

HHG PLC

Company Number 2072534

ARBN 30 106 988 836

ASX Appendix 4E

Announcement of Preliminary Results

For the Year Ended

31 December 2003

The information contained in this document should be read in conjunction with any public announcements made by HHG PLC and its controlled entities during the year in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and the ASX Listing Rules.

HHG PLC

ASX Appendix 4E

For the year ended 31 December 2003

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Note: The disclosures provided in this "Results for announcement to the market" section meet the requirements of the Australian Stock Exchange ("ASX").

Financial Results	31 Dec 03	31 Dec 02	% change 2003 to 2002
	£m	£m	%
Revenue from ordinary activities	4,127	297	1,290
Loss from ordinary activities after tax attributable to members	(848)	(329)	(158)
Net loss for the period attributable to members	(848)	(329)	(158)

Dividends	31 Dec 03		31 Dec 02	
	Per share pence	Total £m	Per share pence	Total £m
Non-equity dividends on 'A' preference shares	4.6	1	5.4	1
Non-equity dividends on 'B' redeemable preference shares	-	-	0.5	1
Non-equity dividends on 'C' redeemable preference shares	-	-	6.2	23

No dividend on ordinary shares is proposed.

Net tangible assets per ordinary share	31 Dec 03 pence	31 Dec 02 pence
Net tangible assets per 10p ordinary share in issue at 31 December 2003 (2002: net tangible assets per £1 ordinary share in issue at 31 December 2002).	57	36

"Net tangible assets" definition: total assets less intangible assets less total liabilities ranking ahead of, or equally with, claims of ordinary shares.

Analysis of revenue from ordinary activities	31 Dec 03 £m	31 Dec 02 £m
General insurance business gross premiums written	-	1
Long term business gross premiums written	1,664	2,136
Long term business investment income	1,405	1,394
Long term business unrealised gains on investments	979	-
Long term business unrealised losses on investments	-	(3,545)
Non-technical account investment income	27	101
Non-technical account unrealised losses on investments	(148)	(16)
Henderson business unit total revenue	196	223
Less: Henderson business unit intra-group revenue	(44)	(50)
Towry Law business unit total revenue	48	53
Total	4,127	297

REVIEW OF OPERATIONS

In 2003, HHG was established as an independent company as a consequence of the Demerger of the UK businesses from AMP. In Henderson Global Investors and UK Life Services – the two main businesses within HHG – there exist respectively opportunities for growth and opportunities to realise value. However, in 2003 it was important that HHG and its businesses established a sound financial position to ensure that it could make the most of these opportunities and be in a position to withstand adverse conditions in the financial markets.

There were several key priorities in 2003 to achieve this, including:

- Reduction of risk in the life companies given the limited shareholder capital available
- Building of a strong balance sheet including the removal of £1.047bn in corporate debt
- Restructuring within the life companies and the Group to align the corporate structure with the core businesses and improve the regulatory capital position – this also involved raising £190m on listing
- Ensuring that provisions in Life Services were adequate to cover a wide range of potential liabilities.

On December 23, following Demerger, HHG listed successfully on the London and Australian Stock Exchanges entering the ASX 100 and (in March 2004) the FTSE 250.

By year-end 2003, these fundamental changes were complete and HHG had:

- Net assets of £1.7bn
- Simplified corporate structure
- Minimal corporate debt
- Established corporate office
- Provisions to address Life Services potential liabilities of £1.5bn
- Embedded Value for Life Services of £1.15bn
- Assets under Management of £71bn

HHG strategy for 2004

- Grow Henderson into a powerful and highly regarded European investment Management Company, with operations in Asia and North America. The business is well diversified and growing organically and is well positioned in both the institutional and retail sectors.
- Place Life Services on an efficient operational footing and in a sound financial position to improve operating profitability and enable release of capital over the long-term.
- Develop Towry Law as an effective and profitable stand-alone business.
- Maximise the value of HHG's investment in Virgin Money.

Henderson

Henderson is a leading investment manager based in London but operating throughout Europe, with expanding operations in North America and Asia. Henderson manufactures a broad range of actively managed investment products for institutional and retail investors, across multiple asset classes including equities, fixed income, private equity and property. It also manages the assets of Life Services' life funds.

Business strategy

The objective is for Henderson to maintain its configuration as an international, multi-asset class business and increase access to the platforms and panels of the largest global and national distributors. This will be achieved by concentrating on:

- Building and sustaining competitive investment performance to provide both a source of competitive advantage and enabling margins to be protected.
- Responding to the increasing commoditisation of core products by developing new and existing higher-margin products. This includes expanding specialist investment opportunities such as hedge funds, geared fixed income funds and property funds.
- Attracting and retaining the right people by providing market-competitive remuneration and effective career development programmes.
- Building scale by strengthening distribution and client servicing.

REVIEW OF OPERATIONS (continued)***Henderson (continued)***

Strong second half 2003 result – 46% up on first half

Early 2003 saw a low point in equity markets with a marked recovery during the second half. Henderson's results reflected this, with a sharp (46%) improvement in profits in the second half compared to the first. Second half revenues benefited from rising assets under management as the market recovered, while costs were held flat. The scale of improvement in the second half demonstrates the operational gearing in the business.

The marked improvement in second half profits to £19 m before tax, up 46% on first half profits delivered a full year profit of £32m before tax. This reflected the recovery in the market (FTSE up 9% in the fourth quarter) and the positive impact of management initiatives on bottom line profitability.

Overall, Henderson's cost to income ratio was 84% for 2003, showing the negative effect of lower first half revenues. The ratio improved in the second half due to a combination of improving revenue and flat costs. In 2004 we expect the cost to income ratio to fall below 80% and, in the medium term, are targeting a ratio of around 75%, assuming benign market conditions. Whilst tight control has been maintained over business as usual costs, expenditure on front office IT infrastructure to support investment professionals and on retail distribution capabilities has continued, to support the achievement of our strategic objectives.

Investment performance

Henderson delivered stronger investment performance in 2003 with 68% of External Listed Asset funds outperforming their benchmark (this includes all of the listed assets managed by Henderson with the exception of the Life Services with-profits funds. No meaningful data is available for these as the benchmarks were suspended during the year while asset allocations were revised). In particular, the performance of the Absolute Return Funds, the Horizon fund range and US Mutual funds has been strong, providing positive distribution opportunities for 2004.

Assets under management (AUM) steady, but cash inflow down due to restructure of life funds

AUM increased by £1.9bn to £70.6bn, a £6.0bn increase from markets, partially offset by £4.1bn of net fund outflows, predominantly in relation to the Life Services life funds and AMP withdrawals. We currently expect the growth in profits derived from new and existing higher-margin products to exceed the profit impact of 2003 net outflows (generally in respect of lower margin products).

Outlook

Despite the downturn in the global equity markets since 2000, we are convinced that the future of the global asset management industry is a positive one. The ageing population, increasing requirement for retirement savings and growing recognition by governments that greater proportions of the population require long-term saving and investment are all positive for the industry.

Going forward, Henderson will further strengthen its international distribution ties with both global and national banks and other financial services organisations in Continental Europe, Asia Pacific and North America. Given the improved performance of a number of retail products suitable for distribution in each of these regions, the 2004 outlook is more promising. Cost control will remain important but this will be balanced by continuing investment in infrastructure and people, which supports our core objective of delivering investment excellence.

Life Services

The objective for Life Services is to maximise shareholder value, from its closed books of business, by demonstrating rigorous risk and balance sheet management to allow the market greater certainty about the underlying value of the businesses. In the longer term, that value will be realised through the release of capital and dividends to shareholders.

REVIEW OF OPERATIONS (continued)***Life Services (continued)***

Life Services intends to achieve this by focusing on certain basic issues: balance sheet and risk management, unit costs and efficiency, customer management, and the development and retention of high quality people.

The major issue for Life Services in the first half of 2003 was to manage the regulatory capital requirements of its life companies in the face of falling investment markets. The absence of further capital required a significant reduction in share market risk to protect policyholders and shareholders. Closure to new business and the consequent restructure required significant cost reductions and further streamlining of the Life Services operation.

Profit and Embedded Value recovery in second half

Overall, with an operating profit of £81m before tax, the result for Life Services is strong given the substantial changes in the business during the year. The result was underpinned by a number of recurring profit items. These included the emergence of prudential margins from closed fund run off (no longer offset by setting up prudent new business reserves) and the shareholders' share of bonuses on with profits business. Any new business going forward will be minimal. In addition the result in the second half was supported by several one-off favourable impacts, including movements in interest rates, timing of cash injections, transitional revenue into the Service Company and profit margins on annuity new business.

The wide scale restructure and writedowns in the first half substantially impacted Embedded Value. However, in the second half it grew significantly reflecting a number of factors: additional capital raised, favourable market conditions and better than expected profitability on non-profit business and within the Service Company.

Improved balance sheet and risk management

During 2003, Life Services management focused heavily on fully understanding and managing the risks associated with the life companies and their balance sheets.

A risk and control self-assessment system has been implemented across Life Services which further strengthens the Life Services' control environment. Ongoing initiatives continue to investigate opportunities for optimising the risk: return trade-off to ensure the most efficient use of capital. These include the continuing swap of strategic assets for admissible assets (principally HHG Invest), increasing the admissible assets in the with-profits funds and consideration of structured investment vehicles.

In the first half of 2003, the life companies significantly reduced their exposure to share markets and increased investments in less volatile assets such as fixed interest securities. As a result of the sell down in equities, the investment mix of each of the life funds has changed substantially from previous years. For the shareholder, significant investment losses were recognised, resulting from reductions in goodwill as new business operations were closed and the write-down in the value of shareholder capital which is likely to be required to support policyholder obligations.

These actions stabilised the funds' regulatory capital positions by reducing the risk of volatility associated with equities. As a result, future exposure to equity market upside and downside is limited.

The regulatory capital position of all the Life Services companies improved markedly in the second half of 2003. All the companies continue to meet the capital requirements anticipated under the FSA Consultation Paper 195 (CP195). In particular, Pearl's position has substantially improved, given the additional capital raised in December 2003 and as a result of improved market conditions in the second half of 2003.

Improved operational efficiency of the closed books

The 2002 decision to disband the direct sales force and associated back office support was implemented during 2003 within the provisions created at the end of 2002. The Contemporary Business Unit was closed and its main operating company, NPI Limited, stopped writing new business and transferred into Life Services.

REVIEW OF OPERATIONS (continued)***Life Services (continued)****Improved operational efficiency of the closed books (continued)*

As a result of this restructure and other cost saving initiatives in June 2003, a progressive reduction of 900 jobs was announced.

Life Services achieved a reduction in costs on a like-for-like basis of £56m during 2003 taking the cost base to £172m for the full year. It is on track to reach a target cost base of £130m for 2004.

Effective management of Customer Relationships

As a result of the bonus declarations, changes to equity backing ratios for the with-profit business, and adverse publicity, there was a marked increase in customer contact, transactions and complaints. This adversely affected service levels for some months, but by year-end they had reached very satisfactory levels for the vast majority of business. The roll-out of work-flow and imaging technology played an important part in improving service.

Given the closure to new business and, in particular, the move to a more conservative asset mix, Life Services flagged an expected significant reduction in the in-force book during 2003/4. Surrenders rose in the second half, as expected, and may stay high in the first half of 2004 before then moving down to levels more in line with our long term expectation.

Develop and retain high quality people

Staff were placed under considerable pressure during the year as we significantly reduced their numbers and at the same time transformed the business and dealt with large increases in customer interaction. With the restructuring and natural attrition, full-time equivalent staff numbers were reduced from 4,917 at the start of 2003 to 1,792 at the end of the year. In January 2004, Life Services announced that it would close its operations at the Tunbridge Wells site and absorb the work at its site in Peterborough.

Outlook for Life Services during 2004

In 2004, Life Services will consolidate the improvements made to its businesses during 2003. In particular we expect that:

- The Service Company will have predominantly removed the cost overhang associated with new business and will break even.
- The profitability of the life companies should become more stable (however we do not expect it to settle at the level suggested by the second half 2003 performance as that contained a number of one off items).
- The regulatory capital position of the life companies should be reasonably stable.
- The embedded value should continue to grow as the risk discount unwinds and profit is retained to improve capital adequacy.

