on the level of influence and control that the Group exercises. Strategic shareholder investments in associates, where the Group has the ability to exercise significant influence, as well as joint ventures where there is joint control, are accounted for using the equity method.

#### Income recognition

##### *Fee income and commission receivable*

Fee income includes annual management charges, transaction fees and performance fees. Annual management charges and transaction fees are recognised in the accounting period in which the associated investment management or transaction services are provided. Performance fees are recognised when the prescribed performance hurdles have been achieved and it is probable that the fee will crystallise as a result. The Group's policy is to accrue 95% of the expected fee calculation on satisfaction of the recognition criteria it has established for performance fees, with the balance of 5% credited on cash settlement.

Initial fees and commission receivable are deferred and amortised over the anticipated period in which services will be provided, determined by reference to the average term of investors in each product on which commissions are earned. Other income is recognised in the accounting period in which services are rendered.

##### *Finance income*

Interest income is recognised as it accrues using the effective interest rate method. Dividend income from investments is recognised on the date that the right to receive payment has been established.

## Notes to the financial statements – Group and Company (continued)

### 2. Accounting policies (continued)

#### 2.1 Significant accounting policies (continued)

##### *Realised and unrealised gains and losses on financial assets*

Gains and losses (both realised and unrealised) on financial assets measured at fair value through profit or loss are recognised in the consolidated income statement as either finance income or finance costs.

Unrealised gains and losses on financial assets designated as available-for-sale are initially recognised through the consolidated statement of recognised income and expense. Upon disposal, any gain or loss previously taken through the consolidated statement of recognised income and expense is reversed out and the full gain or loss since purchase, after any impairment charge previously recognised, is taken through the consolidated income statement.

Realised gains and losses on financial assets are calculated as the difference between the net sales proceeds and cost or amortised cost. Unrealised gains and losses on financial assets represent the difference between the valuation of financial assets at the balance sheet date and cost or, if these have been previously revalued, the valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the accounting period also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of financial asset disposals in the current accounting period.

##### **Business combinations**

Under the requirements of *IFRS 3 Business Combinations* (IFRS 3), all business combinations are accounted for using the purchase method (acquisition accounting). The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued by the acquirer and any costs directly attributable to the business combination. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Consideration in excess of net identifiable assets acquired, including intangible assets identified, is recognised as goodwill.

##### **Goodwill**

Goodwill arising on acquisitions, being the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised in the consolidated balance sheet. Goodwill on acquisitions prior to 1 January 2004 is carried at its value on 1 January 2004 less any impairment subsequently incurred. The carrying value of all goodwill is tested annually for impairment or more frequently if any indicators of impairment arise.

Impairment is assessed by reference to a cash generating unit value in use calculation applying discounted cash flows. Where the value in use of the goodwill is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of an entity or sub-group and the entity or sub-group or part thereof is disposed of, the goodwill associated with the entity or sub-group disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Any impairment is recognised immediately through other charges in the consolidated income statement and is not subsequently reversed.

Goodwill arising on investments in associates and joint ventures is included within the carrying value of the equity accounted investments.

##### **Computer software**

The costs of purchasing and developing computer software, together with associated relevant expenditure, are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably. Computer software is included in the balance sheet as an intangible asset and is recorded initially at cost and then amortised over its expected useful life of between three and five years on a straight-line basis.

At each reporting date, an assessment is made as to whether there is any indication that an asset in use may be impaired. If any such indication exists and the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of fair value less cost to sell, and value in use.

##### **Equity accounted investments**

Equity accounted investments comprise investments in associates and joint ventures held by the Group. Investments are recognised initially at cost. The investments are subsequently carried at cost adjusted for the Group's share of profits or losses and other changes in equity of the associate or joint venture. The consolidated income statement includes the Group's share of profits or losses for the year.

## Notes to the financial statements – Group and Company (continued)

### 2. Accounting policies (continued)

#### 2.1 Significant accounting policies (continued)

##### Deferred acquisition and commission costs

For investment management contracts, incremental acquisition costs are deferred to the extent that they are recoverable out of future income. This includes initial commission expenses paid by the fund management business in respect of certain investment products. These costs are then amortised over the period in which they are expected to be recovered out of margins from matching revenues from related contracts. At the end of each accounting period, deferred acquisition and commission costs are reviewed for recoverability against future margins from the related contracts in force at the balance sheet date.

Placement fees are deferred and amortised over the expected investment period of the fund. Where the actual investment period is significantly shorter than expected, the amortisation rate is accelerated accordingly.

##### Financial instruments

Financial assets and liabilities are recognised in the consolidated balance sheet, when the Group becomes party to the contractual provisions of an instrument, at fair value adjusted for transaction costs, except for financial assets classified at fair value through profit or loss where transaction costs are immediately recognised in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liability has been discharged, cancelled or has expired.

##### *Financial assets*

Purchases and sales of financial assets are recognised at the trade date, being the date when the purchase or sale becomes contractually due for settlement. Delivery and settlement terms are usually determined by established practices in the market concerned.

Debt securities, equity securities and holdings in authorised collective investment schemes are designated as either at fair value through profit or loss, or available-for-sale, and are measured at subsequent reporting dates at fair value. The Group determines the classification of its financial assets on initial recognition. Financial assets classified at fair value through profit or loss comprise the manager box positions in OEICs and unit trusts, which are recorded on a fair value basis. Where securities are designated at fair value through profit or loss, gains and losses arising from changes in fair value are included in the consolidated income statement for the accounting period.

For available-for-sale financial assets, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is impaired, at which time the cumulative gain or loss previously recognised in equity is taken to the consolidated income statement for the accounting period.

Where a fall in the value of an investment is significant or prolonged, this is considered an indication of impairment under *IAS 39 Financial Instruments: Recognition and Measurement*. In such an event, the investment is written down to fair value and the amounts previously recognised in equity in respect of market value movement on the investment, are recognised in the consolidated income statement as an impairment charge.

Trade receivables, which generally have 30-90 day payment terms, are initially recognised at fair value, normally equivalent to the invoice amount and subsequently measured at amortised cost. When the time value of money is material, the fair value is discounted. Provision for specific doubtful debts is made when there is evidence that the Group will not be able to recover balances in full. Balances are written off when the receivable amount is deemed irrecoverable.

Cash amounts represent cash in hand and on-demand deposits. Cash equivalents are short-term highly liquid investments with a maturity of 90 days or less from the date of acquisition.

##### *Financial liabilities*

Financial liabilities including trade payables are stated at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. A financial liability is derecognised when the obligation under the liability has been discharged, cancelled or has expired.

##### Derivative financial instruments and hedging

##### *Currency hedges*

The Group may, from time to time, use derivative financial instruments to hedge against price, interest rate, foreign currency and credit risk. Derivative financial instruments are classified as financial assets when the fair value is positive or as financial liabilities when the fair value is negative.

At the inception of a hedge, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they have been effective throughout the financial reporting periods for which they were designated and are expected to remain effective over the remaining hedging period.

## Notes to the financial statements – Group and Company (continued)

### 2. Accounting policies (continued)

#### 2.1 Significant accounting policies (continued)

##### Derivative financial instruments and hedging (continued)

The forward currency contracts used to hedge the currency nominal value of certain Euro and US dollar denominated available-for-sale financial assets have been classified as fair value hedges. The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item, attributable to the risk hedged, is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement, offsetting the fair value changes arising on the designated hedge instruments.

##### *Fair value estimation*

The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price. The fair value of financial assets that are not traded in an active market is determined using valuation techniques commonly used by market participants including the use of comparable recent arms length transactions, discounted cash flow analysis and option pricing models.

##### Investments in subsidiaries

Investments by the Company in subsidiary undertakings are held at cost less any permanent diminution in value where circumstances indicate that the carrying value may not be recoverable.

##### Impairment of assets (excluding goodwill and financial assets)

At each balance sheet date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount, being the higher of an asset's fair value less cost to sell, and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and it is written down to its recoverable amount. An impairment loss is recognised as an expense in the consolidated income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent any previous revaluation gain is reversed.

##### Operating leases

All leases are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

##### Income and sales taxes

The Group provides for current tax expense according to the tax laws of each jurisdiction in which it operates, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is also recognised in equity and not in the consolidated income statement.

Expenses and assets are recognised net of the amount of sales tax, except where this tax is not recoverable, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of expenses. Receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority, is included as part of receivables or payables in the consolidated balance sheet.

## Notes to the financial statements – Group and Company (continued)

### 2. Accounting policies (continued)

#### 2.1 Significant accounting policies (continued)

##### Plant and equipment

Plant and equipment is valued at cost and depreciated on a straight-line basis over its useful economic life of between two and 20 years.

An item of plant and equipment is removed upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the consolidated income statement in the year the item is sold or retired.

##### Provisions

Provisions which are liabilities of uncertain timing or amount, are recognised when: the Group has a present obligation, legal or constructive, as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. In the event that the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects a current market assessment of the time value of money and, where appropriate, the risks specific to the liability. When discounting, the increase in the provision due to the passage of time is recognised as a finance cost.

##### Foreign currencies

The functional currency of the Company and its UK subsidiaries is pounds sterling. Transactions in foreign currencies are recorded at the appropriate exchange rate prevailing at the date of the transaction. Foreign currency monetary balances at the accounting period end are converted at the prevailing exchange rate at that date. Foreign currency non-monetary balances carried at fair value or cost are translated at the rates prevailing at the date when the fair value or cost is determined. Gains and losses arising on retranslation are taken to the consolidated income statement, except for available-for-sale equity securities where the changes in fair value are recognised directly in equity and any exchange translation component of the change in fair value is also recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations whose functional currency is not pounds sterling are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the accounting period. Exchange differences arising, if any, are taken through the consolidated statement of recognised income and expense to the translation reserve. Such translation differences are recognised in the consolidated income statement in the accounting period in which the operation is disposed of.

##### Employee benefits

The Group provides employees with retirement benefits through both defined benefit and defined contribution schemes. The assets of these schemes are held separately from the Group's general assets in trustee administered funds.

Defined benefit obligations and the cost of providing benefits are determined annually by independent qualified actuaries using the projected unit credit method. The obligation is measured as the present value of the estimated future cash outflows using a discount rate based on corporate bonds of appropriate duration and quality. The resulting surplus/deficit of defined benefit assets less liabilities is recognised in the consolidated balance sheet. The Group's expense related to these schemes is accrued over the employees' service lives, based upon the actuarial cost for the accounting period having considered interest costs and the expected return on assets. Actuarial gains and losses are recognised in full in the accounting period in which they occur, in the consolidated statement of recognised income and expense. Special contributions to the defined benefit scheme are recognised as an increase in the scheme's assets. Normal contributions to the defined contribution scheme are charged to the consolidated income statement as they become payable in accordance with the rules of the scheme.

Other post-employment benefits, such as medical care and life insurance, are also provided for certain employees. The cost of such benefits is accrued over the employee's service life, based upon the actuarial cost for the accounting period using a methodology similar to that for defined benefit pension schemes.

##### Share-based payment transactions

The Group issues equity-settled and cash-settled share-based payments to certain employees. The valuation methodology and assumptions are disclosed in note 10.5.

Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date and expensed, together with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The expected life of the awards used in the determination of fair value is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date, with changes in fair value recognised in the consolidated income statement.

## Notes to the financial statements – Group and Company (continued)

### 2. Accounting policies (continued)

#### 2.1 Significant accounting policies (continued)

##### Treasury shares and own shares held

Treasury shares and own shares held comprise own equity shares acquired by the Company. These shares are recorded at cost and are deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

##### Equity shares

The Company's ordinary equity shares of 12.5 pence each are classified as equity instruments. Equity shares issued by the Company are recorded at the proceeds or fair value received, with the excess of the amount received over the nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity. When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity.

##### Dividend recognition

Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are declared and paid and, in the case of final dividends, when these are approved by the Company's shareholders at the AGM. Dividend distributions are recognised in equity.

#### 2.2 Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made no significant judgements, apart from those involving estimations and assumptions, which are summarised below:

##### Impairment of goodwill

Goodwill is reviewed for impairment annually or more frequently if changes in circumstances indicate that the carrying value may be impaired. For this purpose, management prepares a cash generating unit valuation based on value in use. This valuation is based on the approved budget for the following year, extrapolated for expected future growth rates, and discounted at the Group's pre tax equity cost of capital. The judgement exercised by management in arriving at this valuation includes the selection of market growth rates, fund flow assumptions, expected margins and costs. The carrying amount of goodwill is detailed in note 13.

##### Impairment of available-for-sale financial assets

Available-for-sale financial assets are reviewed for impairment on a semi-annual basis or more frequently as required under the impairment tests of 'prolonged' or 'significant' set out in IAS 39. In specific cases, where a quoted market price or fair value is not available, significant judgement is exercised by management in determining the extent of impairment of available-for-sale financial assets, taking into account other available market data.

##### Computer software

The costs of purchasing and developing computer software are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably. Computer software is included in the balance sheet as an intangible asset and is recorded initially at cost and then amortised over its expected useful life of between three and five years on a straight-line basis. A degree of judgement is applied by management in arriving at the relevant costs and economic benefits.

##### Pension and other post-employment benefits

The costs of and period end obligations under defined benefit pension schemes are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. Further details are given in note 21.

##### Provisions

By their nature, provisions often reflect significant levels of judgement by management. The nature and amount of the provisions included in the consolidated balance sheet are detailed in note 22 and contingencies not provided for are disclosed in note 32.