Other Businesses

HHG's other smaller businesses focus on value realisation.

Towry Law

The independent financial advisory firm Towry Law is a leading UK based IFA with international operations in selected markets. Recovery in investor sentiment and stringent internal cost management resulted in Towry Law achieving a profit of £1m before tax in 2003.

Virgin Money

Following a strategic review of its business in early 2003 Virgin Money began to focus on its new credit card business in international markets. The launch and success of its new Australian credit card is a testament to

REVIEW OF OPERATIONS (continued)***Other Businesses (continued)****Virgin Money (continued)*

the potential of leveraging the Virgin brand in new financial services markets. The Virgin Money Group made its first trading profit in 2003, with the success of the credit card operations offsetting the difficulty faced by other parts of the business in a troubled UK financial services market.

In line with its stated strategy, HHG is in ongoing discussions regarding the potential sale of its stake in Virgin Money to the Virgin Group.

Divestments

During 2003 small units of the former Contemporary Financial Services operation Trustee Services and In Retirement Services were divested. In February 2004, the sale of the Ample online financial services business was completed.

None of these disposals had a material impact on the HHG Group.

Corporate

HHG has a small corporate office, which performs the role of policy setter for the Group and oversees strategic direction of the businesses. It undertakes the corporate functions of secretariat, corporate finance and treasury, corporate strategy, investor relations, corporate human resources, legal and regulatory affairs. The corporate office is streamlined in terms of head-count and infrastructure and works actively with business unit functions.

HHG PLC

ASX Appendix 4E

For the year ended 31 December 2003

FINANCIAL REVIEW

The Group reports its performance on a Modified Statutory Solvency Basis (MSSB). In addition for Life Services reporting we also measure the change in its embedded value and provide detail on its regulatory capital strength through reporting Free Asset Ratios and realistic balance sheets (calculated on the ABI basis and in accordance with the proposed FSA CP195).

Modified Statutory Solvency Result

HHG Group Profit (MSSB basis)	31 Dec 03	31 Dec 02
	£m	£m
Henderson	32	54
Life Services	81	86
Other Businesses	(3)	(22)
Business unit operating profit	<u>110</u>	<u>118</u>
Corporate costs	(12)	(10)
Operating profit	<u>98</u>	<u>108</u>
Unallocated interest costs	(60)	(76)
Other operating exceptional charges ¹	(543)	(124)
Amortisation & impairment of goodwill	(316)	(256)
Amortisation & impairment of PVIF ¹	(33)	(67)
Short term fluctuation in investment return	(13)	(10)
Profit on disposals of businesses	3	82
Loss on ordinary activities before tax	<u>(864)</u>	<u>(343)</u>

1 Amortisation and impairment of PVIF and those other operating exceptional charges incurred within the technical account are grossed up at the tax rate attributable to the balance on the long-term business technical account.

HHG operating profit before amortisation of goodwill, exceptionals, interest and tax were £98m (2002: £108m). This is a combination of two distinct half-year performances - a first half operating loss of £43m offset by a second half year operating profit of £141m. The improvement in the second half of the year has been across all business units, but principally within Life Services. Henderson's improvement in the second half of 2003 (up 46% on 1H03) reflected a rise in markets, performance fees and growing contribution from higher margin products. The stable position year-on-year in Life Services masks the turnaround within the business, which, during the year, moved from a loss in the first half of 2003 of £40m to a profit in the second half of 2003 of £121m. This reflected a number of one off favourable factors including movements in interest rates, profit margins on annuity business and transitional revenue into the Service Company. A number of recurring profit items also came through in the second half. These included the emergence of prudential margins from the closed fund run off and the shareholders' share of bonuses on with profits business. The improvement in Other Businesses reflects Towry Law moving into profit.

* Operating profit represents the trading results of the combined business units excluding non trading, exceptional items, unallocated interest costs and short term fluctuations in investment returns.

FINANCIAL REVIEW (continued)

Modified Statutory Solvency Result (continued)

The loss on ordinary activities before tax of £864m (2002 loss of £343m) includes a series of further exceptional items in 2003 (£543m). These items arose as a result of the action taken to preserve the regulatory capital position of the life companies — principally selling equities and the actions required to restructure the company for the Demerger from AMP. Specifically the exceptionals included the impairment in the contingent loans provided by the shareholder to the policyholder funds (£171m National Provident Life, £130m for London Life), restructuring costs associated with the decision to close all Life Services companies to new business (£143m) and the impact of increased per policy expenses and mortality charges (£99m).

As part of the restructuring a full impairment review of the carrying value of the Group's goodwill was carried out, which resulted in £281m of exceptional write-downs of NPI Limited, Towry Law, Pearl and Virgin Money. As a consequence future annual goodwill amortisation will be significantly reduced.

In line with the listed company recommendations of the ABI Statement of Recommended Practice, the accounting policy of the Group has been changed to account for the investment income on shareholders' funds backing both the long term and general insurance businesses on the basis of the long term rate of return on those funds. This has resulted in a restatement of the 2002 transfers between the general business technical account, and the non-technical account but no change in the total loss on ordinary activities.

The Demerger also resulted in the settlement of £1,047m of the Group's debt, reducing the shareholder debt at 31 December 2003 to £2m. Ongoing shareholder interest charges are anticipated to be negligible.

Henderson

Henderson profit and loss account:	31 Dec 03	31 Dec 02
	£m	£m
Revenue		
Total fee income	193	219
Investment income	3	4
Total revenue	<u>196</u>	<u>223</u>
Expenses		
Operating expenses	(157)	(157)
Depreciation and amortisation	(7)	(4)
Total expenses	<u>(164)</u>	<u>(161)</u>
Underlying operating profit	<u>32</u>	<u>62</u>
Transformation costs	-	(8)
Operating profit before tax	<u><u>32</u></u>	<u><u>54</u></u>

Operating profit before tax for Henderson for the year ended 31 December 2003 was £32m, down 41% from £54m for the previous financial year – mainly as a result of the impact of lower equity markets on management fee income. Operating profit before tax in the second half was £19m, up 46% on the £13m achieved in the first half.

Total fee income in 2003 of £193m was 12% lower year-on-year. The decline was predominantly due to the fall in equity markets that continued into 2003 and the reduction in performance fees (based on 2002 investment performance). The FTSE100 was on average 13% lower in 2003 compared to 2002. The market recovery during the 4th quarter of 2003 (Q4 FTSE100 increased by 9%) helped to ensure an improved second half 2003 result and provides a basis for increased optimism in 2004.

FINANCIAL REVIEW (continued)

Henderson (continued)

Operating expenses of £157m were unchanged against the prior year, although the 2003 cost base included further investment into development opportunities. These comprised distribution capabilities in the US and Continental Europe, and enhanced Henderson Front Office capabilities and other core IT infrastructure. Where possible Henderson continued to take measured cost management actions to ensure business development activities could be maintained without increasing total year-on-year expenditure levels. Despite efficient cost management the decline in revenue resulted in a cost to income ratio increase to 84% for 2003 compared to 72% for the prior year.

Assets under management

Henderson continues to manage a broad range of asset classes with a diversified range of products and clients. During 2003, total assets under management increased by £1.9bn to £70.6bn. This relatively stable position masks some significant shifts in the composition of assets under management. In particular, there have been £2.8bn of fund outflows (client withdrawals of funds rather than movements driven by market fluctuations) from the internal funds managed on behalf of Life Services following closure to new business. In addition, there have been significant asset allocation changes to these Life funds, substantially increasing the fixed-income component and decreasing equity and property exposures (which are typically higher margin asset classes). Fund outflows also included the removal of £1.5bn of sub-advised funds by AMP (£1.3bn in the second half 2003 as a result of the Demerger).

Increases in external retail and institutional funds (generally at higher margins) have offset outflows related to Life Services and AMP. Whilst much of the increase in external business has come from the market improvement, there have also been net fund flows into the Horizon fund range, US Mutual Funds, Absolute Return Funds, Property and geared fixed income funds. Management expects the future growth in profits from these business lines to exceed the loss of earnings from the ongoing attrition in Life Services over time.

Assets under management increased by a net £1.9bn during 2003. The recovery in markets during 2003 resulted in a favourable market impact of £6.0bn for the year, although, on average, markets were well below prior year levels. Total net fund outflows were £4.1bn comprising:

Net fund flows by distribution channel:	31 Dec 03	31 Dec 02
	£bn	£bn
Retail – open ended	0.1	0.2
Retail – closed ended	(0.1)	(0.1)
Sub-advisory	(1.5)	(0.3)
Institutional	0.2	(0.3)
Life Services life funds	(2.8)	(1.5)
Private client asset management	0.0	(0.8)
Total net fund flows	(4.1)	(2.8)
Summary of movements in assets under management:	31 Dec 03	31 Dec 02
	£bn	£bn
Opening assets under management	68.7	80.6
Net fund flows	(4.1)	(2.8)
Market movements	6.0	(9.1)
Closing assets under management	70.6	68.7

FINANCIAL REVIEW (continued)

Henderson (continued)

Assets under management (continued)

The largest component of the client losses comprised £2.8bn of net fund outflows from Life Services' life funds and £1.5bn of AMP sub-advised funds (mainly withdrawn as part of the Demerger process). Henderson's objective is to replace the revenue lost on internal mandates with higher margin external business. Despite the challenging market environment during 2003 there are some positive early indications in 2004 that this may be achieved.

Net fund inflows in the retail open ended channel include £0.2bn of net new business from Horizon, Henderson's offshore retail vehicle, and £0.1bn of net new business from US Mutual Funds. These were offset by £0.2bn of net outflows from UK Retail including losses from the Pearl and NPI retail product ranges. Most of the positive retail inflows were achieved in the final quarter of 2003 as a result of strong investment performance and improving equity markets.

Net fund inflows in the institutional channel were £0.2bn. This includes net inflows into specialist areas such as collateralised debt obligation funds (CDOs) and property funds and outflows from traditional listed asset funds. This reflects the institutional industry trend away from the 'balanced' approach and towards a series of specialisations. Inflows also include £0.1bn of further net sales of the Absolute Return Funds range of hedge funds.

During 2002, Henderson disposed of its Private Asset Management business to Mellon Newton. Profits have been recognised as exceptional in the HHG Group 2002 and 2003 statutory results and do not form part of the Henderson operating profit before tax. The fund outflow of £0.8bn relates to the transfer of this business in 2002.

The size and mix of assets under management are key drivers of Henderson's business. Henderson analyses assets under management by asset class and by distribution channel. Equity holdings reduced from £35.7bn (52%) as at 31 December 2002 to £28.7bn (41%) at 31 December 2003 whilst fixed income increased from £27.0bn (39%) to £36.0bn (51%) over the same period. This reflects the changes in asset allocation within the Life Services' life funds, following closure to new business, and the trend of external clients switching from equity to fixed income investments. Property fell slightly over the year with Institutional new business wins being offset by deallocations by Life Services' Life funds.

Assets under management by type of asset:

	31 Dec 03	31 Dec 02
	£bn	£bn
UK equity	17.3	23.7
International equity	11.4	12.0
Total equity	<u>28.7</u>	<u>35.7</u>
Fixed income	36.0	27.0
Property	5.3	5.4
Private equity	0.6	0.6
Total assets under management	<u><u>70.6</u></u>	<u><u>68.7</u></u>

FINANCIAL REVIEW (continued)

Henderson (continued)

Assets under management (continued)

Assets under management by distribution channel:

	31 Dec 03	31 Dec 02
	£bn	£bn
Retail – open ended	6.5	5.4
Retail – closed ended	4.6	3.8
Sub-advisory	6.8	7.3
Institutional	25.6	24.1
Life Services' life funds	27.1	28.1
Total assets under management	<u><u>70.6</u></u>	<u><u>68.7</u></u>

The combination of improved equity markets and net fund flows has resulted in a £1.1bn increase in assets through the retail open ended channel. The closed ended retail channel assets have increased £0.8bn as a result of favourable markets (£0.9bn), partly offset by net fund outflows (£0.1bn). Sub-advisory assets decreased by £0.5bn with the loss of the AMP mandate partly offset by favourable markets.

Total institutional assets have increased by £1.5bn as a result of favourable equity markets and net fund inflows of £0.2bn. Life Services' life fund assets have fallen by £1.0bn, due to £2.8bn net fund outflows partly offset by favourable markets. The overall shift in the mix of assets into the higher margin channels presents a more favourable outlook for 2004.

Investment performance improved in 2003 with 68% of External Listed Asset funds outperforming their benchmark. Within retail, 59% of funds outperformed benchmarks. Performance on Institutional mandates has been more variable, although fixed-interest performed well with 84% of institutional mandates outperforming benchmark. Henderson aims to build on these performance improvements to capitalise on its developing distribution capabilities.

During 2003, Henderson won "The Competition" - to find a new blueprint for managing pension funds in a long term and socially responsible way. The competition to manage a notional €30bn fund attracted 88 entrants from 12 countries including many other leading fund management firms. Henderson also won 20 investment performance awards. These include 7 Standard & Poor's awards including those to the Henderson Horizon Pan European Equity Fund and TR Property Investment Trust, both in 1st place over 1 year in their respective sectors. The Henderson European Absolute Return Fund also won the Long/Short European equity fund of the year at the EuroHedge awards.

In addition, Henderson has entered into a joint initiative with Life Services to consolidate the Collective Investment Funds in Pearl and NPI into the equivalent Henderson funds. This includes the transfer of PEP and ISA plans into the Henderson OEICs. This was completed in early 2004 and provides Henderson with a direct relationship with a further 175,000 retail investors. This product rationalisation activity increases efficiency for HHG and also provides Henderson with a much larger retail client base for marketing and enhanced platform for future growth and profitability.

Henderson is compliant with all existing FSA regulatory capital requirements.

Life Services

In addition to the Modified Statutory Solvency basis of reporting, Life Services also measures its performance through the change in its embedded value and provides detail on its regulatory capital strength through reporting Free Asset Ratios and realistic balance sheets (calculated in accordance with the proposed FSA CP195 and, for the purpose of industry comparison, also on the ABI basis).

FINANCIAL REVIEW (continued)

Life Services (continued)

Modified Statutory Solvency Basis

Analysis of the Modified Statutory Solvency result	31 Dec 03	31 Dec 02
	£m	£m
Total from the long term technical account	89	7
Service company	(8)	16
General insurance	12	19
Other Shareholder interests	(12)	44
Total	<u>81</u>	<u>86</u>

The Life Services result reflected a number of one off favourable factors including movements in interest rates, profit margins on annuity business and transitional revenue into the Service Company. A number of recurring profit items also came through in the second half. These included the emergence of prudential margins from the closed fund run off and the shareholders' share of bonuses on with-profits business.

The overall Service Company loss of £8m comprised a first half 2003 loss of £18m and a second half 2003 profit of £10m. The significant improvement in the second half 2003 is principally due to the reduction in cost base (following restructuring that took place in 2002 and the first half 2003) and one off factors including a phased reduction in income in respect of acquisition activity. The Service Company is targeting breakeven for the full year 2004 as a whole.

Life Services continues to produce general insurance profits through its ongoing arrangement with Churchill, who sell products under the Pearl brand, and through the release of margins from the technical provisions of the general insurance run off business.

The loss in other Shareholder Interests arising in 2003 is a result of changes to the valuation basis for London Life contingent loans to a market-consistent approach, bringing it in line with the basis used for the National Provident Life (NPL) contingent loans.

Embedded values

HHG provides Embedded Values on both a Traditional basis ("TEV") and a Market-Consistent basis ("MCEV"). In preparing these results, HHG has been advised by Tillinghast-Towers Perrin.

Traditional Embedded Value

Given the extent of restructuring within Life Services during the past 18 months and the impact on the life companies, TEV has been reported for both halves to provide more meaningful analysis. The first half of 2003 included a significant impairment of shareholder asset values. These impairments and other operating items of £547m have been isolated. A change in methodology was also made at 30 June 2003, with the adoption of methods and assumptions more consistent with market practice. In addition HHG changed its embedded values to report them net of intra-group holdings. Up to 30 June 2003, TEVs were shown gross of such holdings.

TEVs are calculated using a prudent risk margin of 5% above the risk free rate for Pearl and NPLL (3% for London Life, unit linked, service and other companies) and economic assumptions are determined based on appropriate government bond yields at each period end. As a result of movements in bond yields, risk discount rates have increased in respect of Pearl and National Provident Life from 9.4% at 30 June 2003 to 9.9% at 31 December 2003. The corresponding move for the other Life Services business is from 7.4% to 7.9%.

FINANCIAL REVIEW (continued)

Life Services (continued)

Embedded Values (continued)

Movement in Traditional Embedded Value – 31 December 2002 to 30 June 2003	£m
Consolidated TEV at 31 December 2002 (Source AMP Investor Report)	1,979
Opening adjustments	(95)
Expected return	87
Assumption variances	(206)
Experience variances	(256)
Capital movements	152
Exceptional items	(291)
Unexplained	<u>(29)</u>
Consolidated TEV at 30 June 2003 (Source AMP Investor Report)	1,341
Differences in assumptions	59
Differences in expense methodology	(129)
Other differences	(10)
Removal of intra group holdings	<u>(416)</u>
Consolidated TEV at 30 June 2003 (Source HHG Listing Particulars)	<u><u>845</u></u>

Movement in Traditional Embedded Value – 30 June 2003 to 31 December 2003	£m
Consolidated TEV at 30 June 2003 (Source HHG Listing Particulars)	845
Opening adjustments	39
Expected return	41
Value created through Investment Management	94
Value created through Insurance Management	100
Capital movements	47
Other	<u>(21)</u>
Consolidated TEV at 31 December 2003	<u><u>1,145</u></u>

Second half movements in embedded value reflect a number of positive factors including improved and less volatile equity markets, which reduced the capital support required by the with-profit business. Interest rate movements enhanced non-profit profitability; Swap of the contingent loan from the Pearl 90:10 fund to the Pacific fund and a reassessment of the resulting tax liabilities has reduced the expected future tax burden, additional value has arisen from a better Service Company result than expected. The increase in embedded value is slightly offset by a strengthening of the mortality assumptions for NPI business. The embedded value has also increased as a result of the allocation of additional capital to Life Services, following the successful capital raising in 2003.

Sensitivity of TEV	£m
Base	1,145
Risk discount rate 1% higher	1,086
Risk discount rate 1% lower	1,211
Pre-tax investment returns on equities and property 1% lower and reduced by 0.25% on corporate bonds with bonus rates changing commensurately	1,118
Discontinuance rates increased by 25%	1,149
Annuitant mortality reduced by 5%	1,100
Non-commission expense increased by 10%	1,081

FINANCIAL REVIEW (continued)

Life Services (continued)

Market-Consistent Embedded Value

MCEV allows explicitly for the cost of market-related risk, by reference to the pricing of similar risks observed in the financial markets. The most important of these are risks associated with the provision of policyholder financial guarantees and options and the risks associated with mismatches between assets and liabilities and revenues and expenses. (By comparison, the TEV allows implicitly for the pricing of market risk by the use of a risk discount rate). MCEV was first calculated by Tillinghast-Towers Perrin at 30 June 2003 for Life Services and updated results are shown at 31 December 2003.

The movement in the MCEV from 30 June 2003 to 31 December 2003 and the sensitivity of the MCEV to changes in the key assumptions are set out in the tables below. The significant increase in the MCEV has arisen principally in Pearl. This reflects the benefits of reduced guarantee costs as asset shares have grown relative to guaranteed benefits and favourable movements in the assumptions driving the market consistent valuation (e.g. reduction in equity volatility, consistent with more stable equity markets in the second half of 2003). Other beneficial factors for TEV will also increase the MCEV, including additional capital allocated to Life Services, changes in tax assumptions and Service Company profitability, again partially offset by the strengthened NPI annuity mortality assumptions.

Market Consistent Embedded Value at 31 December 2003

Illustrative Level of Agency Costs(%)	0%	2.5%	5%
Consolidated MCEV (excluding explicit agency costs) (£m)	1,271	1,271	1,271
Agency Costs (£m)	0	(32)	(64)
Consolidated MCEV (including explicit agency costs) (£m)	1,271	1,239	1,207

Movement in Market-Consistent Embedded Value – 30 June 2003 to 31 December 2003

	£m
Consolidated MCEV (excluding explicit agency costs) at 30 June 2003	900
Opening Adjustments	21
Expected Return	34
Value created through Investment Management	143
Value created through Insurance Management	92
Capital movements	67
Other	14
Consolidated MCEV (excluding explicit agency costs) at 31 December 2003	<u>1,271</u>

Sensitivity of MCEV (excluding explicit agency costs)

	£m
Base	1,271
Equity: 20% fall	1,175
Property: 20% fall	1,160
Corporate spreads as per CP195	1,153
Fixed interest yields fall by 100 basis points	1,151
Swaption volatilities increase by 1.5 percentage points	1,253
Equity and property implied volatilities increase by 7 percentage points	1,225
Discontinuance rates increased by 25%	1,271
Annuitant mortality reduced by 5%	1,205
Non-commission expense increased by 10%	1,200

FINANCIAL REVIEW (continued)

Life Services (continued)

Regulatory Capital – statutory solvency

Free Asset Ratios (FARs)

Free Assets are measured as the excess of available assets (admissible assets less total liabilities) plus implicit items over and above the Required Minimum Margin. The FAR is free assets divided by total liabilities.

The FARs of the main life companies as at 31 December 2003 and in comparison to the 30 June 2003 position were for Pearl 2.1% (1.8%), National Provident Life 1.4% (0.4%) and London Life 1.7% (1.1%). As at the end of 2002 the FARs were 2.7%, 1.3% and 2.6% respectively, however, the reliance on implicit items in the calculation of free assets has reduced significantly from £580m (31 December 2002) to £43m (31 December 2003).

As at 30 June 2003, the Pearl 90:10 fund showed a deficit of £367m. This was covered by assets within the Pacific fund. As at 31 December 2003, the deficit had been cleared and there was a surplus of £3m.

Regulatory Capital – realistic solvency

HHG welcomes regulatory moves in the UK towards more realistic assessments of life company solvency and greater consistency and transparency in the reporting of life company capital adequacy.

Realistic balance sheet results for each of HHG's main with-profits life companies are set out below. In preparing these results, HHG has been advised by Tillinghast-Towers Perrin.

Realistic balance sheet reporting – CP195 basis

During 2003, the FSA's Consultation Paper 195 ("CP195") proposed a new regulatory framework which will determine the total required capital for life insurance companies as the greater of a statutory and a realistic calculation of assets and liabilities. This is expected to become effective later in 2004. Calculation of the realistic balance sheets of our life companies as defined in CP195 indicates that all would have met their regulatory capital requirements under the new realistic basis.

There has been a significant improvement in the realistic balance sheet position for Pearl since that shown in the Listing Particulars at 30 June 2003. This reflects the benefit of increased equity values, lower implied volatility and therefore lower expected guarantee costs. All of the three main life companies have in excess of one times coverage of RCM under CP195.

Realistic balance sheet – CP195

	Pearl Assurance £m	National Provident Life £m	London Life £m
Admissible assets ¹	14,499	7,035	2,706
Adjustment for non profit business	(3,319)	88	(1,044)
Available assets	11,180	7,123	1,662
Realistic liabilities	(10,383)	(6,948)	(1,640)
Assets available to cover risk capital margin	797	175	22
Risk capital margin	(559)	(112)	(22)
Free capital	238	63	0

¹ Admissible assets held in both the long term and shareholder funds

FINANCIAL REVIEW (continued)

Regulatory Capital – statutory solvency (continued)

Realistic balance sheet reporting – ABI basis

Discussions between the ABI and the FSA as to the disclosure of realistic balance sheet information have resulted in an agreed presentation which is referred to as the ABI basis. In moving from the CP195 basis to the ABI basis, the following adjustments have been made:

- No allowance for a persistency stress test,
- A weaker set of tests for the widening of credit spreads,
- Allowance for the value of non-profit business, where such value is available to support with-profits business,
- Valuation of subsidiaries on an embedded value basis.