##### Accrued income and expenses

Accrued income is based on latest available information and involves a degree of estimation. The most significant estimation relates to the accrual of performance fees as described on page 13.

The most significant expense accruals at year end relate to bonus and other variable remuneration scheme costs. These are based on a top-down review of the performance of the business, in tandem with a bottom-up assessment of the entitlements of each staff member. The outcome is independently assessed by the Remuneration Committee, chaired by Gerald Aherne, a Non-Executive Director.

##### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

## Notes to the financial statements – Group and Company (continued)

### 2. Accounting policies (continued)

#### 2.2 Significant accounting judgements, estimates and assumptions (continued)

##### Consolidation of seed investments

From time to time, the Group provides seed capital on the launch of its products, such as UCITs, SICAVs, hedge funds and other investment vehicles. The seed capital investments vary in duration depending on the nature of the investment, with a typical range of less than one year for Listed Asset products and between three and five years for Private Equity and Property funds, and represent less than 50% of the underlying fund's size. Given the limited size and nature of these investments, the Group does not consider itself to have significant influence or control over the underlying funds to merit accounting for them using the equity method or consolidating them in the Group's results.

##### Share-based payment transactions

The Group measures the cost of equity-settled share-based payments at fair value at the date of grant and expenses them over the vesting period based on the Group's estimate of shares that will eventually vest taking into account the attrition rate recorded over the last five years.

The liability of cash-settled share schemes represents the estimated transaction cost up to the settlement date, taking into account historical experience of good and bad leavers and the expected Company share price.

#### 2.3 Changes in accounting policies

The accounting policies adopted in this Annual Report and Accounts are consistent with those of the previous financial year, except in relation to the following amended standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations:

##### IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures

The Group applies IAS 39 and IFRS 7 to the recognition and measurement and disclosure of financial instruments and has therefore adopted the amendments made to these statements effective from 1 July 2008. The adoption of the amendments does not have any effect on the financial performance or position of the Group.

##### IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 addresses the interaction between a minimum funding requirement and the limit placed by *IAS 19 Employee Benefits* on the measurement of a defined benefit asset or liability. The economic benefits of a defined benefit asset are available to an entity if the entity has an unconditional right to release them at some point during the life of the plan or on winding it up. The terms of the Group's defined benefit schemes allow for excess cash remaining on a wind up of the pension scheme to be returned to the Group. Therefore, the defined benefit surplus has been recognised in the consolidated balance sheet.

#### 2.4 Future changes in accounting policies

During the course of the year, the International Accounting Standards Board and the IFRIC issued a number of new accounting standards, amendments to existing standards and interpretations. The following new or amended standards and interpretations are not applicable to these financial statements but are expected to have an impact when they become effective in future accounting periods. The Directors do not anticipate that the adoption of these standards and interpretations will materially impact the Group's financial statements. The Group plans to apply these standards in the reporting period in which they become effective.

##### *IAS 1 (revised) Presentation of Financial Statements – effective for periods commencing on or after 1 January 2009*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the revised standard introduces the statement of comprehensive income: this presents all items of recognised income and expense, either in one single statement or in two linked statements.

##### *IAS 36 (revised) Impairment of Assets – effective for periods commencing on or after 1 January 2009*

This standard was amended as a result of the Annual Improvements Project of the International Accounting Standards Board. This amendment requires additional disclosure where the fair value less cost to sell of assets is determined using discounted cash flows.

##### *IFRS 2 (revised) Share-based Payment – effective for periods commencing on or after 1 January 2009*

This standard has been revised to clarify the terms 'vesting conditions' and 'cancellations'. Vesting conditions are defined as service and performance conditions. Other features of share-based payments that are not conditional on service or performance should be included in the fair value of the share-based payment at the date of grant. The revised standard also clarifies that a cancellation of equity instruments should be accounted for as an acceleration of the vesting period whether initiated by the entity or by other parties.

##### *IFRS 3 (revised) Business Combinations – effective for business combinations on or after 1 July 2009, and IAS 27 (revised) Consolidated and Separate Financial Statements – effective for periods commencing on or after 1 July 2009*

IFRS 3 (revised) introduces a number of changes to accounting for business combinations that will impact on the amount of goodwill recognised. The amendments will also affect the reported results in the period that an acquisition occurs as well as future results. IAS 27 (revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction and such transactions will no longer give rise to goodwill. Furthermore, the amended standard introduces changes to accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary.

##### *IFRS 8 Operating Segments – effective for periods commencing on or after 1 January 2009*

IFRS 8, which replaces *IAS 14 Segment Reporting*, requires disclosures to reflect the information which management of a group uses internally for evaluating the performance of its operating segments and allocating resources to those segments.

## Notes to the financial statements – Group and Company (continued)

### 3. Income

	2008 £m	2007 £m
<b>Gross fee income and commission receivable on sales</b>		
Gross fee income and commission receivable on sales	323.5	430.2
<b>Finance income</b>		
Interest on deposits with credit institutions	7.1	24.0
Interest on loans to fellow subsidiaries	0.7	-
Income from available-for-sale financial assets	5.7	2.3
Losses arising on derivatives in a designated fair value hedge accounting relationship	(8.2)	(3.7)
Gains arising on adjustment for the hedged item in a designated fair value hedge accounting relationship	8.3	3.1
	13.6	25.7
<b>Total income</b>	337.1	455.9
<b>Commission and fees payable against income</b>		
Amortisation of deferred acquisition and commission costs	(23.4)	(15.2)
Other commissions and fees payable against income	(39.8)	(89.1)
	(63.2)	(104.3)
<b>Net fee income and commission income</b>	273.9	351.6

### 4. Expenses

#### 4.1 Operating costs

	Note	2008 £m	2007 £m
Employee benefits	5.2	113.3	156.8
Operating leases		3.7	8.7
Investment administration		16.4	16.0
Information technology		9.6	9.9
Office expenses		9.5	5.4
Foreign exchange (gains)/losses		(0.6)	0.3
Other expenses (including marketing, travel and subsistence, and legal and professional)		25.6	37.3
<b>Total operating costs</b>		177.5	234.4

#### 4.2 Other charges

	Notes	2008 £m	2007 £m
Depreciation of plant and equipment and amortisation of computer software	15, 13	2.4	2.5

## Notes to the financial statements – Group and Company (continued)

### 4. Expenses (continued)

#### 4.3 Auditors' remuneration

	2008	2007
	£m	£m
Fees payable to the Group's auditors for the audit of the Group's annual consolidated financial statements	0.2	0.2
Fees payable to the Group's auditors and their associates for other services:		
- statutory audit of the Group's subsidiaries	0.6	0.5
- other services pursuant to legislation	0.4 <sup>1</sup>	0.2
- other services	0.1	0.1
<b>Total fees</b>	<b>1.3</b>	<b>1.0</b>

The above analysis reflects the amounts billed by Ernst & Young LLP in the respective periods. Included in the fees payable to the Group's auditors for the audit of the Group's 2008 annual consolidated financial statements are fees of £30,000 (2007: £30,000) for the audit of the Company's statutory financial statements.

### 5. Employee benefits

#### 5.1 Average number of employees

The average number of full-time employees of the Group was as follows:

	2008	2007
	no.	no.
Henderson	898	899
Corporate	22	22
<b>Total employees</b>	<b>920</b>	<b>921</b>

#### 5.2 Analysis of employee benefits expense

Employee benefits expense comprises:

	Notes	2008	2007
		£m	£m
Salaries and wages (including bonuses)		90.6	125.2
Share-based payments	10.2	12.0	12.8
Social security costs		6.4	13.7
Pension expense	21	4.3	5.1
<b>Total employee benefits</b>		<b>113.3</b>	<b>156.8</b>

Employees' contracts of employment are with certain subsidiary companies, primarily Henderson Administration Limited; accordingly, there are no employee benefits disclosures relating to the Company.

### 6. Finance costs

	2008	2007
	£m	£m
Debt instrument interest expense	12.3	8.0
Loss on derivatives at fair value through the profit and loss	1.4	-
	<b>13.7</b>	<b>8.0</b>

### 7. Directors emoluments

The Directors of the Company have contracts of employment with Henderson Administration Limited and Henderson Group plc. The emoluments of the Directors of the Company who are also Directors of Henderson Administration Limited and Henderson Group plc are disclosed in the financial statements of those companies as it is not practicable to apportion this amount between their services as Directors of the Company and their services as Directors of other Group companies.

1. This charge includes £0.3m in respect of the Scheme which is included as a non-recurring item in the consolidated income statement.

## Notes to the financial statements – Group and Company (continued)

### 8. Non-recurring items before tax

The non-recurring items before tax recorded in the consolidated income statement comprise the following:

	2008	2007
	£m	£m
Profit on Henderson Group restructuring	34.2	-
Loss on write down of loan to fellow subsidiary	(20.9)	-
Profit on unwinding of an interest rate swap on Corporate debt	1.5	-
Impairment of available-for-sale financial assets	(7.2)	-
Business restructuring costs	(15.7)	-
Scheme costs	(4.5)	-
Third party administration review costs	(2.6)	-
Realised gain on deemed disposal of available-for-sale financial asset	-	31.8
Past service credit on the Henderson Group Pension Scheme	-	8.7
	(15.2)	40.5

#### Profit on Henderson Group restructuring

On 27 November 2008, the Group completed the sale of the following companies to Henderson Holdings Group BV, a fellow subsidiary, as part of a Group restructuring exercise resulting from the implementation of the Scheme:

Henderson Funds Management (Jersey) Limited,  
Henderson Global Investors (Ireland) Limited,  
Henderson Management SA,  
Henderson Fund Management (Luxembourg) SA,  
Henderson Equity Partners Funds Limited,  
Henderson Global Investors (Hong Kong) Limited,  
Henderson Global Investors (Singapore) Limited,  
Henderson Property Management Company (Luxembourg) No.1 sarl, and  
Henderson International Finances Limited.

The profit on the group restructuring was calculated as the proceeds, left outstanding, less the net assets transferred which resulted in a profit of £34.2m in the consolidated income statement.

#### Loss on write down of loan to fellow subsidiary

As a result of the Scheme a loan was entered into with a fellow subsidiary of Henderson Group plc due to the transfer of a limited recourse loan related to the investment in BPSC. During December 2008, the investment in BPSC was impaired and as a result the related loans were written down to the recoverable amount of the investment. This resulted in a loss of £20.9m in the consolidated income statement.

#### Profit on unwinding of an interest rate swap on Corporate debt

An interest rate swap was entered into at the time of the debt issue in May 2007, to swap the fixed coupon of 6.5% per annum into six month sterling LIBOR plus 85.75bps per annum. The swap was unwound on 9 December 2008 and realised a profit of £1.5m before tax, which has been recognised in the consolidated income statement as a non-recurring item. The cumulative fair value adjustment to the debt carrying value, attributable to the hedged interest rate risk up to the date of unwinding, £10.5m, will be released over the remaining term of the debt to maturity on 2 May 2012. During the year £0.2m was credited to finance costs in the consolidated income statement.

#### Impairment of available-for-sale financial assets

In accordance with the impairment tests applicable under IAS 39, an available-for-sale financial asset was impaired during 2008. A seed investment in a Henderson structured product was impaired to £nil at the end of the year, resulting in an impairment charge in the consolidated income statement of £7.2m.

#### Business restructuring costs

A restructure charge of £15.7m before tax relief has been recognised in the consolidated income statement, as a result of headcount and related cost reductions carried out in response to prevailing market conditions. Of this, £4.9m has been paid in 2008, £7.1m is accrued for in trade and other payables and £3.7m is included within provisions.

#### Scheme costs

The Group undertook a scheme of arrangement during the year which involved reorganising the Group into a more tax and financially efficient structure. Costs of approximately £4.5m were incurred on this project.

#### Third party administration review costs

An expense of £2.6m before tax relief was incurred in connection with a review of most of the Group's third party investment administration arrangements during 2008.

## Notes to the financial statements – Group and Company (continued)

### 8. Non-recurring items before tax (continued)

#### Realised gain on deemed disposal of available-for-sale financial asset

The merger between Banco Popolare Italiana and Banco Popolare di Verona e Novara into the newly incorporated BP on 1 July 2007 gave rise to a new investment holding by the Group which, for accounting purposes, was deemed to be a disposal of the previous holding. This resulted in a realised gain of £31.8m in 2007.

#### Past service credit on the Henderson Group Pension Scheme

The past service credit of £8.7m on the Group's defined benefit scheme reflected a reduction in future service benefits which came into effect on 1 April 2007, following a period of staff consultation and agreement with the Pension Scheme's trustee (refer to note 21).