Calculation of the realistic balance sheets as at 31 December 2003 of our life companies as defined under the ABI basis indicates that all would have increased their coverage of regulatory capital requirements so determined. All of the three main life companies have in excess of three times coverage of RCM under the ABI basis

Realistic balance sheet – ABI basis

	Pearl Assurance	National Provident Life	London Life
	£m	£m	£m
Realistic Basis Assets			
Total Statutory Assets of With-Profit Fund	10,617	6,569	1,662
Additional Statutory Assets outside With-Profit Fund backing With-Profits Business	522	213	22
Valuation Adjustments to Statutory Assets and Additional Assets arising on Realistic Basis	268	341	49
Total	11,407	7,123	1,733
Liabilities			
Policyholder Realistic Basis Liabilities	9,604	5,883	1,573
Other Liabilities	779	1,065	89
Total	10,383	6,948	1,662
Realistic Basis Assets in Excess of Total Liabilities	1,024	175	71
With-Profits Capital Requirements on a Realistic Basis	319	18	0
Realistic Basis Assets in Excess of Total Liabilities and Capital Requirements	705	157	71

Equity backing ratios

Equity backing ratios are the proportion of invested assets in the with-profits life funds that are invested in growth assets (i.e. equities, property and private capital). As investment markets declined during 2003, it became necessary to safeguard policyholders' guaranteed benefits. Continued exposure to more volatile assets, such as equities would have limited the protection available against further reductions in market levels and sharply increased the likelihood of a breach of regulatory capital requirements. The AMP Board indicated that no further capital was available to support continued exposure to growth assets. This led the boards of the life companies to undertake a further reduction in the equity backing ratios of the relevant with profit funds in order to protect regulatory solvency to ensure the security of policyholder benefits.

At 31 December 2003, the equity backing ratios were Pearl 31% (2002: 47.9%); London Life 12% (2002: 44.9%); and National Provident Life 14% (2002: 48.5%). The Pearl figure is net of the impact of derivatives held to provide protection against major falls in the share market.

FINANCIAL REVIEW (continued)

Other Businesses

	31 Dec 03	31 Dec 02
	£m	£m
Towry Law	1	(12)
Virgin Money	2	2
AMPLE	(6)	(7)
Other	-	(5)
Operating loss	(3)	(22)

The Towry Law result reflects the benefit of cost control on administrative expenses partially offset by reduced revenues from the Middle East and Far East reflecting the outbreak of war and SARS. The Virgin Money 2002 profit was stated gross of a £6m interest receipt, which does not apply to future periods. The improvement during 2003 is as a result of a successful credit card strategy, which delivered a £2m profit versus 2002 underlying operational loss of £4m.

HHG Group Corporate Structure

Prior to the Demerger, HHG PLC held only a 7% interest in HHG Invest PLC ("HHG Invest"), the parent company of Henderson Global Investors (Holdings) PLC, with Pearl holding the remainder of the share capital. Following the restructuring undertaken as a part of the Demerger, this interest has increased to 76%. It is the intention of HHG PLC to acquire full ownership of HHG Invest from Pearl in order to maximise HHG's direct economic exposure to, in particular, Henderson and also to enhance Pearl's regulatory capital position.

Capital management

Shareholders' funds increased by 62% to £1,689m (2002: £1,045m). This increase reflects a loss for the year, offset by:

- Repayment of £1,047m of HHG's debenture loans as part of the Demerger from AMP on 12 December 2003.
- Issuance of 652,920,962 ordinary shares of 10p through the £190m institutional capital raising at 23 December 2003.

Capital restructuring

On 26 November 2003, the High Court of Justice confirmed a reduction in the authorised share capital of HHG PLC, creating a capital reduction reserve of £2,127m, and approved the utilisation of the capital reduction reserve, on Demerger, to:

1. repay an amount equal to the amount paid up on the 'A' preference shares plus any arrears of dividend thereon down to the effective date of the capital reduction;
2. repay £1,105m to AMP Financial Services Holdings Limited (conditional upon the resubscription for new ordinary shares of 10p each by the shareholders of AMP Limited pursuant to the Demerger) and
3. credit the balance remaining to the profit and loss account to first eliminate the deficit on the accumulated profit and loss account of the Company as at 31 December 2003 with any balance remaining to be treated as realised profit capable of being distributed.

FINANCIAL REVIEW (continued)

Capital employed

The liquidity position of the Group has improved as a result of the settlement of £1,047m debt during the Demerger process. The reduction in Other Business capital reflects the impairment of Towry Law and Virgin Money goodwill of £67m. The remaining net decrease in capital employed is borne by the Life Services business segment.

Capital employed by business unit	31 Dec 03	31 Dec 02
	£m	£m
Henderson	373	380
Life Services	1,177	1,557
Other Business	73	138
Corporate	68	60
Net assets	<u>1,691</u>	<u>2,135</u>
Financed by:		
Capital and reserves	1,689	1,045
External loans	2	1,090
	<u>1,691</u>	<u>2,135</u>

Management of risk

Group Treasury Operations

Treasury governance rests with the HHG PLC Board, assisted by the Board Audit Committee, who provide a control independent of group management.

HHG PLC's policy on liquidity management is to ensure that it is able to fund short and long term liabilities in an orderly and appropriate manner as and when they fall due, through active liquidity management. This entails ensuring that at all times HHG PLC has access to a variety of sources of liquidity.

HHG PLC's interest rate management policy aims to minimise the cost of borrowing through effective control and management of its interest rate risk. This may involve entering into derivative protection strategies. Derivative financial instruments are held for risk management purposes and not for speculation.

The Group's policy on foreign exchange is to protect its long term Sterling value of the business in terms of operating margins, foreign currency earnings and overseas investments. This is managed through a

combination of natural hedging methods and utilising derivative instruments such as forward FX, currency options and cross currency swaps. However the level of currency risk and therefore instruments to manage it are not significant. Derivative financial instruments are held for risk management purposes and not for speculation.

HHG credit policy is to safeguard its financial resources by establishing and regularly reviewing treasury credit limits and managing exposures and diversifying risks wherever practicable within these limits.

The HHG balance sheet liabilities are safeguarded by controlling the creation of contingent liabilities in the form of financial guarantees and other off balance sheet instruments.

FINANCIAL REVIEW (continued)

Management Risk (continued)

Henderson

The Henderson risk management policy addresses how market, operational, credit, financial and derivative risks are managed within the business. Management is responsible for implementing this policy. The effectiveness of the system of internal control is reviewed by separate risk management and compliance functions. In addition, the Henderson Global Risk Committee provides oversight of risk management issues within the business and the Henderson Credit Risk Committee monitors adherence to the credit risk and derivative risk policies.

Life Services

Investment risk. The investment policies for long term business and other businesses have due regard to the nature of the liabilities and the guarantees and other embedded options given to policyholders. Investment policy is reviewed regularly by the relevant Investment Committee or Board of each of the Life Companies and senior HHG management, with particular attention paid to management of credit risk, market risk and interest rate risk. The interest rate risk is normally managed by investing in assets of similar duration, where possible. Investment policy is further managed by setting investment risk to ensure that there is sufficient capital in the business to manage the consequence of a mismatch under a number of adverse scenarios or through the use of derivatives.

Insurance risk is controlled using delegated authorities for the limited remaining product pricing and underwriting requirements. Prudent reserves are held, based on assumptions including those related to expenses, persistency and mortality that reflect past experience and anticipated future trends.

Cash flow

Cash flow moved from net inflow of £21m to net outflow of £18M. Main underlying movements were high levels of cash payments associated with restructuring Life Services and significant financing inflows (principally cash of £373m provided by AMP and proceeds from £190m institutional capital raising).

Consolidated cash flow statement	31 Dec 03 £m	31 Dec 02 £m
Net cash outflow from operating activities	(362)	(223)
Returns on investment and servicing of finance	(74)	(95)
Tax	(3)	(45)
Capital expenditure	4	(2)
Acquisitions and disposals	3	82
Financing activities	414	304
Net cash flows available for investment	<u>(18)</u>	<u>21</u>
Net cash flows were (sourced) / invested as follows:		
(Decrease) / increase in cash holdings	(99)	199
Net purchases / (sales) of investments	81	(178)
Net investment of cash flows	<u>(18)</u>	<u>21</u>

The table above excludes any amounts relating to long term business except cash transactions between the long term business account and shareholders and movements in cash held by the Pacific fund.

FINANCIAL REVIEW (continued)**Pension Scheme**

At the date of the last actuarial investigation (31 December 2001) the market value of the assets was sufficient, on the basis of the assumptions used in that valuation, to cover 120% of the value of the benefits accrued to members. The excess assets were sufficient to allow the suspension of contributions until 2004.

On a FRS 17 basis, the group pension scheme shows a deficit of £69m (before tax) at 31 December 2003 (2002: deficit £8m). Employer contributions will recommence in 2004 and these are anticipated at a level of 19.9% of relevant payroll.

Taxation

The decrease in the effective rate of tax in the Group non technical account from 11.4% to 2.0% year on year reflects the increased exceptional costs recognised in 2003 not treated as deductible for tax purposes.

The longer-term effective rate of tax is used to gross up the transfer from the long-term business technical account resulting in an effective rate of 6.1% in 2003.

Dividend

No ordinary dividends are proposed for the year (2002:nil).

Going Concern

After making appropriate enquiries, the Directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore have continued to adopt the going concern basis in preparing the financial statements.

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For the year ended 31 December 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Technical account for general insurance business

For the year ended 31 December 2003

	Notes	31 Dec 03 £m	Restated 31 Dec 02 £m
Gross premiums written	1.1	-	1
Outward reinsurance premiums		-	1
Net premiums written		<u>-</u>	<u>2</u>
Change in the provision for unearned premiums:			
Gross amount		-	47
Reinsurers' share		-	(36)
Change in the net provision for unearned premiums		<u>-</u>	<u>11</u>
Earned premiums, net of reinsurance		-	13
Allocated investment return transferred from the non-technical account	5.2	3	8
Total technical income		<u><u>3</u></u>	<u><u>21</u></u>
Claims paid:			
Gross amount		(45)	(68)
Reinsurers' share		39	60
Net claims paid		<u>(6)</u>	<u>(8)</u>
Change in the provision for claims:			
Gross amount		59	(21)
Reinsurers' share		(54)	24
Change in the net provision for claims		<u>5</u>	<u>3</u>
Claims incurred, net of reinsurance		<u>(1)</u>	<u>(5)</u>
Net operating expenses	2.1	5	1
Change in equalisation provision	1.2	2	3
Total technical credits / (charges)		<u><u>7</u></u>	<u><u>4</u></u>
Balance on the technical account – general business		<u><u>9</u></u>	<u><u>20</u></u>

All activities relate to discontinued operations.

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For the year ended 31 December 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Technical account for long term business

For the year ended 31 December 2003

	Notes	31 Dec 03 £m	31 Dec 02 £m
Gross premiums written	4.1	1,664	2,136
Outward reinsurance premiums		(6)	(5)
Earned premiums, net of reinsurance	4.2	<u>1,658</u>	<u>2,131</u>
Investment income	5.1	1,405	1,394
Unrealised gains on investments	5.1	979	-
Other technical income (note 8)		13	87
Total technical income		<u><u>4,055</u></u>	<u><u>3,612</u></u>
Gross claims paid		(4,210)	(3,352)
Reinsurers' share		41	20
Net claims paid		<u>(4,169)</u>	<u>(3,332)</u>
Change in the gross and net provision for claims	23.3	(42)	(18)
Claims incurred, net of reinsurance		<u>(4,211)</u>	<u>(3,350)</u>
Change in gross long term business provision (note 21.9)		2,077	2,368
Change in reinsurers' share		(34)	(218)
Change in long term business provision, net of reinsurance		<u>2,043</u>	<u>2,150</u>
Change in technical provision for linked liabilities, net of reinsurance		(440)	765
Change in other technical provisions, net of reinsurance		<u>1,603</u>	<u>2,915</u>
Net operating expenses	2.1	(350)	(530)
Investment expenses and charges	5.1	(1,006)	(298)
Unrealised losses on investments	5.1	-	(3,545)
Other technical charges	2.2	(144)	(72)
Taxation (charge) / credit attributable to the long term business	6.1	(71)	233
Allocated investment return transferred from the non-technical account	5.2	8	-
Transfer (to) / from the fund for future appropriations	20	(85)	981
Total technical charges		<u>(1,648)</u>	<u>(3,231)</u>
Balance on the technical account – long term business	4.8	<u>(201)</u>	<u>(54)</u>
Tax attributable to the balance on long term business technical account	6.1	(13)	(23)
Loss on long term business operations before tax		<u>(214)</u>	<u>(77)</u>

All activities relate to continuing operations

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Technical account for long term business (continued)

The table below provides a reconciliation between the analysis used in the segmental information in the 'Reconciliation of Group Operating Profit to Loss on Ordinary Activities Before Taxation' and in note 3 of this report and the Loss on long term business operations before tax above:

	Notes	31 Dec 03 £m	31 Dec 02 £m
Operating profit before taxation based on longer term investment return before operating exceptionals, amortisation of goodwill and acquired present value of in force business ('PVIF') - Life Services	3.2	89	7
Amortisation of goodwill	2.2	-	(17)
Amortisation of acquired PVIF *	2.2	(6)	(9)
Impairment of acquired PVIF *	2.2	(27)	(58)
Other operating exceptional costs *	21.9	(270)	-
Loss on long term business operations before taxation		<u><u>(214)</u></u>	<u><u>(77)</u></u>

* Amortisation and impairment of acquired PVIF and other operating exceptional costs have been grossed up at the longer term effective tax rate attributable to the balance on the long term business technical account for the purpose of the reconciliation of group operating profit to loss on ordinary activities before taxation and segmental information in note 3.

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For the year ended 31 December 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Non-technical account

For the year ended 31 December 2003

	Notes	31 Dec 03 £m	Restated 31 Dec 02 £m
Balance on the general insurance business technical account			
Discontinued operations		9	20
Balance on the long term business technical account			
Continuing operations	4.8	(201)	(54)
Tax charge attributable to balance on long term business technical account	6.1	(13)	(23)
Shareholders' pre-tax loss from long term business		(214)	(77)
Investment income	5.1	27	101
Allocated investment return transferred to the long term business technical account	5.2	(8)	-
Unrealised losses on investments	5.1	(148)	(16)
Share of operating profit / (loss) in associates	12.4	2	(4)
Interest on loans to associates		-	6
Impairment of goodwill arising on acquisition of associates	12.4	(9)	-
(Loss) / profit from interest in associates		(7)	2
Investment expenses and charges	5.1	(78)	(92)
Allocated investment return transferred to the general business technical account	5.2	(3)	(8)
Other income (note 8)		85	45
Other charges	2.2	(530)	(400)
Group operating loss based on longer term investment return		(847)	(417)
Short term fluctuation in investment return	5.2	(13)	(10)
(Loss) / profit from interest in associates		(7)	2
Loss on ordinary activities before non-operating exceptional items and taxation		(867)	(425)
Non-operating exceptional items – profits on disposal of businesses	9	3	82
Loss on ordinary activities before taxation		(864)	(343)
Tax credit on loss on ordinary activities	6.1	17	39
Loss on ordinary activities after taxation		(847)	(304)
Preference dividend on non-equity shares	10	(1)	(25)
Retained loss for the financial year	18	(848)	(329)
Basic and diluted earnings per share	7	(119.7p)	(106.5p)

The inclusion of unrealised gains or losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is deemed not to be a departure from the unmodified historical cost basis of accounting. Accordingly, a separate note of historical cost profits and losses is not given.

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For the year ended 31 December 2003

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2003

	31 Dec 03	31 Dec 02
	£m	£m
Loss for the financial year	(847)	(304)
Foreign exchange losses	(3)	-
	<u>(850)</u>	<u>(304)</u>

RECONCILIATION OF GROUP OPERATING PROFIT TO LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

For the year ended 31 December 2003

	Notes	31 Dec 03	31 Dec 02
		£m	£m
Henderson	3.1	32	54
Life Services	3.2	81	86
Other Businesses	3.3	(3)	(22)
		<u>110</u>	<u>118</u>
Business unit operating profit		(12)	(10)
Corporate costs		<u>98</u>	<u>108</u>
Operating profit		(60)	(76)
Unallocated interest costs		<u>38</u>	<u>32</u>
Operating profit before taxation based on longer term investment return before other operating exceptional costs, amortisation of goodwill and acquired PVIF		38	32
Other operating exceptional costs, excluding impairment of goodwill and acquired PVIF *	2.3	(543)	(124)
Amortisation & impairment of goodwill	2.2	(307)	(256)
Impairment of goodwill arising on acquisition of associates	2.3	(9)	-
Amortisation & impairment of acquired PVIF *	2.2	(33)	(67)
Short term fluctuation in investment return	5.2	(13)	(10)
Profit on disposals of businesses	9	3	82
		<u>(864)</u>	<u>(343)</u>
Loss on ordinary activities before taxation		<u>(864)</u>	<u>(343)</u>

* Amortisation and impairment of acquired PVIF and other operating exceptional costs have been grossed up at the longer term effective tax rate attributable to the balance on the long term business technical account for the purpose of the reconciliation of group operating profit to loss on ordinary activities before taxation and segmental information in note 3.

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For the year ended 31 December 2003

CONSOLIDATED BALANCE SHEET

Assets

At 31 December 2003

	Notes	31 Dec 03 £m	31 Dec 02 £m
Intangible Assets			
Goodwill	11	280	585
Investments			
Land and buildings	12.1	1,632	2,191
Investments in joint ventures		343	366
- Share of gross assets		(179)	(133)
- Share of gross liabilities		67	27
- Loans	12.3	231	260
Investments in associates	12.4	411	413
Other financial investments	12.5	21,506	23,037
		<u>23,780</u>	<u>25,901</u>
Assets held to cover linked liabilities			
	12.5	4,349	3,909
Reinsurers' share of technical provisions			
Long term business provision (note 21)		81	115
Claims outstanding	23.2	244	298
		<u>325</u>	<u>413</u>
Debtors			
Debtors arising out of direct insurance operations	13.1	31	30
Other debtors	13.2	426	553
Deferred tax asset	22.1	-	9
		<u>457</u>	<u>592</u>
Other assets			
Tangible assets	14	27	41
Cash at bank and in hand		395	236
Present value of acquired in force long term business	15	10	33
		<u>432</u>	<u>310</u>
Prepayments and accrued income			
Accrued interest and rent		321	258
Deferred acquisition costs	16.1	106	243
Other prepayments and accrued income (note 16.2)		123	264
		<u>550</u>	<u>765</u>
Total assets		<u><u>30,173</u></u>	<u><u>32,475</u></u>

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For the year ended 31 December 2003

CONSOLIDATED BALANCE SHEET

Liabilities

At 31 December 2003

	Notes	31 Dec 03 £m	31 Dec 02 £m
Capital and reserves			
Called up share capital	17.2	246	804
Share premium	18	1,081	5
Capital reserve	18	292	292
Profit and loss account	18	70	(56)
Equity		1,689	779
Non-equity		-	266
Shareholders' funds	19	1,689	1,045
Fund for future appropriations	20	612	527
Gross technical provisions			
Long term business provision (note 21)		21,513	23,590
Claims outstanding	23.1	429	446
Equalisation provision	1.2	5	7
		21,947	24,043
Technical provisions for linked liabilities		4,349	3,909
		26,296	27,952
Provision for other risks and charges			
Deferred taxation	22.1	11	-
Other provisions	27	243	245
		254	245
Creditors			
Creditors arising out of direct insurance operations		2	23
Debenture loans	26.1	357	1,449
Amounts owed to credit institutions	26.1	257	327
Other creditors including taxation and social security	28	534	665
		1,150	2,464
Accruals and deferred income		172	242
Total liabilities		30,173	32,475

The accounts were approved by the Board of Directors on 30 March 2004 and signed on its behalf by:

Sir Malcolm Bates
Chairman

HHG PLC

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For the year ended 31 December 2003

COMPANY BALANCE SHEET

At 31 December 2003

	Notes	31 Dec 03 £m	31 Dec 02 £m
Fixed Assets			
Investments	12.6	3,129	3,686
Current Assets			
Debtors	13.2	42	39
Investments	12.6	67	-
Cash at bank		11	89
		120	128
Creditors: amounts falling due within one year	24	(1,206)	(1,333)
		(1,086)	(1,205)
Net current liabilities			
		2,043	2,481
Creditors: amounts falling due after more than one year	25	(337)	(953)
		1,706	1,528
Capital and Reserves			
Called up share capital	17.2	246	794
Share Premium	18	1,081	-
Capital reserve	18	290	290
Profit and loss account	18	89	444
		1,706	1,262
Equity		1,706	1,262
Non-equity		-	266
Shareholders' funds		1,706	1,528

The accounts were approved by the Board of Directors on 30 March 2004 and signed on its behalf by:

Sir Malcolm Bates
Chairman

HHG PLC

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For the year ended 31 December 2003

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	Notes	31 Dec 03 £m	31 Dec 02 £m
Operating activities			
Net cash outflow from operating activities	29.1	(362)	(223)
Returns on investments and servicing of finance			
Interest paid		(73)	(70)
Dividends paid to preference shareholders		(1)	(25)
Net cash outflow from servicing of finance		<u>(74)</u>	<u>(95)</u>
Tax			
Corporation tax paid		(3)	(45)
Capital expenditure			
Payments to acquire tangible fixed assets		(4)	(2)
Receipts from sales of tangible fixed assets		8	-
Net cash inflow / (outflow) from capital expenditure		<u>4</u>	<u>(2)</u>
Acquisitions and disposals			
Net cash inflow from acquisitions and disposals	29.2	3	82
Financing activities			
Issue of share capital		479	-
Share issue costs		(6)	-
Capital contribution		-	290
Proceeds from close out of swaps		90	-
New loans		70	524
Repayment of loans		(219)	(510)
Net cash inflow from financing activities	29.7	<u>414</u>	<u>304</u>
Net cash flows available for investment		<u><u>(18)</u></u>	<u><u>21</u></u>
Cash flows were invested as follows:			
(Decrease) / increase in cash holdings	29.6	(99)	199
Net purchases / (sales) of investments	29.5	81	(178)
Net investment of cash flows		<u><u>(18)</u></u>	<u><u>21</u></u>

The Cash Flow Statement does not include any amounts relating to long-term business except cash transactions between the long-term business and shareholder funds and movements in the cash held by the Pacific fund.

NOTES TO THE ACCOUNTS (continued)**BASIS OF PREPARATION**

The preliminary announcement for the year ended 31 December 2003 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results on a modified statutory basis for 2003 and 2002 have been taken from the Group's 2003 Full Annual Financial Report and Accounts. Subject to the exceptions described below, the preliminary announcement is prepared on the same basis as set out in the previous years annual accounts. The auditors have reported on the 2003 and 2002 statutory accounts of HHG PLC; their reports were unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The HHG PLC 2002 Report and Accounts have been filed with the Registrar of Companies.

ACCOUNTING POLICIES**Basis of presentation and consolidation**

The consolidated accounts of HHG PLC (previously known as "A.M.P. (U.K.) PLC") and its subsidiary undertakings, have been prepared in accordance with the special provisions for insurance groups of Section 255A of, and Schedule 9A to, the Companies Act 1985 except as noted for investment properties (see accounting policy on investments below). The consolidated accounts have also been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in 1998.

The results of all material subsidiary undertakings are included in the consolidated accounts.

Principal associated undertakings (both associates and joint ventures) are accounted for by the equity method in the consolidated accounts. The profit or loss in respect of interests in associated undertakings attributable to the long term business fund are treated as unrealised gains or losses within the technical account for long term business. The profit or loss in respect of other investments in associated undertakings are included in the non-technical account.

On 30 June 2003 the Company issued 10 million ordinary shares with a par value of £1 each in exchange for AMP Financial Services Holdings Limited's minority interest in Pearl Group Limited, which was deemed to have a value of £15 million. This transaction meets the FRS 6 definition of a group reconstruction in that it is a transfer of a shareholding in a subsidiary undertaking from one group company to another. As a result merger accounting has been applied. Consequently, the comparative financial information has been restated to include the results of the minority interest.