### 9. Taxation

#### Tax recognised in the consolidated income statement

	2008 £m	2007 £m
Current tax:		
- charge for the year	2.1	15.7
- prior periods adjustments	(12.8)	(11.3)
Deferred tax:		
- charge for the year	14.5	14.6
- prior periods adjustments	-	(4.0)
<b>Total tax charged to the consolidated income statement</b>	<b>3.8</b>	<b>15.0</b>

#### Tax recognised in equity

	2008 £m	2007 £m
Deferred tax charged to equity	15.9	11.5
<b>Total tax charged directly to equity</b>	<b>15.9</b>	<b>11.5</b>

#### Reconciliation of (loss)/profit before tax to tax expense

The tax charge for the year can be reconciled to the profit before tax in the consolidated income statement as follows:

#### Group

	2008 £m	2007 £m
Profit before tax	65.1	147.2
Tax charge at the UK corporation tax rate (prorata) of 28.5% (2007: 30%)	18.6	44.2
<i>Factors affecting the tax charge:</i>		
Non-allowable losses/(non-taxable gains) in respect of the investment in BP	(9.8)	(9.7)
Other disallowable expenditure and non-taxable income	4.7	4.3
Adjustments in respect of prior periods	(12.8)	(15.3)
Differences in effective tax rates on overseas earnings	6.4	0.2
Changes in applicable statutory tax rates	(0.3)	(0.2)
Recognition of previously unrecognised temporary differences	(2.4)	-
Utilisation of previously unrecognised tax losses	(0.2)	(8.5)
Other items	(0.4)	-
<b>Total tax charge in the consolidated income statement</b>	<b>3.8</b>	<b>15.0</b>

## 10. Share-based payments

### 10.1 Group share-based compensation plans

The following share-based compensation plans were in operation during 2008.

#### Sharesave scheme (SAYE)

A fourth Sharesave scheme (2008 SAYE) was introduced during the year to supplement the plans introduced in 2004 (2004 SAYE), 2006 (2006 SAYE) and 2007 (2007 SAYE). Employees may participate in more than one scheme but only up to a maximum of £250 after tax per month across all plans. The 2004 SAYE vested in 2007.

Eligible employees who wish to purchase shares in the Company contribute a monthly amount to a savings account up to a maximum of £250 after tax per month. At the expiration of 36 months' contribution, the employees in the 2008 SAYE can choose to exercise their share options using the funds in their account, together with a bonus, equivalent to 2.4 (2006 SAYE: 1.4 and 2007 SAYE: 1.8) times the monthly saving amount, to subscribe for shares at a preset price, this being £0.76 (2006 SAYE: £0.69 and 2007 SAYE: £1.21) per share, a 20% discount to the share price on 3 March 2008 (2006 SAYE: 6 April 2006 and 2007 SAYE: 5 April 2007). The 2008 SAYE vests on 1 June 2011 (2006 SAYE: 31 May 2009 and 2007 SAYE: 31 May 2010). Employees have up to six months after the 36 month period to exercise their options and subscribe for shares. Forfeiture provisions apply in the case of approved and unapproved leavers.

#### Buy As You Earn Share Plan (BAYE)

Eligible employees who wish to purchase shares in the Company invest a monthly amount up to a maximum of £125, which is deducted from their gross salary. Each participating employee receives, for no additional payment, two free matching shares for each share purchased (partnership shares). Matching shares will be forfeited if purchased shares are withdrawn from the trust within one year.

#### Long-Term Incentive Plan (LTIP)

Under the LTIP, a number of executives were granted performance shares. There have been five grants, being in 2004, 2005, 2006, 2007 and 2008. These awards of free shares are granted on condition that the executives remain with the Group for three years after the grant date and that for:

- the 2004 to 2007 plans, the Total Shareholder Return (TSR) of the Group (Henderson Group TSR) compares favourably to the median of companies that made up the FTSE 250 Index as at 1 January 2004 for 2004 awards, 1 January 2005 for 2005 awards and so on. If the Henderson Group TSR is at the 50th percentile of the FTSE 250 companies, 35% of the shares will vest, with the full amount of shares granted vesting if the Henderson Group TSR is at or above the 75th percentile of the FTSE 250 companies. No vesting will occur if the Henderson Group TSR is below the 50th percentile of the FTSE 250 companies; and
- the 2008 plan, the Henderson Group TSR compares favourably to the median of companies that made up the FTSE 350 General Financial Index as at 1 January 2008 for 2008. If the Henderson Group TSR is at the 50th percentile of the FTSE 350 General Financial Index, 25% of the shares will vest, with the full amount of shares granted vesting if the Henderson Group TSR is at or above the 75th percentile of the FTSE 350 General Financial Index. No vesting will occur if the Henderson Group TSR is below the 50th percentile of the FTSE 350 General Financial Index.

The executives are not entitled to vote or receive dividends in respect of these awards until the vesting conditions are met, nor are they allowed to pledge, hedge or assign the expected awards in any way.

In accordance with the scheme terms, the 2006 LTIP met its vesting conditions on 31 December 2008 and the awards will be made in March 2009. The TSR performance condition for the end of 2008 resulted in 93% of the shares in the award being capable of exercise.

A phantom LTIP has been set up for non-UK resident Henderson Group executives, which is the same in all respects except that awards will be settled in cash rather than shares.

#### Restricted Share Plan (RSP)

The RSP is a scheme that allows employees to receive shares in the Company for £nil consideration at a future point, usually after three years. The awards are made typically for staff recruitment and retention purposes. They may or may not contain a performance hurdle, and are expensed evenly over the vesting period. The Remuneration Committee must approve all awards and the vesting of awards. On vesting, in order to obtain the shares the employee must satisfy any tax and national insurance obligations.

#### Deferred Equity Plan (DEP)

Under the Henderson remuneration policy, there is a requirement for employees who receive short-term incentive awards over a preset threshold to defer an element of their award. All non-hedge-fund deferrals are deferred into the Company's shares. The deferred monies are paid directly to a trustee, who purchases the nominated investments and holds them in trust. The Company's shares attract one free matching share for every three shares awarded by the trustee prior to 2007 and one free matching share for every four shares awarded by the trustee from 1 January 2007.

## Notes to the financial statements – Group and Company (continued)

### 10. Share-based payments (continued)

#### 10.1 Group share-based compensation plans (continued)

##### Deferred Equity Plan (DEP) (continued)

Hedge fund deferrals are deferred into the hedge fund that provided the performance fee that generated the award. Hedge fund deferrals are held in trust for two years on a fully restricted basis.

Forfeiture conditions apply in the case of approved and unapproved leavers. Deferrals into the Company's shares are held in trust for a minimum of one year. However, the shares must be held in trust for three years in order to receive the free matching shares. There is no matching element for hedge fund deferrals.

##### Employee Share Ownership Plan (ESOP)

In April 2005, the Group launched an ESOP managed by the DEP trustee. This enabled all Henderson staff, but not the Executive Directors, to defer part of their post-tax bonus into the ESOP up to a specified limit. The ESOP provides one free matching share for every share purchased. To receive the matching shares, employees must remain in the plan for a specified period, typically three years, but four years in respect of the 2005 ESOP. The ESOP was offered again in 2006, 2007 and 2008, with employees having to remain in the plan until June 2009, June 2010 and June 2011 respectively. Forfeiture conditions apply in the case of approved and unapproved leavers. The 2007 and 2008 ESOPs enabled employees to defer part of their pre-tax bonus into the plan up to a specified limit.

##### Company Share Option Plan (CSOP)

The CSOP is a HMRC approved share option plan. The plan allows for UK employees to be granted Henderson Group plc share options at a preset option price with a three year vesting period. The maximum value of unvested options at any time per employee is limited to £30,000. The share options are held in trust. There are no company performance conditions attached to the awarding of the options. At vesting, the employee must choose whether or not to exercise the options within two years of the vesting date. A similar plan but without UK tax advantages operates for employees outside the UK.

##### Impact of the Scheme

Following the Scheme, the various share plans were transferred from the Company to Henderson Group plc under the original terms, and the shares in the Company held by the trustees were cancelled and shares in Henderson Group plc were issued to them on an equivalent basis. Where options were granted under the CSOP or SAYE, the options are now to be exercised in respect of Henderson Group plc shares.

#### 10.2 Share-based payments through the consolidated income statement

	2008	2007
	£m	£m
SAYE	-	0.5
BAYE	1.9	0.8
LTIP	1.9	4.2
RSP	3.4	1.2
DEP	1.9	1.2
ESOP	2.9	4.9
CSOP	.1	-
<b>Total expense</b>	<b>12.0</b>	<b>12.8</b>

The total expense can be analysed between:

	Note	2008	2007
		£m	£m
Amount which is to be settled with equity	27	22.5	23.6
Equity-settled performance fee bonuses recognised within commissions and fees payable against income		(8.8)	(12.4)
Amount which is to be settled in cash <sup>2</sup>		(1.7)	1.6
		<b>12.0</b>	<b>12.8</b>

1. The charge for 2008 in respect of CSOP is negligible and does not round up to £0.1m.

2. The credit in respect of the cash-settled share schemes in 2008 is due to a decrease in the accrual brought forward from 2007 in view of a reduction in the Company's share price.

## Notes to the financial statements – Group and Company (continued)

### 10. Share-based payments (continued)

#### 10.3 Share options outstanding – SAYE

Share options outstanding under the Group's SAYE are as follows:

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
	no.	£	no.	£
At 1 January	2,973,249	0.980	4,969,229	0.482
Granted	3,538,192	0.771	1,711,689	1.216
Exercised (refer to note 25.2)	(316,273)	0.741	(3,373,947)	0.425
Forfeited	(1,820,755)	1.093	(333,722)	0.788
<b>At 31 December</b>	<b>4,374,413</b>	<b>0.785</b>	<b>2,973,249</b>	<b>0.980</b>

The weighted average share price on the date options were exercised during 2008 was £1.30 (2007: £1.64).

There were no options exercisable at 31 December 2008 (2007: nil).

The weighted average fair value of options granted during 2008 was £0.30 (2007: £0.68).

At 31 December 2008, the weighted average remaining expected and contractual life of outstanding awards was one year (2007: one year).

#### 10.4 Share options outstanding – CSOP

Share options outstanding under the Group's CSOP are as follows:

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
	no.	£	no.	£
At 1 January	-	-	-	-
Granted	355,000	0.960	-	-
<b>At 31 December</b>	<b>355,000</b>	<b>0.960</b>	<b>-</b>	<b>-</b>

There were no options exercisable at 31 December 2008 (2007: nil).

The weighted average fair value of options granted during 2008 was £0.24 (2007: £nil).

#### 10.5 Fair values of share-based compensation plans

The fair value amounts for the options granted under the SAYE and CSOP were determined using the Black Scholes option-pricing method, using the following assumptions:

	2006 SAYE	2007 SAYE	2008 SAYE	2008 CSOP
Dividend yield	3.5%	3.5%	6.0%	6.0%
Expected volatility	45.0%	45.0%	45.0%	45.0%
Risk-free interest rate	4.25%	5.25%	5.0%	5.0%
Expected life	3 years	3 years	3 years	3 years
Weighted average share price	£0.790	£1.520	£0.960	£0.960
Exercise price	£0.632	£1.216	£0.768	£0.960

Volatility has been calculated by taking the average of the volatility of nine of the Company's quoted peers over the preceding three year period. Peers selected were publicly quoted life insurance and fund management companies, which were considered to offer suitable coverage in terms of business mix and to be a reasonable proxy for volatility of the Company's shares at the time that the options were granted.

Other share schemes involve the grant of shares for £nil consideration. The fair value of these schemes is calculated using the share price at grant date, which is set out in the following table. No adjustments have been made for dividends.

## Notes to the financial statements – Group and Company (continued)

### 10. Share-based payments (continued)

#### 10.5 Fair values of share-based compensation plans (continued)

Scheme	Shares granted during the year no.	Average share price £
BAYE	2,234,892	0.998
LTIP	5,182,500	0.975
RSP	12,597,471	0.880
DEP	1,768,647	0.983
ESOP	3,140,043	1.202

The fair value calculation for the LTIP includes a statistical assessment of the likelihood of the Company achieving performance targets set out in the plan. These performance targets are in respect of the Henderson Group TSR over three years and are as follows:

Criteria	Amount vesting 2004 to 2007 plans
Henderson Group TSR less than the 50th percentile of the FTSE 250 companies	-
Henderson Group TSR at the 50th percentile of the FTSE 250 companies	35%
Henderson Group TSR at or above the 75th percentile of the FTSE 250 companies	100%
	<b>2008 plan</b>
Henderson Group TSR less than the 50th percentile of the FTSE 350 General Financial Index companies	-
Henderson Group TSR at the 50th percentile of the FTSE 350 General Financial Index companies	25%
Henderson Group TSR at or above the 75th percentile of the FTSE 350 General Financial Index companies	100%

For a Henderson Group TSR between the 50th and 75th percentiles, the amount vesting will increase on a linear basis.

### 11. Dividends paid and proposed

	2008 £m	2008 pence per share	2007 £m	2007 pence per share
<b>Dividends on ordinary shares declared and paid in the period</b>				
Final dividend in respect of 2H07 (2H06)	30.2	4.44	20.3	2.27
Interim dividend in respect of 1H08 (1H07)	12.7	1.85	14.0	1.66
Special dividend in respect of FY07	-	-	230.5	27.60
<b>Total dividends paid and charged to equity</b>	<b>42.9</b>		<b>264.8</b>	

	2008 £m	2008 pence per share	2007 £m	2007 pence per share
<b>Dividends proposed on ordinary shares for approval by the shareholders at the AGM</b>				
Final dividend for 2H08 (2H07)	-	-	32.2	4.44

The difference between the proposed dividends (2H07 final: £32.2m, 1H08 interim: £13.4m), as reported in the 2007 Annual Report and Accounts and the Interim Results for the six months to 30 June 2008, and the dividends paid out during the year (2H07 final: £30.2m, 1H08 interim: £12.7m), represents the dividends waived by employee benefit trusts. The amount waived in respect of the final dividend declared for 2008 will be established by the employees benefit trusts on 8 May 2009, being the dividend record date.