As part of the Demerger transaction the businesses of Henderson Global Investors (Jersey) Limited and its subsidiaries Henderson Global Investors (Japan) KK, Henderson Global Investors (Hong Kong) Limited, Henderson Global Investors (Singapore) Limited, Henderson Global Investors (Ireland) Limited and Henderson Management SA have been transferred from the AMP Group to the HHG Group. £28m has been paid for these businesses, whose net asset value at the date of transfer was £20m. This transaction meets the FRS 6 definition of a group reconstruction in that it is a transfer of a shareholding in a subsidiary undertaking from one group company to another. Consequently, the £28m consideration has been taken directly to the group profit and loss reserve and the comparative financial information has been restated to include the results of these businesses. Of these subsidiaries, Henderson Global Investors (Jersey) Limited and Henderson Global Investors (Japan) KK were sold by the HHG Group to the AMP Group in 2002. The cash received from this disposal of £26m has been taken directly to the group profit and loss reserve and the comparative financial information has been restated to exclude the resultant profit on disposal. The dividends paid by these subsidiaries to the AMP Group of £15m have also been taken directly to the group profit and loss reserve.

Subsequent to this transaction, 60% of the voting rights of Henderson Global Investors (Jersey) Limited were gifted to the Henderson Jersey 2003 Employee Benefit Trust. Whilst the HHG Group only holds 40% of the voting rights in Henderson Global Investors (Jersey) Limited and its subsidiaries it has retained the majority of the economic interest in terms of dividends and entitlement to assets on winding up. These companies therefore meet the definition of subsidiaries and have been consolidated into the Group results.

Certain comparative figures have been restated to reflect reallocations between captions.

NOTES TO THE ACCOUNTS (continued)**ACCOUNTING POLICIES (continued)****Prior year adjustment**

The consolidated accounts have been prepared making adjustments to the results for the year ended 31 December 2002 to account for investment income on shareholders' funds backing the long term business and the general insurance business on the basis of the long term rate of return on those funds. The change of accounting policy creates transfers between the non-technical account and the long term and general business technical accounts but no change in the total loss on ordinary activities. This prior year adjustment has been made to adopt recommendations for listed companies of the Statement of Recommended Practice on Accounting for Insurance Business (1998).

General business*Basis of accounting*

All classes of business have been discontinued. Provision has been made for obligations that have been incurred that are not expected to be covered by the future profits of the operation, including the expected future investment return on the related assets and their disposal.

Premiums

Written premiums represent reinstatement premiums that have been earned during the year.

Unearned premiums are calculated as the proportion of written premiums, which relate to cover provided in the period after the balance sheet date. This is calculated on the 365ths method.

Claims

Full provision is made for the estimated cost of claims, including claims incurred but not reported after taking into account handling costs, anticipated inflation and settlement trends. Any difference between the estimated provision and subsequent settlement are dealt with in the technical accounts of later years.

Equalisation provisions

Equalisation provisions have been established in accordance with the requirements of the Interim Prudential Sourcebook for Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

Long term business*Premiums*

Premiums and annuity considerations are credited when they become due. Premiums in respect of linked long-term business are recognised when liabilities arising from these premiums are created. Reinsurance premiums are charged when they are payable.

Funds at retirement under individual pension contracts left with HHG PLC are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written.

Claims

Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the provision for unit-linked liabilities or the long-term business provision. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

NOTES TO THE ACCOUNTS (continued)**ACCOUNTING POLICIES (continued)****Long term business (continued)***Long-term business provision and technical provision for linked liabilities*

The long-term business provision for non-linked business is determined by the Pearl, National Provident Life, NPI and London Life appointed actuaries following their annual investigations of the long-term businesses. This provision is calculated initially to comply with the reporting requirements under the Interim Prudential Sourcebook for Insurers, principally using the net premium valuation method. Each calculation represents a point within a range of possible outcomes, and the assumptions used in the calculations depend on the circumstances prevailing in each life operation. The principal assumptions are given in note 21. It includes explicit provision for vested bonuses including those relating to the current declaration. No such explicit provision is made for future reversionary and terminal bonuses. The net premium valuation method makes implicit provision for these bonuses by reducing the valuation rate of interest. The statutory solvency basis of valuation is then adjusted by eliminating the undistributed surplus carried forward together with general contingency reserves and reserves required under the insurance companies legislation. The provision, which is initially calculated on a statutory solvency basis, is adjusted to remove excessively prudent margins required for statutory solvency purposes.

The technical provision in respect of linked business is equal to the value of the assets to which the contracts are linked. An additional provision in respect of mortality and other risks on linked business is included in the long-term business provision, calculated initially to comply with the reporting requirements under the Interim Prudential Sourcebook for Insurers using a gross premium cash flow method. This is then adjusted to eliminate any undistributed surplus carried forward together with general contingency reserves and reserves required under the insurance companies legislation.

Deferred acquisition costs

Acquisition costs, comprising all direct and indirect costs arising from the conclusion of insurance contracts, are deferred as an explicit acquisition cost asset, gross of tax, and amortised over the period in which the costs are expected to be recoverable out of margins from matching revenues from related policies and in accordance with the pattern of such margins. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the balance sheet date.

Profit recognition and the fund for future appropriations

HHG PLC has adopted the modified statutory solvency basis approach in the determination of profit.

Surpluses arising from the participating long-term business, as a result of the annual actuarial valuation of the related assets and liabilities, are subject to appropriation by the directors of the relevant life company subsidiaries to participating policyholders, by way of bonuses, and to shareholders. This determines the profit attributable to shareholders reported in respect of participating business.

Any unappropriated surplus arising in long-term funds is carried forward in the fund for future appropriations. All surplus in other business is attributable to shareholders and included in profit.

The fund for future appropriations represents all funds the allocation of which to participating policyholders and shareholders has not been determined at the balance sheet date. Transfers between the fund for future appropriations and the long-term business technical account represent the changes in these unallocated amounts between balance sheet dates.

NOTES TO THE ACCOUNTS (continued)**ACCOUNTING POLICIES (continued)****Pacific fund**

During the mid-1990s, Pearl Assurance plc undertook an exercise to identify the extent to which unattributed surplus assets held within its with-profits fund could be attributed to shareholder contributions or historical shareholder entitlements which had not been withdrawn from the fund. As a result of this exercise, £960m of assets were identified as being shareholder assets. £42m of this capital was paid to the 90:10 fund in order to acquire the rights to expected profit from the newly formed 0:100 fund. The remaining £918m of assets was formally attributed to shareholders with the agreement of the UK regulator. A component of the agreement with the regulator was the formal segmentation of the Pearl long-term fund into separate with-profits (90:10) and non-profit (0:100) components. The attributed assets, known as the Pacific fund, are an earmarked segment of the Pearl 0:100 long-term fund. Under the terms of the agreement with the Financial Services Authority ('FSA'), the attributed assets were required to remain within Pearl's long-term fund for a period of five years and could then be withdrawn subject to Pearl's appointed actuary confirming that policyholder reasonable expectations would not be affected by the withdrawal. Although this five-year period has expired, there is no current expectation that the assets will be distributed to shareholders in the medium term. As a result, the consolidated net assets represented by the Pacific fund are considered non-distributable.

Up until 27 September 2002 the Pacific fund held the Pearl Assurance plc investment in HHG Invest plc. The results of HHG Invest plc and its subsidiaries were initially recorded in the long-term business technical account as other technical income, but were then transferred to the non-technical account as investment income. The transfer to the non-technical account was included in investment expenses and charges in the long-term business technical account.

On 27 September 2002, this holding was transferred from the Pacific fund to the shareholder fund of Pearl Assurance plc and from that date the results of these companies have been included in the non-technical account.

Investment return on all other assets held by the Pacific fund is included in the balance on the technical account – long-term business.

The Cash Flow Statement includes movements in cash held by the Pacific fund.

Fees and Commissions

Asset management fees are credited on an accruals basis and commissions are credited as earned. Performance fees, which include all incentive fees and gains / losses on investments that the Group holds in the funds that it manages, are only recognised once they have been 'locked-in' and cannot subsequently be reversed.

Investmentsi) *Company balance sheet*

Investments consist of investments in subsidiary undertakings, authorised collective investment schemes and short term deposits. Investments in subsidiary undertakings are included at cost less any provision for impairment where circumstances indicate that the carrying value may not be recoverable. Investments in authorised collective investment schemes are included at middle market value. Short term deposits are included at cost.

NOTES TO THE ACCOUNTS (continued)**ACCOUNTING POLICIES (continued)****Investments (continued)**ii) *Group balance sheet*

Investments are stated at current value at the balance sheet date, calculated as follows:

- Freehold and leased properties have been valued at open market value. Other than for leasehold properties where the lease has less than twenty years unexpired term, no provision is made for depreciation of investment properties. The directors consider that as these properties are held for investment, to depreciate them would not give a true and fair view. Depreciation is only one of many factors considered in the independent valuation of such properties. It is the Group's practice to maintain properties occupied by the Group in a continual state of sound repair. Accordingly the directors consider that the economic lives of these properties and their residual values, based on prices prevailing at time of acquisition or subsequent valuation, are such that any depreciation is insignificant and is thus not provided. No depreciation is provided on properties held for own use since such depreciation is immaterial;
- Listed investments are stated at the middle market value;
- Investments in authorised collective investment schemes are included at middle market value;
- Short-term deposits are included at cost;
- Other investments are shown at Directors' estimates of market value; and
- Interests in property limited partnerships ("PLPs") within the long term business which effect or establish policyholder's rights or otherwise held as part of the Group's investment portfolio are accounted for as joint ventures, associates or investments in land and buildings depending on the shareholdings and the terms of each partnership agreement. Where the partnership is managed by a contractual agreement such that no one party exerts control, notwithstanding the Group's partnership share in the PLP, both direct and indirect, may be greater than 50%, such PLPs have been accounted for as joint ventures. Here, the Group's share of the respective PLPs' gross assets and gross liabilities are shown on the face of the consolidated balance sheet, in accordance with the requirements of FRS 9 'Associates and joint ventures'. Where the partnership is managed by a contractual agreement, such that the Group can exercise a significant influence, but one other party controls the partnership, such PLPs have been accounted for as associates. Here, the Group's share of the respective PLPs' net assets and liabilities are shown on the face of the consolidated balance sheet, in accordance with the requirements of FRS 9 "Associates and joint ventures". Where the Group holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are included in land and buildings at their market value.

Investment income, realised and unrealised gains and losses on investments

Dividends are included as investment income on the date that shares become quoted ex-dividend. Interest and rents are included on an earned basis.

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

Long term business investment income and unrealised gains and losses are included in the technical account - long-term business. Investment return is allocated from the technical account – long-term business to the non-technical account so as to reflect the longer term investment return on investments directly attributable to shareholders in the balance on the technical account.

An allocation of investment return from the non-technical account to the general business technical account is made based upon the level of technical provisions and capital allocated to back these provisions.

NOTES TO THE ACCOUNTS (continued)**ACCOUNTING POLICIES (continued)****Goodwill**

Goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of net assets acquired, is capitalised in the balance sheet and amortised over its useful economic life or twenty years if shorter. The carrying value of goodwill is tested annually for indicators of impairment.

Present value of acquired in-force business

The present value of acquired in-force business ("PVIF") is recognised in the balance sheet as an asset. To the extent that the PVIF will be recognised as profit over the remaining lifetime of the related in-force policies, it is amortised on a systematic basis, and the discount unwound, over the anticipated lives of the related contracts of the portfolios. The carrying value of the asset is tested annually for indicators of impairment. Any amortisation or impairment charge is recorded in the long-term business technical account in 'Other technical charges'.

Fixed assets and depreciation

All items of capital expenditure are capitalised and depreciated on a straight-line basis over their useful economic life of between 2 and 10 years.

Guarantee fund levies

Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme before completion of the financial statements. Provision is also made if it is more likely than not that a levy will be raised based on premium income, which has already been recognised in the financial statements.