Pursuant to the Scheme, Henderson Group dividends are declared by the directors of Henderson Group plc and disclosed in that Company's Annual Report and Accounts.

The Directors are not proposing a final dividend in respect of the Company for the year ended 31 December 2008 (2007: 4.44 pence per share).

## 12. Segmental information

### Group operating income and net assets

The Group is an investment manager, operating throughout Europe, also with teams in North America and Asia. The Group manufactures a broad range of actively managed investment products for institutional and retail investors, across multiple asset classes, including equities, fixed income, property and private equity.

Management operates across product lines, distribution channels, and geographic regions. The Henderson Board considers that the risks and rewards to the business are not substantially different across the geographic regions in which the Group operates so as to warrant separate disclosure. Core equities and fixed income, property, private equity and wholesale funds are sold in most, if not all, of these regions, and are managed in various locations. Strategic and financial management decisions are determined centrally by the Henderson Board and, on this basis, the Group considers itself to be a single segment investment management business.

## 13. Intangible assets

Intangible assets are made up as follows:

### 2008

	Goodwill £m	Group Computer software £m	Total £m
<b>Cost</b>			
At 1 January	226.4	-	226.4
Additions	-	1.9	1.9
<b>At 31 December</b>	<b>226.4</b>	<b>1.9</b>	<b>228.3</b>
<b>Amortisation and impairment losses</b>			
At 1 January	(2.1)	-	(2.1)
Amortisation charge during the year	-	(0.1)	(0.1)
<b>At 31 December</b>	<b>(2.1)</b>	<b>(0.1)</b>	<b>(2.2)</b>
<b>Carrying value at 31 December</b>	<b>224.3</b>	<b>1.8</b>	<b>226.1</b>

### 2007

	Goodwill £m	Group Computer software £m	Total £m
<b>Cost</b>			
At 1 January and 31 December	226.4	-	226.4
<b>Amortisation and impairment losses</b>			
At 1 January and 31 December	(2.1)	-	(2.1)
<b>Carrying value at 31 December</b>	<b>224.3</b>	<b>-</b>	<b>224.3</b>

## Notes to the financial statements – Group and Company (continued)

### 13. Intangible assets (continued)

Computer software has been recognised by the Group for the first time in 2008. This is as a result of a re-evaluation of existing systems in 2007 and the internal development of new systems during 2008. This internally developed software is expected to generate economic benefits in the medium term and has therefore been capitalised and will be amortised over its expected useful life of between three and five years.

The Group considers itself to be a single segment investment management business and, therefore, a single cash generating unit to which goodwill can be allocated.

The recoverable amount of goodwill at 31 December 2008 has been determined from a value in use calculation, using the budget approved by the Board for 2009, assumed growth rates for 2010 to 2013 and a terminal value for the period thereafter.

The key growth assumptions used in the budget and forecasts include: flat markets for 2009 and gradual recovery between 2010 and 2013; reasonable net sales (for which there is an interdependence with market movements); and stable margins. Cost inflation is assumed to be 3% per annum throughout.

The terminal value has been calculated assuming a long term growth rate of 2% per annum in perpetuity, based on the Group's view of long term nominal growth.

We have applied a discount rate to our growth projections and terminal value of 11.3% per annum, being the Group's pre-tax equity cost of capital, calculated using the Capital Asset Pricing Model.

The resultant value in use calculation has been compared with the carrying amount of goodwill to determine if any goodwill impairment arises. The calculation shows significant headroom in the recoverable amount of goodwill.

The value in use calculation has been flexed for a fall in markets in 2009 with a gradual recovery thereafter, which the Group considers to be reasonably possible. This calculation also shows headroom in the recoverable amount of goodwill. The ability of the Group to manage its cost base during periods of market weakness has not been factored into this scenario, but would further increase headroom in the recoverable amount of goodwill.

Recent transaction experience and the Group's current market capitalisation provide additional evidence that the recoverable amount of goodwill is in excess of the carrying amount.

### 14. Investments in subsidiaries, associates and joint ventures

#### 14.1 Principal subsidiaries

##### Group

The principal subsidiaries of the Group, excluding the directly held subsidiaries of the Company shown below, are as follows:

	Country of incorporation and principal place of operation	Functional currency	Percentage owned 2008	Percentage owned 2007
Henderson Administration Limited	UK	Pounds sterling	100%	100%
Henderson Fund Management Plc	UK	Pounds sterling	100%	100%
Henderson Global Investors (Jersey) Limited	Jersey and UK	Pounds sterling	100%	100%
Henderson Global Investors (Jersey) 2 Limited	Jersey	Pounds sterling	100%	100%
Henderson Global Investors Limited	UK	Pounds sterling	100%	100%
Henderson Holdings Limited	UK	Pounds sterling	100%	100%
Henderson International Holdings Limited	Jersey and UK	Pounds sterling	100%	100%
Henderson Investment Funds Limited	UK	Pounds sterling	100%	100%
Henderson Investment Management Limited	UK	Pounds sterling	100%	100%
Henderson Management SA	Luxembourg	US dollars	-	100%
Henderson Global Investors (Singapore) Limited	Singapore	Singaporean dollars	-	100%
Henderson Global Investors (International Holdings) BV	Netherlands and UK	Euros	100%	100%
Henderson International Inc.	USA	US dollars	100%	100%
Henderson Alternative Investment Advisor Limited	UK	Pounds sterling	100%	100%
Henderson Equity Partners Limited	UK	Pounds sterling	100%	100%

The information disclosed in the table above is only in respect of those subsidiaries which principally affect the figures shown in the Group's accounts. There are a number of other subsidiaries whose business does not materially affect the Group's profits or the amount of its assets. Particulars of these have been omitted for simplification purposes.

## Notes to the financial statements – Group and Company (continued)

### 14. Investments in subsidiaries, associates and joint ventures (continued)

#### 14.1 Principal subsidiaries (continued)

##### Company

	2008 £m	2007 £m
At 1 January	1,872.7	2,461.8
Investments realised on liquidation	(1,047.5)	(589.1)
<b>At 31 December</b>	<b>825.2</b>	<b>1,872.7</b>

The directly held subsidiaries of the Company are as follows:

	Country of incorporation and principal place of operation	Functional currency	Percentage owned 2008	Percentage owned 2007
Henderson Global Investors (Holdings) plc	UK	Pounds sterling	100%	100%
Henderson Finances	UK	Pounds sterling	100%	100%
Henderson Portfolio Managers Limited	UK	Pounds sterling	100%	100%
UKLS Financial Planning Limited	UK	Pounds sterling	100%	100%
HHG (VH) Limited	UK	Pounds sterling	100%	100%
HGI (Investments) Limited	UK	Pounds sterling	100%	-
Michie European Holdings BV	Netherlands and UK	Euros	-	100%

#### 14.2 Associates and joint ventures

##### Group

The Group holds interests in the following associates and joint ventures:

	Country of incorporation and principal place of operation	Functional currency	Percentage owned 2008	Percentage owned 2007
Asia Real Estate Fund Management	Singapore	Singaporean dollars	-	50%
Attunga Capital Pty Limited	Australia	Australian dollars	30%	-
Henderson-mfi Shopping Centre GmbH & Co. KG	Germany	Euros	50%	50%
Henderson-mfi Shopping Centre Verwaltungs GmbH	Germany	Euros	50%	50%
HGI Immobilien GmbH	Germany	Euros	50%	50%
Warburg-Henderson Kapitalanlagegesellschaft für Immobilien mbH	Germany	Euros	50%	50%

	2008 £m	2007 £m
Share of aggregate net assets	5.5	3.8
Share of profit for the year	2.4	2.0

The Group's investments in associates and joint ventures are accounted for under the equity method. The investments are carried at cost adjusted for post-acquisition share of profits and losses and other changes in equity. Distributions received from associates and joint ventures during the year are deducted from the carrying value of the investment.

Notes to the financial statements – Group and Company (continued)

15. Plant and equipment

	Group	
	2008 £m	2007 £m
<b>Cost</b>		
<b>At 1 January</b>	41.0	40.4
Additions	21.7	1.6
Disposals	(31.6)	(1.0)
Disposal of subsidiary companies	(0.5)	-
<b>At 31 December</b>	<b>30.6</b>	41.0
<b>Depreciation</b>		
<b>At 1 January</b>	(35.3)	(33.8)
Charge during the year	(2.3)	(2.5)
Disposals	29.1	1.0
Disposal of subsidiary companies	0.4	-
<b>At 31 December</b>	<b>(8.1)</b>	(35.3)
<b>Net book value at 31 December</b>	<b>22.5</b>	5.7

Included in cost as at 31 December 2008 were fully depreciated assets amounting to £0.1m (2007: £25.1m).

16. Fair value of financial instruments

Total financial assets and liabilities

	Notes	Group			
		Carrying value		Fair value	
		2008 £m	2007 £m	2008 £m	2007 £m
<b>Financial assets</b>					
<i>Current assets:</i>					
<b>Financial assets at fair value through profit or loss</b>					
Shares/units in OEICs/unit trusts		0.4	0.6	0.4	0.6
<b>Other financial assets</b>					
Available-for-sale financial assets		48.2	101.7	48.2	101.7
OEIC, unit trust and other debtors	18	203.2	37.7	203.2	37.7
Derivative financial instruments	18	-	3.4	-	3.4
Cash and cash equivalents	19	132.7	248.0	132.7	248.0
<b>Total financial assets</b>		<b>384.5</b>	391.4	<b>384.5</b>	391.4
<b>Financial liabilities</b>					
<i>Non-current liabilities:</i>					
Debt instrument in issue	20	184.5	178.0	126.0	173.4
<i>Current liabilities:</i>					
Current tax liabilities		23.5	41.1	23.5	41.1
OEIC, unit trust and other creditors	25	133.6	66.8	133.6	66.8
Derivative financial instruments	25	0.6	4.5	0.6	4.5
<b>Total financial liabilities</b>		<b>342.2</b>	290.4	<b>283.7</b>	285.8

Notes to the financial statements – Group and Company (continued)

16. Fair value of financial instruments (continued)

	Notes	Company			
		Carrying value		Fair value	
		2008 £m	2007 £m	2008 £m	2007 £m
<b>Financial assets</b>					
<i>Current assets:</i>					
Available-for-sale financial assets		-	6.0	-	6.0
Current tax assets		29.5	22.9	29.5	22.9
Derivative financial instruments	18	-	3.4	-	3.4
Cash and cash equivalents	19	11.2	18.4	11.2	18.4
<b>Total financial assets</b>		<b>40.7</b>	50.7	<b>40.7</b>	50.7
<b>Financial liabilities</b>					
<i>Non-current liabilities:</i>					
Debt instrument in issue	20	184.5	178.0	126.0	173.4
<i>Current liabilities:</i>					
Borrowings	24	422.0	422.0	422.0	422.0
Derivative financial instruments	25	-	0.2	-	0.2
Other creditors		-	3.9	-	3.9
<b>Total financial liabilities</b>		<b>606.5</b>	604.1	<b>548.0</b>	599.5

The Group applies fair value hedge accounting to certain financial assets and liabilities. Accordingly, the debt instrument in issue carried in the consolidated balance sheet at amortised cost is adjusted for changes in fair value attributable to hedged risks. On 9 December 2008, the interest rate swap held on the Corporate debt was unwound and therefore, the hedging relationship was terminated. The cumulative fair value adjustment to the carrying value of the debt up to the date of unwinding the interest rate swap, will be released to the consolidated income statement over the remaining life of the debt, which matures on 2 May 2012. (Refer to note 20).

The available-for-sale financial assets held by the Group at the balance sheet date are either listed on an authorised stock exchange or have quoted market prices. Debtor and creditor balances, included in the tables above, comprise mainly current balances and accordingly, the fair value of these assets and liabilities is considered to be materially equal to their carrying value after taking into account any likely impairment.

17. Deferred acquisition and commission costs

	Group	
	2008 £m	2007 £m
At 1 January	31.8	20.7
Foreign exchange movement	2.3	-
Commissions and other costs capitalised	24.3	26.3
Amortisation charge during the year	(23.5)	(15.2)
Disposal of subsidiary companies	(0.3)	-
<b>At 31 December</b>	<b>34.6</b>	31.8
Non-current	16.9	14.5
Current	17.7	17.3
<b>At 31 December</b>	<b>34.6</b>	31.8

Notes to the financial statements – Group and Company (continued)

18. Trade and other receivables

	Group		Company	
	2008	2007	2008	2007
	£m	£m	£m	£m
Amounts owed by subsidiaries	-	-	329.9	228.6
Loans owed by fellow subsidiaries	131.0	-	-	-
OEIC and unit trust debtors	52.6	26.6	-	-
Derivative financial instruments	-	3.4	-	3.4
Accrued income	41.0	51.2	0.5	1.4
Other debtors	150.6	11.1	-	-
Prepayments	3.8	4.8	-	-
	<b>379.0</b>	97.1	<b>330.4</b>	233.4

The loans to fellow subsidiaries of £131m shown above attract annual interest at a flat rate linked to sterling LIBOR (six months) and are repayable on demand.

19. Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
	£m	£m	£m	£m
Cash at bank and in hand	42.7	79.5	0.1	3.1
Cash equivalents	90.0	168.5	11.1	15.3
<b>Cash and cash equivalents</b>	<b>132.7</b>	248.0	<b>11.2</b>	18.4

Cash and cash equivalents consist of cash in hand, cash at bank and short-term investments with financial institutions with original maturity periods of three months or less.

Included within cash and cash equivalents as at 31 December 2008 was £5.3m (2007: £10.1m) held in escrow, representing amounts owed to the Pension Scheme (£4.7m) and outstanding obligations of Towry Law International following an agreement with the Hong Kong Securities and Futures Commission (£0.6m).

Group changes in operating assets and liabilities

	Group		Company	
	2008	2007	2008	2007
	£m	£m	£m	£m
Increase in holdings in OEICs/unit trusts	(19.3)	(0.4)	-	-
Increase in deferred acquisition and commission costs	(24.4)	(26.3)	-	-
Decrease in other assets	(34.1)	63.3	1,023.7	101.3
Increase in deferred income	23.7	23.6	-	-
Decrease in provisions and other liabilities	3.0	(48.2)	(948.1)	(10.9)
<b>Changes in operating assets and liabilities</b>	<b>(51.1)</b>	12.0	<b>75.6</b>	90.4

Notes to the financial statements – Group and Company (continued)

**20. Debt instrument in issue**

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Debt instrument in issue	184.5	178.0	184.5	178.0

The debt instrument in issue represents £175m senior, unrated, fixed rate notes listed on the London Stock Exchange. The debt instrument is unsecured, repayable in full on 2 May 2012 and bears interest at a fixed rate of 6.5% per annum payable every six months.

The Group swapped the fixed interest coupon into a floating rate on issue of the debt. The swap was unwound on 9 December 2008 and realised a profit of £1.5m before tax, recognised as a non-recurring item in the consolidated income statement. The fair value adjustment to the debt carrying value, attributable to the hedged interest rate risk up to the date of unwinding the swap, £10.5m, is being released over the remaining term of the debt to maturity on 20 May 2012. During the year, £0.2m was credited to finance costs in the consolidated income statement.

The fair value of the debt instrument at the balance sheet date was £126.0m (2007: £173.4m).

**21. Retirement benefits**

**Retirement benefit assets recognised in the balance sheet**

	Note	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
Henderson Group Pension Scheme	21.1	152.5	62.3	152.5	62.3

**Retirement benefit obligations recognised in the balance sheet**

	Note	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
Henderson Group unapproved pension schemes	21.2	4.7	5.2	-	-

**Pension service cost/(credit) recognised in the income statement**

	Notes	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
Henderson Group Pension Scheme	21.1	(0.8)	(0.1)	(0.8)	(0.1)
Money Purchase Scheme		4.5	4.6	4.5	4.6
Henderson Group unapproved pension schemes	21.2	0.6	0.6	-	-
Recurring service cost		4.3	5.1	3.7	4.5
Past service credit included as a non-recurring item	8, 21.1	-	(8.7)	-	(8.7)
		4.3	(3.6)	3.7	(4.2)

**Amounts recognised in the statement of recognised income and expense (SORIE)**

	Notes	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
Henderson Group Pension Scheme	21.1	(63.9)	(33.9)	(63.9)	(33.9)
Henderson Group unapproved pension schemes	21.2	(1.1)	(0.8)	-	-
<b>Actuarial gains recognised in the SORIE</b>		<b>(65.0)</b>	<b>(34.7)</b>	<b>(63.9)</b>	<b>(33.9)</b>

## Notes to the financial statements – Group and Company (continued)

### 21. Retirement benefits (continued)

#### 21.1 Henderson Group Pension Scheme – Final Salary Scheme Company and Group

The Final Salary Scheme represents the defined benefit section of the Henderson Group Pension Scheme (Pension Scheme), which closed to new members on 15 November 1999. The sponsor and principal employer of the Pension Scheme is the Company and the participating company is Henderson Administration Limited. The appointed investment manager for the final salary scheme is Henderson Global Investors Limited. The Final Salary Scheme is funded by contributions to a separately administered fund. The actuarial advisers to the Pension Scheme are Watson Wyatt LLP.

The liability assumptions used for the 2008 and 2007 *IAS 19 Employee Benefits* disclosures are based on the last full valuation of the Pension Scheme as at 31 December 2005, updated by the Company's actuarial advisers, Lane Clark & Peacock LLP. The Pension Scheme assets are stated at their fair value at 31 December 2008 and 31 December 2007. The Pension Scheme is due to undergo its next triennial valuation during 2009 based on the facts and circumstances as at 31 December 2008.

#### Reconciliation of present value of defined benefit obligations

	Group and Company	
	2008	2007
	£m	£m
At 1 January	282.4	311.8
Current service cost	3.6	3.8
Interest cost	16.3	15.7
Past service cost	0.1	-
Past service credit	-	(8.7)
Actuarial gains	(43.3)	(32.7)
Actual benefit payments	(7.2)	(7.7)
Gains on curtailments	-	0.2
<b>At 31 December</b>	<b>251.9</b>	<b>282.4</b>

#### Reconciliation of the fair value of defined benefit scheme assets

	Group and Company	
	2008	2007
	£m	£m
At 1 January	344.7	306.8
Expected return on scheme assets	20.8	19.8
Actuarial gains	20.6	1.2
Group contributions	25.5	24.6
Actual benefit payments	(7.2)	(7.7)
<b>At 31 December</b>	<b>404.4</b>	<b>344.7</b>

The Group contributions of £25.5m (2007: £24.6m) include a special contribution of £20.0m (2007: £20.0m) paid to the Pension Scheme to reduce the defined benefit liability. No further special contributions are expected to be made in the foreseeable future.

#### Reconciliation of defined benefit asset recognised in the consolidated balance sheet

	Group and Company	
	2008	2007
	£m	£m
Present value of defined benefit obligations	(251.9)	(282.4)
Fair value of scheme assets	404.4	344.7
<b>Net asset at 31 December</b>	<b>152.5</b>	<b>62.3</b>

Notes to the financial statements – Group and Company (continued)

21. Retirement benefits (continued)

21.1 Henderson Group Pension Scheme – Final Salary Scheme (continued)

**Pension service credit recognised in the income statement**

	Note	Group and Company	
		2008	2007
		£m	£m
Current service cost		3.6	3.8
Interest cost		16.3	15.7
Expected return on scheme assets		(20.8)	(19.8)
Past service cost		0.1	-
Past service credit	8	-	(8.7)
Gains on curtailments		-	0.2
		<b>(0.8)</b>	<b>(8.8)</b>

**Amounts recognised in the SORIE**

	Group and Company	
	2008	2007
	£m	£m
At 1 January	(12.2)	21.7
Actuarial gains recognised in the SORIE	(63.9)	(33.9)
<b>At 31 December</b>	<b>(76.1)</b>	<b>(12.2)</b>

**Movements in net asset recognised in the balance sheet**

	Group and Company	
	2008	2007
	£m	£m
At 1 January	62.3	(5.0)
Pension service credit recognised in the income statement	0.8	8.8
Group contributions	25.5	24.6
Actuarial gains recognised in the SORIE	63.9	33.9
<b>Net asset at 31 December</b>	<b>152.5</b>	<b>62.3</b>

**Pension Scheme assets**

The major categories of assets in the final salary section of the Pension Scheme, were as follows:

**Fair value of the defined benefit assets**

	Group and Company					
	Market value		% as a total of assets		Expected rate of return	
	2008	2007	2008	2007	2008	2007
	£m	£m	%	%	%	%
<b>Final salary section</b>						
Equities	77.7	108.6	19	32	7.5	8.4
Bonds	235.0	202.7	58	59	4.0	4.8
Cash	32.1	8.7	8	2	3.8	5.4
Property	8.5	1.7	2	-	6.0	6.4
Other	51.1	23.0	13	7	2.8	6.0
<b>Total</b>	<b>404.4</b>	<b>344.7</b>	<b>100</b>	<b>100</b>	<b>4.5</b>	<b>6.0</b>

The Pension Scheme does not hold any investments in employer related companies.

The overall expected return on assets assumption is derived from the weighted average of the expected returns from each of the main asset classes. The expected return on assets is based on long-term expectations as at 31 December 2008. The expected return on bonds has been set by reference to market redemption yields as at the measurement date. The returns for the equities, property and cash asset classes have been based on the Group's realistic expectations of investment returns over the longer term.

Notes to the financial statements – Group and Company (continued)

21. Retirement benefits (continued)

21.1 Henderson Group Pension Scheme – Final Salary Scheme (continued)

Actual return on defined benefit assets

	Group and Company	
	2008	2007
	£m	£m
Actual return on scheme assets	41.4	21.0

Principal actuarial assumptions

(a) Financial assumptions

	Group and Company	
	2008	2007
	% per annum	% per annum
Discount rate	6.4	5.8
Expected rate of return on scheme assets	4.5	6.0
Salary increases	2.5	2.5
Pension increases:		
- where guarantee is the Retail Price Index capped at 5% per annum	3.0	3.5
- where guarantee is the Retail Price Index capped at 2.5% per annum	2.2	2.5
- where guarantee is fixed	At fixed rate	At fixed rate
Inflation	3.0	3.5

(b) Demographic assumptions

The demographic assumptions used are those underlying the last actuarial valuation of the Pension Scheme as at 31 December 2005. Post-retirement mortality was assumed to follow the standard tables PMA/PFA92 (C = 2020) with an allowance for future mortality improvements in line with 'medium cohort' effects. The table below demonstrates the changes in implied life expectancies as at 31 December 2005 using the aforementioned mortality tables:

	Group and Company	
	Male	Female
	no. of years	no. of years
Life expectancy for a member who is currently 60	26.5	29.5
Life expectancy at 60 for a member who is currently 45	27.5	30.5

(c) Historical amounts

	Group and Company			
	2008	2007	2006	2005
	£m	£m	£m	£m
Defined benefit obligations	(251.9)	(282.4)	(311.8)	(296.2)
Scheme assets	404.4	344.7	306.8	256.1
Surplus/(deficit) in the Pension Scheme	152.5	62.3	(5.0)	(40.1)
Experience (losses)/gains on scheme liabilities	(1.2)	(0.5)	8.5	(31.6)
Experience gains/(losses) on scheme assets	20.6	1.2	(3.7)	18.9

Employer contributions

The Company and Group expect to contribute £8.2m to the Pension Scheme in the year ending 31 December 2009.

## Notes to the financial statements – Group and Company (continued)

### 21. Retirement benefits (continued)

#### 21.2 Henderson Group unapproved pension schemes

##### Group

The Group operates a number of unapproved pension schemes, the details of which are provided below:

*The Pearl Executive Scheme.* Members of this scheme are also members of the Pension Scheme. However, pensionable earnings under the Pension Scheme are limited to 1/60<sup>th</sup> for each year of service and the earnings cap. The Pearl Executive Scheme provides benefits at 1/30<sup>th</sup> for each year of service with a maximum of two thirds of salary after 20 years' service based on pensionable earnings above the earnings cap, on an unfunded basis.

*The Henderson Top Up Scheme.* Members of this scheme are also members of the Pension Scheme. However, pensionable earnings under the Pension Scheme are limited to the earnings cap, and the Henderson Top Up Scheme enables benefits to be based on pensionable earnings without restriction of the earnings cap. These additional uncapped benefits are generally provided for on an unfunded basis.

There is an unfunded liability in respect of one member, to whom the Group has made a contractual promise to pay a fixed pension from age 60.

#### Reconciliation of present value of defined benefit obligations

	Group	
	2008	2007
	£m	£m
At 1 January	5.2	5.5
Current service cost	0.3	0.3
Interest cost	0.3	0.3
Actuarial gains	(1.1)	(0.8)
Actual benefit payments	-	(0.1)
<b>At 31 December</b>	<b>4.7</b>	<b>5.2</b>

#### The defined benefit obligations at 31 December are split as follows:

	Group	
	2008	2007
	£m	£m
Pearl Executive Scheme	3.7	4.0
Henderson Top Up Scheme	0.8	0.9
Individual contractual promise	0.2	0.3
<b>Total</b>	<b>4.7</b>	<b>5.2</b>

#### Reconciliation of the fair value of defined benefit scheme assets

	Group	
	2008	2007
	£m	£m
At 1 January	-	0.1
Actual benefit payments	-	(0.1)
<b>At 31 December</b>	<b>-</b>	<b>-</b>

#### Reconciliation of defined benefit liability

	Group	
	2008	2007
	£m	£m
Present value of defined benefit obligations	4.7	5.2
Fair value of scheme assets	-	-
<b>Net liability at 31 December</b>	<b>4.7</b>	<b>5.2</b>

Notes to the financial statements – Group and Company (continued)

21. Retirement benefits (continued)

21.2 Henderson Group unapproved pension schemes (continued)

**Pension service cost recognised in the consolidated income statement**

	Group	
	2008 £m	2007 £m
Current service cost	0.3	0.3
Interest cost	0.3	0.3
	<b>0.6</b>	<b>0.6</b>

**Amounts recognised in the consolidated SORIE**

	Group	
	2008 £m	2007 £m
At 1 January	(1.9)	(1.1)
Actuarial gains	(1.1)	(0.8)
<b>At 31 December</b>	<b>(3.0)</b>	<b>(1.9)</b>

**Movements in net liability recognised in the consolidated balance sheet**

	Group	
	2008 £m	2007 £m
At 1 January	5.2	5.4
Expense recognised in the consolidated income statement	0.6	0.6
Actuarial gains recognised in the consolidated SORIE	(1.1)	(0.8)
<b>At 31 December</b>	<b>4.7</b>	<b>5.2</b>

**Principal actuarial assumptions**

**(a) Financial assumptions**

	Group	
	2008 % per annum	2007 % per annum
Discount rate	6.4	5.8
Expected rate of return on scheme assets	-	8.4
Salary increases	4.5	5.0
Pension increases:		
- where guarantee is the Retail Price Index	3.0	3.5
- where guarantee is fixed	<b>At fixed rate</b>	<b>At fixed rate</b>
Inflation	3.0	3.5

**(b) Demographic assumptions**

The demographic assumptions used are the same as those in the last actuarial valuation of the unapproved schemes as at 31 December 2005. Post-retirement mortality was assumed to follow the standard tables PMA/PFA92 (C = 2020) with an allowance for future mortality improvements in line with medium cohort projections. The table below demonstrates the changes in implied life expectancies as at 31 December 2005 using the aforementioned mortality tables:

	Group	
	Male no. of years	Female no. of years
Life expectancy for a member who is currently 60	26.5	29.5
Life expectancy at 60 for a member who is currently 45	27.5	30.5

## Notes to the financial statements – Group and Company (continued)

### 21. Retirement benefits (continued)

#### 21.2 Henderson Group unapproved pension schemes (continued)

##### (c) Historical amounts

	Group			
	2008 £m	2007 £m	2006 £m	2005 £m
Defined benefit obligations	4.7	5.2	5.5	5.7
Scheme assets	-	-	(0.1)	(0.2)
Deficit in the pension schemes	4.7	5.2	5.4	5.5
Experience (losses)/gains on scheme liabilities	(0.1)	0.2	0.5	1.5

##### Employer contributions

The Group does not expect to contribute to the unapproved pension arrangements in the year ending 31 December 2009.