Taxation

The Group recognises deferred tax assets and liabilities on a discounted basis to reflect the time value of money. A discount rate has been selected that reflects the yield on government bonds which have a maturity date similar to the likely average period for assets upon which deferred tax liabilities and assets arise. Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date with the following exceptions:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax on changes in the fair value of investments is recognised in the profit and loss account.

The transfer from the long-term business account to the non-technical account is grossed up at the longer term effective rate of corporation tax.

Pension costs

In accordance with SSAP 24, defined benefit pension costs are recognised on a systematic basis so that the cost of providing retirement benefits to employees is evenly spread over the service lives of the employees concerned. Variations arising from actuarial surpluses are spread over the average remaining service lives of members to the extent that the resulting credit does not exceed the regular cost. The Group also operates a defined contribution scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

NOTES TO THE ACCOUNTS (continued)

ACCOUNTING POLICIES (continued)

Operating and finance leases

Assets used by the Group which have been funded through finance leases are capitalised and the resulting lease obligations are included in creditors. Rental payments under operating leases are charged to the profit and loss account as incurred.

Borrowings

Borrowings issued at a discount are included in the balance sheet at their proceeds, net of expenses, together with any unamortised discount and issue expenses at the balance sheet date. The discount and expenses are charged to loan interest in the profit and loss account over the term of the borrowings. Interest payable and receivable related to interest rate swaps on the Group's borrowings are included within investment expenses and charges in the profit and loss account.

Limited recourse bonds

Expenditure incurred in the issue of limited recourse bonds is amortised at a constant rate over the term of the loan and the carrying value of the liability represents the par value less unamortised issue expenses. Some such liabilities are secured on a block of existing policies. When the repayment of the liability is contingent upon the emergence of the margins generated from future premiums or other income on the policies being securitised, the present value of the future margins which are expected to finance the repayment is classified as an asset in the balance sheet and included within Other Prepayments and Accrued Income. This asset is amortised in accordance with the repayment terms. The limited recourse bonds currently in issue are detailed in Note 26.

Foreign currencies

Transactions in currencies other than the functional currency of the undertaking concerned are recorded at the rate appropriate at the time of accounting for the transaction. Currency balances at the year end are converted at the rate ruling at that date except where covered by an open foreign exchange contract in which case the rate specified in the contract is used. Assets and liabilities of those subsidiaries and associates which prepare accounts in currencies other than the Group's reporting currency are translated at year end rates. The results and cash flows of these undertakings are translated at average rates for the year.

Differences on exchange arising from the translation of opening balance sheets of those subsidiaries and associates whose reporting currency is not sterling, together with the differences between the results of these undertakings translated at average rates for the year and year end rates, are taken directly to reserves, together with differences on non sterling borrowings used to hedge those investments.

All other gains and losses are taken to the profit and loss account.

1. Discontinued operations - General business

1.1 General business - Gross premiums written

	31 Dec 03	31 Dec 02
	£m	£m
Gross premiums written	<u>-</u>	<u>1</u>

1.2 General business - Equalisation provisions

Equalisation provisions are established in accordance with the requirements of the Interim Prudential Sourcebook for Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £5m as at 31 December 2003 (2002: £7m). The movement in equalisation provisions during the year resulted in an increase in the general business technical account result and the profit before taxation of £2m in 2003 (2002: £3m).

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

2. Net operating expenses and other charges

2.1 Net operating expenses

	Technical Account General business		Technical Account Long term business	
	31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
	£m	£m	£m	£m
Acquisition costs				
Commission	-	-	12	29
Other	-	-	19	209
Change in deferred acquisition costs (note 16.1)	-	4	137	44
Administrative expenses	(5)	(5)	182	248
	<u>(5)</u>	<u>(1)</u>	<u>350</u>	<u>530</u>

2.2 Other technical charges and other charges

	Technical Account Long term business		Non - Technical Account	
	31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
	£m	£m	£m	£m
Amortisation of goodwill (note 11)	-	17	35	33
Impairment of goodwill (note 11)	-	-	272	206
Amortisation of acquired PVIF (note 15)	4	6	-	-
Impairment of acquired PVIF (note 15)	19	41	-	-
Amortisation and impairment on block of business securitised (note 16.2)	121	8	-	-
Other expenditure / charges	-	-	223	161
	<u>144</u>	<u>72</u>	<u>530</u>	<u>400</u>
Operating exceptional charge included above	<u>19</u>	<u>41</u>	<u>415</u>	<u>330</u>

Included in the other expenditure above is an exceptional charge in respect of the restructuring of the Life Services business. During 2002, restructuring costs of £16m were paid and a further £108m was provided principally to complete the closure of the direct sales force operations of Life Services (note 27). Further exceptional costs of £143m were incurred during 2003 in respect of the changes to the Life Services business required as a result of the Demerger and the subsequent decision to close all life companies to new business. This was in respect of £87m of restructuring costs, £41m relating to the vacation of leasehold properties and £15m of sundry other costs associated with the Demerger.

Also included in the table above are exceptional charges in respect of the impairment of the Group's purchased goodwill. These have arisen from reviews by management at 31 December 2002 and at 31 December 2003. The discount rate used to calculate the impairment of goodwill was a risk free rate of 4.37% (2002: 4.63%), plus a risk factor of 6% (2002: 5%).

Amortisation and impairment of acquired PVIF have been grossed up at the longer term effective tax rate attributable to the balance on the long term business technical account for the purpose of the reconciliation of group operating profit to loss on ordinary activities before taxation and segmental information in note 3. The tax attributable to the amortisation of acquired PVIF is £2m (2002: £3m). The tax attributable to the impairment of acquired PVIF is £8m (2002: £17m).

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

2. Net operating expenses and other charges (continued)

2.3 Analysis of operating exceptional charges

	Technical Account Long term business		Non – Technical Account	
	31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
	£m	£m	£m	£m
Impairment of goodwill (note 11)	-	-	272	206
Impairment of goodwill in respect of associates (note 12.4)	-	-	9	-
Impairment of acquired PVIF (note 15)	19	41	-	-
Restructuring costs (note 2.2)	-	-	143	124
Impairment of contingent loans (note 5.1)	-	-	130	-
Charges arising from changes in actuarial assumptions (note 21.9)	242	-	-	-
	<u>261</u>	<u>41</u>	<u>554</u>	<u>330</u>

Impairment of acquired PVIF and other operating exceptional costs have been grossed up at the longer term effective tax rate attributable to the balance on the long term business technical account for the purpose of the reconciliation of group operating profit to loss on ordinary activities before tax and segmental information in note 3. The tax attributable to the impairment of acquired PVIF is £8m (2002: £17m). The tax attributable to the charges arising from changes in actuarial assumptions is £28m (2002: £Nil).

2.4 Depreciation

Net operating expenses include:	31 Dec 03	31 Dec 02
	£m	£m
Depreciation of tangible fixed assets	<u>9</u>	<u>16</u>

2.5 Analysis of staff costs

Staff costs comprise:	31 Dec 03	31 Dec 02
	£m	£m
Salaries and wages	204	268
Social security costs	16	22
Pension costs	2	-
Total	<u>222</u>	<u>290</u>

Included within salaries and wages above are £38m (2002: £47m) of operating exceptional charges relating to the restructure of the Life Services business referred to in note 2.2 to the accounts. Social security costs also include operating exceptional restructuring costs of £2m (2002: £2m). Pension costs of £2m (2002: £Nil) comprise operating exceptional restructuring costs for pension augmentations.

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

2. Net operating expenses and other charges (continued)

2.6 Average employee numbers

The average number of employees of the Group was as follows:

	31 Dec 03 No.	31 Dec 02 No.
Henderson	796	1,225
Life Services	3,404	5,440
Other Businesses	793	864
Total employees	4,993	7,529

2.7 Auditors' remuneration

	31 Dec 03 £m	31 Dec 02 £m
Statutory audit services	1.4	1.6
Statutory regulatory reporting	0.3	0.5
Non-statutory audit of half year financial information	0.3	-
Further assurance services	0.1	1.0
Tax advisory services	0.2	0.2
Other non-audit services (including £2.7m on the Demerger)	2.9	-
Total services	5.2	3.3

3. Segmental information – group operating profit and net assets

3.1 Operating profit – Henderson

	31 Dec 03 £m	31 Dec 02 £m
Revenue		
Total fee income	193	219
Investment income	3	4
Total revenue	196	223
Expenses		
Operating expenses	(157)	(157)
Depreciation	(7)	(4)
Total expenses	(164)	(161)
Underlying operating profit	32	62
Transformation costs	-	(8)
Operating profit	32	54

Total fee income includes £44m (2002: £50m) relating to insurance companies within the group.

Transformation costs in 2002 comprise redundancy costs of £7m and product closure costs of £1m.

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

3. Segmental information – group operating profit and net assets (continued)

3.2 Operating profit before exceptional costs, amortisation of goodwill and acquired PVIF – Life Services

	31 Dec 03	31 Dec 02
	£m	£m
Earned premiums, net of reinsurance	1,658	2,131
Claims incurred, net of reinsurance	(4,211)	(3,350)
Net investment return	1,399	(2,409)
Operating expenses and other technical charges	(471)	(497)
Changes in other technical provisions, net of reinsurance	1,845	2,915
Taxation	(46)	236
Transfer (to) / from the fund for future appropriations	(85)	981
	89	7
General insurance	12	19
Service company	(8)	16
Shareholder interests	(12)	44
	81	86
Operating profit before exceptional costs, amortisation of goodwill and acquired PVIF	81	86

3.3 Operating profit / (loss) – Other Businesses

	31 Dec 03	31 Dec 02
	£m	£m
Towry Law	1	(12)
Virgin Money	2	2
AMPLE	(6)	(7)
Other	-	(5)
	(3)	(22)
Operating loss	(3)	(22)
	31 Dec 03	31 Dec 02
Towry Law	£m	£m
Revenue	48	53
Expenses	(47)	(60)
Non-recurring costs	-	(5)
	1	(12)
Operating profit / (loss)	1	(12)

3.4 Geographical analysis of operating profit / (loss)

	31 Dec 03	31 Dec 02
	£m	£m
Henderson		
United Kingdom	37	63
Europe	(2)	(2)
United States	(5)	-
International	2	1
	32	62
Total operating profit before transformation costs and tax	32	62

Transformation costs in 2002 of £5m were incurred in United Kingdom and £3m in International entities.

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NOTES TO THE ACCOUNTS (continued)

3. Segmental information – group operating profit and net assets (continued)

3.4 Geographical analysis of operating profit / (loss) (continued)

	31 Dec 03 £m	31 Dec 02 £m
Towry Law		
United Kingdom	1	(5)
International	-	(7)
Total	1	(12)

All operating profit / (loss) in respect of other businesses arises in the United Kingdom.

3.5 Net assets by business and geographical segment

	31 Dec 03 £m	31 Dec 02 £m
Henderson		
United Kingdom	288	301
Europe	64	53
United States	12	13
International	9	13
Total Henderson	373	380
Life Services	1,177	1,557
Other Businesses	73	138
Corporate	68	60
Net assets	1,691	2,135
Financed by:		
Capital and reserves	1,689	1,045
External loans	2	1,090
	1,691	2,135

The net assets of Life Services, Other Businesses and Corporate are employed in the United Kingdom.

4. Segmental information – Long term business

Almost all business is direct and written in the UK in respect of continuing operations.

4.1 Analysis of gross premiums written

	31 Dec 03 £m	31 Dec 02 £m
Premiums from individuals	1,494	1,891
Premiums from group contracts	170	245
	1,664	2,136
Life business	353	747
Annuity business	193	208
Pension business	1,118	1,181
	1,664	2,136

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

4. Segmental information – Long term business (continued)

4.2 Analysis of earned premiums, net of reinsurance

	31 Dec 03	31 Dec 02
	£m	£m
Premiums from individuals	1,488	1,886
Premiums from group contracts	170	245
	1,658	2,131
Life business	347	742
Annuity business	193	208
Pension business	1,118	1,181
	1,658	2,131

4.3 Analysis of gross premiums written by way of direct insurance split by premium type

	31 Dec 03	31 Dec 02
	£m	£m
Regular premiums	754	789
Single premiums	910	1,347
	1,664	2,136

4.4 Analysis of gross premiums written by way of direct insurance split by contract type

	31 Dec 03	31 Dec 02
	£m	£m
Non-profit contracts	469	376
With-profits contracts	686	1,214
Linked contracts	509	546
	1,664	2,136

4.5 Analysis of new gross written premiums

	31 Dec 03	31 Dec 02
	£m	£m
Life business	35	449
Annuity business	87	112
Pension business	823	878
Direct	945	1,439

Industrial branch premiums of £36m in 2003 (2002: £47m) are classified as regular premium with-profits life business in the above analysis.