### 22. Provisions

#### Group

	Business restructure <sup>1</sup> £m	Leasehold properties £m	Product mis-selling £m	Other £m	Total £m
At 1 January 2008	0.3	3.3	11.2	17.3	32.1
Additions	6.2	-	0.2	0.7	7.1
Provisions utilised	(2.8)	(0.9)	(4.5)	(0.8)	(9.0)
Provisions released	-	(2.4)	-	-	(2.4)
<b>At 31 December 2008</b>	<b>3.7</b>	<b>-</b>	<b>6.9</b>	<b>17.2</b>	<b>27.8</b>
Non-current	-	-	4.6	15.5	20.1
Current	3.7	-	2.3	1.7	7.7
	<b>3.7</b>	<b>-</b>	<b>6.9</b>	<b>17.2</b>	<b>27.8</b>

#### Company

	Product mis-selling £m	Total £m
At 1 January 2008	10.7	10.7
Additions	0.2	0.2
Provisions utilised	(4.6)	(4.6)
<b>At 31 December 2008</b>	<b>6.3</b>	<b>6.3</b>
Non-current	4.2	4.2
Current	2.1	2.1
	<b>6.3</b>	<b>6.3</b>

##### Business restructure

The balance brought forward at 1 January 2008 in respect of business restructure costs of £0.3m was utilised in full during the year. Additional costs of £6.2m were provided for in respect of restructuring during 2008, of which £2.8m had been utilised by 31 December 2008.

1. The balance on the restructure provision of £3.7m is included in the non-recurring restructure charge of £15.7m in the consolidated income statement (refer to note 7).

## Notes to the financial statements – Group and Company (continued)

### 22. Provisions (continued)

#### Leasehold properties

The leasehold properties provision reflected the excess of lease rentals and other payments on properties that were vacant, or expected to become vacant, over the amounts to be recovered from subletting these properties. The balance on this provision was released on surrender of the 4 Broadgate, London lease on 28 November 2008, following the relocation of the Group's London office to 201 Bishopsgate, London.

#### Product mis-selling

The £4.5m utilisation of the product mis-selling provision represents the settlement of specific claims and litigation expenses incurred during the year. The remaining balance of £6.9m is being retained for potential further claims arising from alleged inappropriate advice given to certain Towry Law International customers in respect of legacy products. Further information is disclosed in note 32.

#### Other

Other provisions comprise £8.2m for obligations in relation to the disposal of Cogent Investment Operations Limited by the Group in 2002, £6.2m in respect of potential national insurance claims, £1.7m held in connection with value added tax rebates due to investment trust clients, and £1.1m in respect of long-term staff medical benefits.

### 23. Deferred taxation

Deferred tax assets and liabilities recognised by the Group and movements therein are as follows:

#### Group

Deferred tax assets/(liabilities)	Accelerated capital allowances	Share based payments	Retirement benefits	Other temporary differences	Total
	£m	£m	£m	£m	£m
At 1 January 2007	0.8	3.8	(1.4)	10.0	13.2
Current year (charge)/credit to the income statement	-	(1.0)	0.5	(10.1)	(10.6)
Current year charge to equity	-	-	(9.8)	(1.7)	(11.5)
At 31 December 2007	0.8	2.8	(10.7)	(1.8)	(8.9)
Current year charge to the income statement	(0.7)	(2.1)	(9.8)	(1.9)	(14.5)
Current year (charge)/credit to equity	-	-	(18.2)	2.3	(15.9)
<b>At 31 December 2008</b>	<b>0.1</b>	<b>0.7</b>	<b>(38.7)</b>	<b>(1.4)</b>	<b>(39.3)</b>

Certain deferred tax assets and liabilities in the above summary have been offset as follows:

	Assets £m	Liabilities £m	Total £m
At 31 December 2007	6.9	(15.8)	(8.9)
<b>At 31 December 2008</b>	<b>5.4</b>	<b>(44.7)</b>	<b>(39.3)</b>

At the balance sheet date, the Group had unused tax losses in respect of which no deferred tax has been recognised as utilisation of the losses is dependent on future profits. The unrecognised deferred tax asset in respect of trading losses carried forward is £9.4m (2007: £3.0m). The unrecognised deferred tax asset in respect of capital losses carried forward is £2.7m (2007: £3.0m). The losses have no expiry date.

Consistent with prior years, deferred tax is not recognised in respect of taxable temporary differences associated with the Group's investments in overseas subsidiaries, branches, associates and joint ventures where the Group controls the timing of the reversal of the temporary differences and where the reversal of the temporary differences is not anticipated in the foreseeable future.

Notes to the financial statements – Group and Company (continued)

**23. Deferred taxation** (continued)

**Company**

Deferred tax assets/(liabilities)	Retirement benefits
	£m
At 1 January 2007	2.3
Current year (charge)/credit to the income statement	(9.4)
Current year charge to equity	(9.6)
At 31 December 2007	(16.7)
Current year charge to the income statement	9.4
Current year (charge)/credit to equity	(17.9)
<b>At 31 December 2008</b>	<b>(25.2)</b>

**24. Borrowings**

	Company	
	2008	2007
	£m	£m
Loans from subsidiaries	422.0	422.0

The loans from subsidiaries of £422m shown above attract annual interest at a flat rate linked to LIBOR (six months) and are repayable on demand.

**25. Trade and other payables**

	Group		Company	
	2008	2007	2008	2007
	£m	£m	£m	£m
OEIC and unit trust creditors	53.2	46.5	-	-
Derivative financial instruments	0.6	4.5	-	0.2
Other creditors	6.3	20.3	-	3.9
Accruals	100.5	132.0	2.0	12.2
Amounts owed to fellow subsidiaries	74.1	-	-	-
Amounts owed to subsidiaries	-	-	264.6	1,193.5
	<b>234.7</b>	203.3	<b>266.6</b>	1,209.8

## 26. Share capital

### Share capital authorised

	Group and Company	
	2008	2007
	£m	£m
1 A ordinary share of 12.5 pence	-	-
1,949,910,776 ordinary shares of 12.5 pence each	243.7	243.7

### Share capital allotted

Allotted, called up and fully paid shares:

	Group and Company		
	10 pence shares	12.5 pence shares	£m
	no.	no.	
<b>A Ordinary shares</b>			
Shares in issue at 31 December 2007	-	-	-
Issue of share prior to implementation of Scheme	-	1	-
Shares in issue at 31 December 2008	-	1	-
<b>Ordinary shares</b>			
Shares in issue at 1 January 2007	902,004,831		90.2
Issue of shares for SAYE	3,373,947		0.4
Issue of shares for BAYE	213,362	30,861	-
Share consolidation	(905,592,140)	724,473,712	-
Shares in issue at 31 December 2007	-	724,504,573	90.6
Issue of shares for SAYE		316,273	-
Issue of shares for BAYE		372,123	-
Shares in issue at 31 December 2008		725,192,969	90.6

All of the ordinary shares in issue carry the same right to receive dividends and other distributions declared, made or paid by the Company.

On 20 October 2008, one 12.5 pence A ordinary share was issued to new Henderson Group plc in order to maintain continuity of ownership of the Company during the implementation of the Scheme. The A ordinary share does not entitle the holder to receive notice of, attend or vote at any general meeting of the Company.

On 31 October 2008, the Scheme effective date, the shares of the Company were cancelled by way of a reduction of capital. The shareholders of the Company on the same date were issued shares in new Henderson Group plc on a one for one basis in consideration for the cancellation of their shares in the Company. New ordinary shares in the Company were then issued to new Henderson Group plc, which then became the ultimate holding company of the Henderson Group.

Pursuant to the restructure of the Henderson Group the shareholding of the Company, including the A ordinary share, was transferred from Henderson Group plc to Henderson Holdings Group Limited.

Following approval of a share consolidation by the Company's shareholders at an Extraordinary General Meeting on 9 October 2007, ordinary shares of 10 pence each were replaced with new ordinary shares of 12.5 pence each. On 19 October 2007, being the record date, 905,592,140 ordinary shares of 10 pence each were replaced with 724,473,712 new ordinary shares of 12.5 pence each.

The Directors consider shareholders' equity to represent Group capital.

Notes to the financial statements – Group and Company (continued)

27. Reserves

Group

	Share premium	Treasury shares	Own shares held	Translation reserve	Revaluation reserve	Profit and loss account	Minority interests	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2007	193.7	(1.9)	(29.9)	(4.8)	29.9	218.6	0.1	405.7
Exchange differences on translation of foreign operations	-	-	-	1.5	-	-	-	1.5
Gains/(losses) on revaluation of available-for-sale financial assets	-	-	-	0.7	(17.6)	-	-	(16.9)
Translation reserve transfer on sale of available-for-sale financial assets	-	-	-	0.8	-	-	-	0.8
Revaluation reserve transfer on sale of available-for-sale financial assets	-	-	-	-	(28.6)	-	-	(28.6)
Actuarial gains on defined benefit pension schemes	-	-	-	-	-	34.7	-	34.7
Tax charge on items taken directly to equity	-	-	-	-	-	(11.5)	-	(11.5)
Profit after tax	-	-	-	-	-	132.1	0.1	132.2
Dividends paid to equity shareholders	-	-	-	-	-	(264.8)	-	(264.8)
Purchase of treasury or own shares	-	(6.7)	(87.1)	-	-	-	-	(93.8)
Dividend waived	-	-	20.5	-	-	(20.5)	-	-
Costs of share consolidation	(0.4)	-	-	-	-	-	-	(0.4)
Vesting of share schemes	-	-	12.9	-	-	(12.9)	-	-
Issue of shares for SAYE	1.0	-	-	-	-	-	-	1.0
Issue of shares for BAYE	0.3	-	-	-	-	(0.3)	-	-
Transfer of reserve	-	1.9	(1.9)	-	-	-	-	-
Movement in equity-settled share scheme expenses	-	-	-	-	-	23.6	-	23.6
At 31 December 2007	194.6	(6.7)	(85.5)	(1.8)	(16.3)	99.0	0.2	183.5
Exchange differences on translation of foreign operations	-	-	-	6.9	-	-	-	6.9
Gains/(losses) on revaluation of available-for-sale financial assets	-	-	-	4.4	(51.4)	-	-	(47.0)
Revaluation reserve transfer on sale of available-for-sale financial assets	-	-	-	-	3.6	-	-	3.6
Revaluation reserve transfer on impairment of available-for-sale financial assets	-	-	-	-	7.2	-	-	7.2
Actuarial gains on defined benefit pension schemes	-	-	-	-	-	65.0	-	65.0
Tax charge on items taken directly to equity	-	-	-	-	-	(15.9)	-	(15.9)
Profit after tax	-	-	-	-	-	61.2	0.1	61.3
IFRS 2 capital contribution	-	-	-	-	-	-	53.0	53.0
Dividends paid to equity shareholders	-	-	-	-	-	(42.9)	-	(42.9)
Purchase of own shares	-	-	(14.8)	-	-	-	-	(14.8)
Transfer of treasury shares	-	6.7	(6.7)	-	-	-	-	-
Vesting of share schemes	-	-	31.6	-	-	(31.6)	-	-
Issue of shares for SAYE	0.2	-	-	-	-	-	-	0.2
Issue of shares for BAYE	0.3	-	-	-	-	(0.4)	-	(0.1)
Movement in equity-settled share scheme expenses	-	-	-	-	-	18.8	-	18.8
Reserves realised on disposal of subsidiary companies	-	-	-	(3.6)	54.8	(51.2)	-	-
Novation of share schemes on implementation of the scheme of arrangement	-	-	75.4	-	-	9.5	-	84.9
<b>At 31 December 2008</b>	<b>195.1</b>	<b>-</b>	<b>-</b>	<b>5.9</b>	<b>(2.1)</b>	<b>111.5</b>	<b>53.3</b>	<b>363.7</b>

## Notes to the financial statements – Group and Company (continued)

### 27. Reserves (continued)

#### Company

	Share premium £m	Treasury shares £m	Own shares held £m	Profit and loss account £m	Total £m
At 1 January 2007	193.7	(1.9)	(29.9)	414.6	576.5
Actuarial gains on defined benefit pension schemes				33.9	33.9
Tax charge on items taken directly to equity				(9.6)	(9.6)
Profit after tax				21.5	21.5
Dividends paid to equity shareholders				(264.8)	(264.8)
Purchase of treasury or own shares		(6.7)	(87.1)		(93.8)
Dividend waived			20.5	(20.5)	-
Costs of share consolidation	(0.4)				(0.4)
Vesting of share schemes			12.9	(12.9)	-
Issue of shares for SAYE	1.0				1.0
Issue of shares for BAYE	0.3			(0.3)	-
Transfer of reserve		1.9	(1.9)		-
Movement in equity-settled share scheme expenses				23.6	23.6
At 31 December 2007	194.6	(6.7)	(85.5)	185.5	287.9
Actuarial gains on defined benefit pension schemes				63.9	63.9
Tax charge on items taken directly to equity				(17.9)	(17.9)
Loss after tax				(26.3)	(26.3)
Dividends paid to equity shareholders				(42.9)	(42.9)
Purchase of own shares			(14.8)		(14.8)
Transfer of treasury shares		6.7	(6.7)		-
Vesting of share schemes			31.6	(31.6)	-
Issue of shares for SAYE	0.2				0.2
Issue of shares for BAYE	0.3			(0.4)	(0.1)
Movement in equity-settled share scheme expenses				18.7	18.7
Novation of share schemes on implementation of the scheme of arrangement			75.4	9.5	84.9
<b>At 31 December 2008</b>	<b>195.1</b>	<b>-</b>	<b>-</b>	<b>158.5</b>	<b>353.6</b>

#### Share premium

Share premium records the difference between the nominal value of shares issued and the full value of the consideration received.

#### Treasury shares

Treasury shares represent shares purchased to satisfy future vesting requirements of various employee share-based payment schemes. During 2007, 5,000,000 shares were purchased for a consideration of £6.7m. On 30 September 2008, the Company's holding of treasury shares was transferred to Ogier Trustees Limited (Jersey) to satisfy future awards under the Group's employee share schemes.

#### Own shares

Own shares held reserve includes 55,167,261 (2007: 48,036,187) shares owned by Henderson Group plc Employee Trust 2000, 7,377,978 (2007: 17,370,378) shares owned by Henderson Group plc Employee Trust 2004 and 100,000 shares owned by the CSOP at 31 December 2008. The combined shareholdings had a cost of £74.2m (2007: £85.5m) and a market value of £36.5m (2007: £82.6m) as at 31 December 2008 and constituted 8.6% (2007: 9.0%) of the Company's allotted share capital as at that date.

The Henderson Group plc Employee Trust 2004, Henderson Employee Share Trust 2000, BAYE and CSOP are used by the Group and the Company to operate the LTIP, DEP, BAYE and CSOP share-based payment schemes respectively. Shares are distributed to employees as and when they vest, in line with the terms of each scheme, under the administration of the trustees. Ogier Trustees Limited (Jersey) took over the administration of the Henderson Group plc Employee Trust 2004 during the year and it continues to administer the Henderson Employee Share Trust 2000. The BAYE and CSOP are both administered by Excellerate HRO.

## Notes to the financial statements – Group and Company (continued)

### 27. Reserves (continued)

#### Own shares (continued)

On the vesting of shares under the share-based compensation plans, a transfer is made between the own shares held reserve and the profit and loss account, being movement in equity-settled share scheme expenses. This treatment is consistent in both the Group and Company financial statements.

#### Translation reserve

The translation reserve comprises differences on exchange arising from the translation of opening balance sheets of subsidiaries, whose reporting currency is not pounds sterling, and differences between the results of these subsidiaries translated at average rates for the reporting period and period end rates. The translation reserve also includes unrealised foreign exchange gains and losses on available-for-sale financial assets.

#### Revaluation reserve

The revaluation reserve comprises the amount of any gain or loss recognised directly in equity in relation to available-for-sale financial assets.

Upon disposal or impairment of these assets, amounts previously recognised in the translation or revaluation reserves are reversed out and the full amount of the gain or loss or impairment is recognised in the profit and loss account.

### 28. Reconciliation of movement in equity

#### Group

	2008	2007
	£m	£m
Equity at 1 January	274.1	495.9
Total recognised income and expense attributable to equity holders of the parent	81.1	112.1
Dividends paid to equity holders	(42.9)	(264.8)
Purchase of own shares	(14.8)	(87.1)
Purchase of treasury shares	-	(6.7)
Issue of shares for SAYE	0.2	1.4
Issue of shares for BAYE	(0.1)	-
Costs of share consolidation	-	(0.4)
Movement in equity-settled share scheme expenses	18.7	23.6
Movement in minority interests	53.1	0.1
Novation of share schemes on implementation of scheme of arrangement	84.9	-
<b>Equity at 31 December</b>	<b>454.3</b>	<b>274.1</b>

#### Company

	2008	2007
	£m	£m
Equity at 1 January	378.5	666.7
Total recognised income and expense	19.7	45.8
Costs of share consolidation	-	(0.4)
Dividends paid to equity holders	(42.9)	(264.8)
Purchase of own shares	(14.8)	(87.1)
Purchase of treasury shares	-	(6.7)
Issue of shares for the SAYE	0.2	1.4
Issue of shares for the BAYE	(0.1)	-
Movement in equity-settled share scheme expenses	18.7	23.6
Novation of share schemes on implementation of scheme of arrangement	84.9	-
<b>Equity at 31 December</b>	<b>444.2</b>	<b>378.5</b>

## 29. Financial risk management

### Financial risk management objectives and policies

Financial assets principally comprise investments in equity securities, short-term investments, trade and other receivables, and cash and cash equivalents. Financial liabilities comprise borrowings for financing purposes, certain provisions and trade and other payables. The main risks arising from financial instruments are price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. Each of these risks are discussed in detail below. The Group monitors financial risks on a consolidated basis and intra-Group balances are settled when it is deemed appropriate for both parties to the transaction.

The Company is not exposed to material financial risk as all material financial assets and liabilities on its balance sheet relate to transactions with its subsidiaries or with fellow subsidiaries of its ultimate parent. The Company believes that balances arising from these transactions carry no material risk. As a result separate disclosures for the Company have not been included.

The Group has designed a framework to manage the risks of its business and to ensure that the Directors have in place risk management practices appropriate to a listed company. The management of risk within the Group is governed by the Board.

### 29.1 Price risk

Price risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group. Management has identified price risk as having two principal components in relation to the Group's risk profile as follows:

- a prolonged or significant reduction in the value of available-for-sale financial assets held by the Group resulting in a loss recognised in the consolidated income statement; and
- a significant decline in the value of assets under management of the Group resulting in a significant reduction in the level of fees generated.

Corporate investments held as available-for-sale financial assets on the consolidated balance sheet include shareholdings in BP with a market value at 31 December 2008 of £nil (2007: £53.7m). The Group is also exposed to price risk in respect of seed capital investments in Henderson funds. The seed capital investments vary in duration, depending on the nature of the investment, with a typical range of less than one year for Listed Asset products and between three and five years for Private Equity and Property funds. The total market value of seed capital investments at 31 December 2008 was £48.2m (2007: £48.0m).

Management monitors exposures to price risk on an ongoing basis. Movements in significant investment values are monitored on a daily basis. Occasionally, management will consider hedging price risk, but there were no such hedges in place at 31 December 2008.

A fall in the value of an investment which is significant or prolonged is considered to be an indication of impairment under IAS 39. In such an event, the investment is written down to fair value and the amounts previously recognised in equity, in respect of market value and unhedged foreign exchange movements on the investment, are recognised in the consolidated income statement as an impairment charge.

#### *Price risk sensitivity analysis on available-for-sale financial assets*

	2008		2007	
	Consolidated income statement £m	Equity £m	Consolidated income statement £m	Equity £m
Price risk sensitivities				
Market value movement +/- 25%	-	12.1	-	25.5

Notes to the financial statements – Group and Company (continued)

29. Financial risk management (continued)

29.2 Interest rate risk

Interest rate risk is the risk that the Group will sustain losses from adverse movements in interest bearing assets and liabilities. The Group is exposed to interest rates on banking deposits held in the ordinary course of business. Available-for-sale financial assets are not currently exposed to interest rate risk. This exposure is monitored by management on a continuing basis.

Financial assets and liabilities exposed to interest rate risk

At 31 December 2008

	Fixed rate	Floating rate	Not directly exposed to interest rate risk	Total
	£m	£m	£m	£m
<b>Financial assets</b>				
Shares/units in OEICs/unit trusts	-	-	0.4	0.4
Available-for-sale financial assets	-	-	48.2	48.2
OEIC, unit trust and other debtors	-	125.8	77.4	203.2
Cash and cash equivalents	-	132.7	-	132.7
<b>Total financial assets</b>	-	258.5	126.0	384.5
<b>Financial liabilities</b>				
Debt instrument in issue	184.5	-	-	184.5
Current tax liabilities	-	-	23.5	23.5
OEIC, unit trust and other creditors	-	-	133.6	133.6
Derivative financial instruments	-	-	0.6	0.6
<b>Total financial liabilities</b>	<b>184.5</b>	-	<b>157.7</b>	<b>342.2</b>

At 31 December 2007

	Fixed rate	Floating rate	Not directly exposed to interest rate risk	Total
	£m	£m	£m	£m
<b>Financial assets</b>				
Shares/units in OEICs/unit trusts	-	-	0.6	0.6
Available-for-sale financial assets	-	-	101.7	101.7
OEIC, unit trust and other debtors	-	-	37.7	37.7
Derivative financial instruments	-	3.4	-	3.4
Cash and cash equivalents	-	248.0	-	248.0
<b>Total financial assets</b>	-	251.4	140.0	391.4
<b>Financial liabilities</b>				
Debt instrument in issue	174.0	4.0	-	178.0
Current tax liabilities	-	-	41.1	41.1
OEIC, unit trust and other creditors	-	-	66.8	66.8
Derivative financial instruments	-	-	4.5	4.5
<b>Total financial liabilities</b>	<b>174.0</b>	<b>4.0</b>	<b>112.4</b>	<b>290.4</b>

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

*Interest rate risk sensitivity analysis*

Interest rate risk sensitivity analysis on the consolidated income statement has been performed on the basis of a 250bps fall in interest rates at the beginning of the year. The impact of such a decrease would reduce anticipated earnings by circa £6.5m per annum.

## Notes to the financial statements – Group and Company (continued)

### 29. Financial risk management (continued)

#### 29.3 Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations as they fall due.

Group liquidity is managed on a daily basis by the finance function, to ensure that the Group always has sufficient cash and/or highly liquid assets available to meet its liabilities. This function also controls and monitors the use of the Group's non-operating capital resources. It is the Group's policy to ensure that it has access to funds to cover all forecast commitments for the next 18 months.

The maturity dates of the Group's financial liabilities are as follows:

At 31 December 2008

	Within 1 year or repayable on demand	Within 1-5 years	Total	Carrying value in the balance sheet
	£m	£m	£m	£m
Debt instrument in issue (including interest)	11.4	203.4	214.8	184.5
Current tax liabilities	23.5	-	23.5	23.5
OEIC, unit trust and other creditors	133.6	-	133.6	133.6
Derivative financial instruments	0.6	-	0.6	0.6
	<b>169.1</b>	<b>203.4</b>	<b>372.5</b>	<b>342.2</b>

At 31 December 2007

	Within 1 year or repayable on demand	Within 1-5 years	Total	Carrying value in the balance sheet
	£m	£m	£m	£m
Debt instrument in issue (including interest)	11.4	214.8	226.2	178.0
Current tax liabilities	41.1	-	41.1	41.1
OEIC, unit trust and other creditors	66.8	-	66.8	66.8
Derivative financial instruments	4.5	-	4.5	4.5
	<b>123.8</b>	<b>214.8</b>	<b>338.6</b>	<b>290.4</b>

#### 29.4 Foreign currency risk

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates.

The Group's business is impacted through its exposure to non-pounds sterling income and expenses, and assets and liabilities of its overseas subsidiaries as well as assets and liabilities denominated in currency other than pounds sterling. The currency exposure is managed by limiting the Group's net exposure to individual foreign currencies to pre-determined caps through forward currency contracts. The Group also uses foreign currency contracts to eliminate the currency exposure on certain individual transactions. In addition, the Group carries a small foreign exchange position as principal to facilitate the smooth conduct of its client business.

A rolling programme of forward currency contracts has been implemented to hedge the currency exposures arising from certain available-for-sale financial assets, with a year end notional value of US\$32.0m (2007: €120.4m and US\$35.0m) (refer to note 28.6).

Foreign currency risk is managed by the finance function (incorporating Treasury operations), whereby foreign currency balances are monitored closely and, where cost effective, hedging options are considered. The Group seeks to use natural hedges, namely other financial assets and liabilities of opposite value denominated in the same currency. Where there is a mismatch any material currency flows, which are reasonably certain, are actively hedged. Where there is insufficient certainty, the currency is translated back into pounds sterling on receipt.

##### *Foreign currency risk sensitivity analysis*

Significant financial instruments are either denominated in pounds sterling or hedged back to pounds sterling using foreign currency forward contracts. However, there remain some foreign currency balances which are not fully hedged since, individually, they are below the policy level for implementing hedging arrangements. In addition, there are unhedged foreign currency cash balances in overseas subsidiaries of the Group.

## Notes to the financial statements – Group and Company (continued)

### 29. Financial risk management (continued)

#### 29.4 Foreign currency risk (continued)

The table below illustrates the impact of adjusting year end exchange rates on all unhedged financial assets and cash balances denominated in a currency other than pounds sterling:

#### Currency sensitivities

	2008		2007	
	Consolidated income statement £m	Equity £m	Consolidated income statement £m	Equity £m
Euro exchange rate +/- 10%	0.1	1.5	0.1	3.5
US dollar exchange +/- 10%	0.2	0.1	0.2	3.9
Australian dollar exchange +/- 10%	-	0.1	-	-

#### 29.5 Credit risk

Credit risk is the risk of a counterparty of the Group defaulting on funds deposited with it or on a trade debt.

The Group has an established credit policy, to ensure that it only transacts with counterparties that are able to meet satisfactory rating requirements. Counterparty limits are reviewed and set centrally by the Credit Risk Committee. Management is responsible for ensuring that it remains within these limits and the risk management function monitors and reports any exceptions to policy. The Group has not suffered any losses as a result of trade debtor defaults during the year.

The risk management function is also responsible for reporting credit exposures to the Audit Committee on a quarterly basis and for ensuring that any credit concerns are raised and actions taken to mitigate risks.

The table below contains an analysis of current and overdue financial assets:

#### At 31 December 2008

	Not past due £m	0-3 months past due £m	3-6 months past due £m	6-12 months past due £m	Greater than 12 months past due £m	Total £m
<b>Financial assets</b>						
Shares/units in OEICs/unit trusts	0.4	-	-	-	-	0.4
Available-for-sale financial assets	48.2	-	-	-	-	48.2
OEIC, unit trust and other debtors	200.8	1.3	0.6	0.3	0.1	203.2
Cash and cash equivalents	132.7	-	-	-	-	132.7
<b>Total financial assets</b>	<b>382.1</b>	<b>1.3</b>	<b>0.6</b>	<b>0.3</b>	<b>0.1</b>	<b>384.5</b>

#### At 31 December 2007

	Not past due £m	0-3 months past due £m	3-6 months past due £m	6-12 months past due £m	Greater than 12 months past due £m	Total £m
<b>Financial assets</b>						
Shares/units in OEICs/unit trusts	0.6	-	-	-	-	0.6
Available-for-sale financial assets	101.7	-	-	-	-	101.7
OEIC, unit trust and other debtors	36.9	0.4	0.1	0.3	-	37.7
Derivative financial instruments	3.4	-	-	-	-	3.4
Cash and cash equivalents	248.0	-	-	-	-	248.0
<b>Total financial assets</b>	<b>390.6</b>	<b>0.4</b>	<b>0.1</b>	<b>0.3</b>	<b>-</b>	<b>391.4</b>

## Notes to the financial statements – Group and Company (continued)

### 29. Financial risk management (continued)

#### 29.5 Credit risk (continued)

The table below contains an analysis of financial assets as rated by Moody's Investors Service:

At 31 December 2008

	AAA	AA	A	BBB	Not rated	Total
	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>						
Shares/units in OEICs/unit trusts	-	-	-	-	0.4	0.4
Available-for-sale financial assets	-	-	-	-	48.2	48.2
OEIC, unit trust and other debtors	-	-	-	-	203.2	203.2
Cash and cash equivalents	109.0	23.6	0.1	-	-	132.7
<b>Total financial assets</b>	<b>109.0</b>	<b>23.6</b>	<b>0.1</b>	<b>-</b>	<b>251.8</b>	<b>384.5</b>

At 31 December 2007

	AAA	AA	A	BBB	Not rated	Total
	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>						
Shares/units in OEICs/unit trusts	-	-	-	-	0.6	0.6
Available-for-sale financial assets	-	-	-	53.7	48.0	101.7
OEIC, unit trust and other debtors	-	-	-	-	37.7	37.7
Derivative financial instruments	-	3.4	-	-	-	3.4
Cash and cash equivalents	115.7	110.3	21.8	0.2	-	248.0
<b>Total financial assets</b>	<b>115.7</b>	<b>113.7</b>	<b>21.8</b>	<b>53.9</b>	<b>86.3</b>	<b>391.4</b>

#### 29.6 Hedging activities

At 31 December 2008, the Group held three forward exchange contracts to hedge the foreign currency risk arising from investments denominated in Euro and US dollar (refer to note 29.4).

These forward exchange contracts have been assessed as effective fair value hedges. A net unrealised loss arising on these instruments of £24.2m (2007: loss £3.7m) has been offset in the consolidated income statement by £24.3m (2007: £3.1m), being the portion of the unrealised foreign exchange gain on available-for-sale investments in designated hedging relationships (refer to note 29.4).

During the year, the Group unwound the interest rate swap on its Corporate debt. The interest rate swap was assessed as an effective fair value hedge up to the date of it being unwound.

	2008			2007		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£m	£m	£m	£m	£m	£m
<b>Fair value hedges</b>						
Forward exchange contracts at fair value	21.6	-	0.6	106.0	-	4.5
Interest rate swap contract at fair value	-	-	-	175.0	3.4	-

### 30. Leases

#### Operating lease

The Group was party to an operating lease which was surrendered on 28 November 2008. A new 20.5 year operating lease was entered into during 2008 which provides for reviews to open market rent on every fifth anniversary of the lease and an initial rent-free period of 30 months. The rental expense on this lease will be recognised on a straight-line basis over the lease period.

The future minimum lease payments under these non-cancellable operating leases fall due as follows:

	2008	2007
	£m	£m
Within one year	0.7	8.4
In the second to fifth years inclusive	28.2	25.2
After five years	99.5	-
<b>Total</b>	<b>128.4</b>	<b>33.6</b>

The total future minimum sublease payments expected to be received under non-cancellable subleases within one year at the balance sheet date were £nil (2007: £1.1m).

### 31. Capital commitments

The amounts of capital expenditure contracted for but not provided for in the financial statements at 31 December 2008 amounted to £1.1m (2007: £nil).

### 32. Related party transactions

#### Group

Intra group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group.

Disclosures relating to the Henderson Group Pension Scheme are covered under note 21.

Details of transactions between the Group and its fellow subsidiaries, which are related parties, together with amounts due from and to these related parties at the balance sheet date, are disclosed below:

	2008	2007
	£m	£m
<b>Transactions with related parties</b>		
Transfer of investment and employee benefit trust on scheme of arrangement and group restructure	135.8	-
Profit on group restructuring	34.2	-
Transfer of financial instruments to fellow subsidiary on group restructure	30.5	-
Interest receivable	0.7	-
Loss on write down of loan to fellow subsidiary	(20.9)	-
<b>Amounts owed by/(to) related parties</b>		
Amounts owed by related parties	131.0	-
Amounts owed to related parties	(74.1)	-

#### Compensation of key management personnel (including Directors)

	2008	2007
	£m	£m
Short-term employee benefits	4.2	7.4
Post-employment benefits	0.2	0.2
Share-based payments	9.0	7.6
	<b>13.4</b>	<b>15.2</b>

## Notes to the financial statements – Group and Company (continued)

### 32. Related party transactions (continued)

#### Company

Details of transactions between the Company and its controlled entities, which are related parties, together with amounts due from and to these related parties at the balance sheet date, are disclosed below:

	2008	2007
	£m	£m
<b>Transactions with related parties</b>		
Dividends receivable	1.0	27.0
Expenses recovered from other Group companies	10.5	16.6
Interest payable	(25.8)	(62.1)
Expenses recharged by other Group companies	-	-
<b>Amounts owed by/(to) related parties</b>		
Amounts owed by related parties	329.9	228.6
Amounts owed to related parties	(668.6)	(1,615.4)

### 33. Ultimate Parent Undertaking and Controlling Party

The Company's immediate parent undertaking is Henderson Holdings Group Limited and the ultimate parent undertaking is Henderson Group plc. A copy of the Henderson Group plc's Annual Report and Accounts for the year ended 1 December 2008 can be obtained from its registered office at 47 Esplanade, St Helier, Jersey, JE1 0BD.

### 34. Contingent liabilities

The following contingent liabilities existed at 31 December 2008:

- in the normal course of business, the Group is exposed to certain legal issues, which can involve litigation and arbitration;
- in the normal course of business, the Group enters into various types of investment contracts that can give rise to contingent liabilities. These include foreign exchange contracts, financial futures, interest rate derivatives and exchange traded options. These contracts are entered into in the normal management of clients' investment portfolios;
- on 2 May 2006, the Hong Kong Securities and Futures Commission announced that it had reached a settlement with UKFP (Asia) HK Limited (formerly part of Towry Law International) regarding certain legacy products sold by Towry Law International. Significant payments have subsequently been made to investors in line with accounting provisions made for that purpose. The Directors are of the opinion that the provisions remaining at the balance sheet date to cover any future payments, as detailed in note 22, are adequate;
- under the sale agreement with Pearl Group Limited, tax related warranties and indemnities given by the Group expire up to six years from the disposal date of 13 April 2005;
- under the Towry Law UK sale agreement, normal tax warranties and indemnities were given by the Group which are subject to expiry in up to six years from the disposal date of 3 May 2006; and
- as at the date of approval of the 2008 financial statements, the Group and Company neither foresee nor have they been notified of any claims under outstanding warranties and indemnities from sale agreements.

### 35. Acquisitions and disposals of subsidiaries

#### 35.1 Acquisitions

The Group did not acquire any subsidiaries during the current or previous year.

#### 35.2 Disposals

On 27 November 2008, the Group completed the sale of the following companies to Henderson Holdings Group BV, a fellow subsidiary of Henderson Group plc:

Henderson Funds Management (Jersey) Limited,  
Henderson Global Investors (Ireland) Limited,  
Henderson Management SA,  
Henderson Fund Management (Luxembourg) SA,  
Henderson Equity Partners Funds Limited,  
Henderson Global Investors (Hong Kong) Limited,  
Henderson Global Investors (Singapore) Limited,  
Henderson Property Management Company (Luxembourg) No.1 sarl, and  
Henderson International Finances Limited.

Information relating to this disposal is included in note 8 to these accounts.

### 36. Events after the balance sheet date

The Board has not, as at 26 June 2009, being the date the financial statements were approved, received any information concerning significant conditions in existence at the balance sheet date, which have not been reflected in the financial statements as presented. The Board has, however, given due regard to the events described below which occurred after the balance sheet date.

## **GLOSSARY**

### **1H07**

Six months ended 30 June 2007

### **1H08**

Six months ended 30 June 2008

### **2H06**

Six months ended 31 December 2006

### **2H07**

Six months ended 31 December 2007

### **2H08**

Six months ended 31 December 2008

### **FY07**

Twelve months ended 31 December 2007

### **FY08**

Twelve months ended 31 December 2008

### **BAYE**

Buy As You Earn Plan

### **Board**

The board of directors of HGI Group Limited

### **BP**

Banco Popolare Gruppo Bancario

### **bps**

Basis points

### **Company**

HGI Group Limited

### **Corporate** or **Corporate office**

The Group excluding Henderson Global Investors

### **CSOP**

Company Share Option Plan

### **Directors**

The directors of HGI Group Limited

### **DEP**

Deferred Equity Plan

### **ESOP**

Employee Share Ownership Plan

### **Hedge funds**

Hedge funds including Absolute Return Funds

### **Henderson Board**

The board of directors of Henderson Group plc

### **Henderson Group**

Henderson Group plc and its controlled entities

### **Group**

HGI Group Limited and its controlled entities

### **IAS**

International Accounting Standard

### **IAS 19**

IAS issued by the International Accounting Standards Board, being IAS 19 Employee Benefits

## **Glossary** (continued)

### **IFRIC**

International Financial Reporting Interpretations Committee

### **IFRS**

International Financial Reporting Standards as adopted by the European Union

### **IFRSs**

International Financial Reporting Standards

### **IAS 19**

IAS issued by the International Accounting Standards Board, being IAS 19 Employee Benefits

### **IFRIC**

International Financial Reporting Interpretations Committee

### **IFRS**

International Financial Reporting Standards as adopted by the European Union

### **IFRSs**

International Financial Reporting Standards

### **LIBOR**

London Inter-bank Offered Rate

### **Life Services business**

The life insurance and pension books of Pearl Assurance Limited, London Life Limited, NPI Limited and National Provident Life Limited, and also includes the closed general insurance books of Pearl Assurance Limited, the pension trustee business of Premier Pension Trustees Limited and the retirement services business operated by NPI Limited

### **LTIP**

Long Term Incentive Plan

### **OEIC**

Open Ended Investment Company

### **Pearl**

Pearl Group Limited and its subsidiaries, or Life Services business

### **Pension Scheme**

The Henderson Group Pension Scheme

### **RSP**

Restricted Share Plan

### **Scheme**

The scheme of arrangement under sections 895 to 899 of the UK Companies Act undertaken by the Company effective 31 October 2008

### **SICAV**

Société d'investissement á capital variable (collective investment scheme)

### **Towry Law International**

The international division (now closed) of Towry Law plc

### **Towry Law UK**

Towry Law plc and its controlled entities, which was sold to JS&P Holdings Limited

### **UCITs**

Undertaking for Collective Investment in Transferable Securities

### **UK or United Kingdom**

The United Kingdom of Great Britain and Northern Ireland