NOTES TO THE ACCOUNTS (continued)

4. Segmental information – Long term business (continued)

4.6 New business annual premium equivalent

	31 Dec 03	31 Dec 02
	£m	£m
Annual premium equivalent	126	227

4.7 Analysis of new gross premiums written by way of direct insurance

	31 Dec 03	31 Dec 02
	£m	£m
Regular premiums (annualised)	35	92
Single premiums	910	1,347
	945	1,439
Non-profit contracts	426	354
With-profit contracts	206	711
Linked contracts	313	374
	945	1,439

In classifying new business premiums, the basis of recognition adopted is as follows:

- Incremental increases on existing policies are classified as new business premiums.
- Rebates from the Department of Social Security are classified as new single premiums.
- Funds at retirement under individual pension contracts left with the Group are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross written premiums.

4.8 Analysis of balance on technical account

	31 Dec 03	Restated 31 Dec 02
	£m	£m
Non-linked:		
Life and annuity business	20	6
Pension business	(52)	(46)
Shareholders' attributable assets	(173)	52
Goodwill amortisation	-	(17)
	(205)	(5)
Linked:		
Life business	1	(3)
Pension business	3	(46)
	4	(49)
	(201)	(54)

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

5. Investment return

5.1 Actual investment income

	Technical Account Long term business		Non Technical Account	
	31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
	£m	£m	£m	£m
Income from land and buildings	100	162	-	-
Income from other investments	1,305	1,232	27	101
Investment income	1,405	1,394	27	101
Unrealised gains / (losses)	979	(3,545)	(148)	(16)
Investment management expenses and charges	(27)	(93)	-	(14)
Interest on bank loans and overdrafts	(1)	(9)	-	-
Other loan interest	(53)	(59)	(74)	(78)
Losses on realisation of investments	(925)	(137)	(4)	-
Investment expenses and charges	(1,006)	(298)	(78)	(92)
Total investment return	1,378	(2,449)	(199)	(7)

Included in unrealised losses in the non-technical account for the year ending 31 December 2003 is an operating exceptional charge of £130m in respect of the impairment of the contingent loan to the long term fund of London Life Limited, which was caused by changes arising from the restructuring of Life Services resulting from the proposed Demerger of AMP Limited announced on 1 May 2003.

5.2 Longer term investment return

The longer term investment return, net of expenses, allocated to the general business technical account in 2003 was £3m (2002: £8m). The longer term investment return transferred to the long-term business technical account in 2003 was £8m (2002: £Nil).

The longer term investment return and short-term fluctuations are as follows:

	Shareholders interest in Long term business		Non long term business	
	31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
	£m	£m	£m	£m
Total investment return before tax	42	37	(199)	(7)
Less: investment return not supporting general insurance	-	-	197	5
	42	37	(2)	(2)
Longer term investment return	50	37	3	8
Short term fluctuation in investment return	(8)	-	(5)	(10)
Total investment return	42	37	(2)	(2)

NOTES TO THE ACCOUNTS (continued)

5. Investment return (continued)

5.2 Longer term investment return (continued)

(i) The longer term return is calculated separately for general insurance business and certain long-term business operations. In respect of equities, properties, gilts, corporate bonds and cash the return is calculated by multiplying the opening market value of the investments by the longer term rate of investment return. The longer term rate of investment return is set by reference to the market redemption yields at the measurement date. The allocated longer term return for other investments is the actual income receivable for the year.

(ii) The principal assumptions underlying the longer term investment return are:

	31 Dec 03	31 Dec 02
	%	%
Equities	8.0	8.0
Gilts	5.0	5.0
Cash	3.7	4.0

(iii) Comparison of longer term investment return with actual returns

The actual return on investments, before deducting investment management expenses and charges, is compared below with the aggregate longer term return over a five year period.

	01 Jan 99 to 31 Dec 03	01 Jan 98 to 31 Dec 02
	£m	£m
Actual return attributable to shareholders:		
Long term business	197	331
Non long term business	32	60
Longer term return credited to operating results:		
Long term business	(308)	(339)
Non long term business	(47)	(60)
Shortfall of actual returns over longer term returns	(126)	(8)

(iv) The table below shows the sensitivity to changes in the longer term rates of returns:

Movement in investment return	By	Change in	By
Equities	1% higher / lower	Group operating profit before tax	£1m
Gilts	1% higher / lower	Group operating profit before tax	£4m
Cash	1% higher / lower	Group operating profit before tax	£3m

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

6. Taxation

6.1 Taxation

	Technical Account Long term business		Non Technical Account	
	31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
	£m	£m	£m	£m
United Kingdom corporation taxation				
Current tax charge / (credit) for the year	56	75	(14)	(20)
Adjustments for previous years	(4)	(118)	7	(1)
	<u>52</u>	<u>(43)</u>	<u>(7)</u>	<u>(21)</u>
Overseas taxation	2	5	-	-
Double taxation relief	-	(1)	-	-
Tax attributable to the balance on long term business technical account	-	-	(13)	(23)
Total current taxation	<u>54</u>	<u>(39)</u>	<u>(20)</u>	<u>(44)</u>
Deferred taxation				
Origination and reversal of timing differences	(2)	(245)	3	5
Adjustment to the estimated recoverable amount of deferred tax assets arising in previous periods	20	24	-	-
(Decrease) / increase in discount	(1)	27	-	-
Total deferred taxation	<u>17</u>	<u>(194)</u>	<u>3</u>	<u>5</u>
Total tax charge / (credit)	<u>71</u>	<u>(233)</u>	<u>(17)</u>	<u>(39)</u>

After taking account of reliefs to which the Group is entitled, UK corporation tax on taxable profits attributable to shareholders has been accounted for at the rate of 30% (2002: 30%). The tax rates for the life policyholders are 22% and 20% (2002: 22% and 20%).

6.2 Factors affecting tax charge for year

The tax assessed in the year is higher than the standard rate of corporation tax in the UK and the differences are explained below.

The standard rate of tax has been determined by using the UK rate enacted for the year for which the losses will be taxed.

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

6. Taxation (continued)

6.2 Factors affecting tax charge for year (continued)

	31 Dec 03 £m	31 Dec 02 £m
Loss on ordinary activities before taxation	<u>(864)</u>	<u>(343)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(259)	(103)
Effects of:		
Non-taxable book gains on sales of subsidiaries and associates	(5)	(20)
Non-taxable goodwill amortisation and impairment	187	74
Other disallowable expenses	6	13
Other timing differences other than on long term business	30	2
Adjustment to tax charge in prior years	7	(1)
Lower tax rates on overseas earnings	(1)	-
Non taxable income	6	(9)
Current tax losses surrendered for nil value	9	-
Current tax credit for the year	<u>(20)</u>	<u>(44)</u>

7. Earnings per share

	31 Dec 03 £m	Losses 31 Dec 02 £m	Basic and diluted earnings per share 31 Dec 03 pence	31 Dec 02 pence
Loss for the financial period after tax attributable to members of the parent company	(847)	(304)	(119.6)	(98.4)
Less: Preference share dividends	(1)	(25)	(0.1)	(8.1)
Basic and diluted earnings / earnings per share	<u>(848)</u>	<u>(329)</u>	<u>(119.7)</u>	<u>(106.5)</u>
Basic and diluted weighted average number of 10p shares (millions)	<u>708</u>	<u>309</u>		

Basic and diluted earnings per share have been calculated on the loss for the financial year attributable to equity shareholders.

To enable fair comparison the weighted average number of shares have been calculated on the basis that the number of 10p ordinary shares that were in issue at 12 December 2003 were equivalent to the total number of £1 ordinary shares and £1 ordinary preferred shares on 26 November 2003. Further disclosure on the movements in issued share capital is given in note 17.

8. Other income

Other technical income and other income includes elements of the profit before tax on the investment management business and commission on sales made by IFAs (Towry Law).

NOTES TO THE ACCOUNTS (continued)

9. Exceptional items

The non-operating exceptional items have arisen from the disposal of the following businesses:

	31 Dec 03 £m	31 Dec 02 £m
Cogent	(5)	74
Henderson private client asset management business	8	8
	3	82

Cogent

On 2 September 2002 the Group completed the sale of Cogent Investment Operations Limited, a subsidiary undertaking, which resulted in a profit of £74m. The disposal is analysed as follows:

	31 Dec 02 £m
Net assets disposed:	
Tangible fixed assets	5
Debtors	13
Cash at bank and in hand	27
Creditors	(30)
Goodwill	12
	27
Profit on disposal	74
	101
Satisfied by:	
Cash	101

The profit attributable to the Group in 2002 includes losses of £2m incurred by Cogent Investment Operations Limited up to the date of disposal on 2 September 2002.

In 2003, a further loss on disposal of £5m has been reported in the profit and loss account in respect of this sale. This consists of additional sales proceeds of £6m offset by further disposal costs and increases in provisions for related contractual obligations of £11m.

Henderson's private client asset management business

During 2002, the group disposed of its private client asset management business to Newton Investment Management resulting in £8m profit on disposal in 2002. A further £8m of profit arose during 2003 on receipt of a further tranche of proceeds from this disposal. This was not recognised during 2002 since it was contingent.

10. Dividends

	Per share	31 Dec 03 Total £m	Per share	31 Dec 02 Total £m
	pence		pence	
Non-equity dividends on 'A' preference shares	4.6	1	5.4	1
Non-equity dividends on 'B' redeemable preference shares	-	-	0.5	1
Non-equity dividends on 'C' redeemable preference shares	-	-	6.2	23
		1		25

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

11. Goodwill

	Total £m
Cost	
At 1 January 2003	1,807
Acquisition of The Bookey Isaacs Group	2
At 31 December 2003	1,809
Amortisation and Impairment	
At 1 January 2003	1,222
Amortisation charge for the year:	
Non-technical account	35
Impairment charge for the year	272
At 31 December 2003	1,529
Net book value	
At 31 December 2003	280
At 31 December 2002	585

On 5 March 2003, one of the Company's principal subsidiaries, Towry Law plc, completed the purchase of Bookey Isaacs Limited and its subsidiaries. This resulted in goodwill of £2m.

12. Investments

12.1 Investments – Land and buildings

	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At 1 January 2003	1,503	669	19	2,191
Additions	99	71	-	170
Disposals	(477)	(225)	(18)	(720)
Surplus / (deficit) on revaluation	40	(49)	-	(9)
At 31 December 2003	1,165	466	1	1,632
Land and buildings at cost:				
At 31 December 2003	1,059	444	-	1,503
At 31 December 2002	1,506	473	5	1,984

All properties held by the Group were valued as at 31 December 2003 and 31 December 2002 by qualified professional valuers working for the companies DTZ Debenham Thorpe, Knight Frank LLP or CB Richard Ellis Limited.

Investment properties were valued on the basis of open market value. The properties in owner occupation for the purposes of the Group's business were valued on the basis of existing use value. All valuations were carried out in accordance with the RICS Appraisal and Valuation Manual. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors.

NOTES TO THE ACCOUNTS (continued)

12. Investments (continued)

12.1 Investments – Land and buildings (continued)

Other than for leasehold properties where the lease has less than twenty years unexpired term, no provision is made for depreciation of investment properties.

Leasehold properties include £267m (2002: £283m) property reversions arising from sales of the NPI Extra Income Plan. The reversionary interest is valued as the National Provident Life Limited proportion of the current market value, projected for the lifetime of the policyholder at the assumed future increase in house prices, then discounted back to the valuation rate of interest.

Included in the figures shown for current value is £36m (2002: £45m) in respect of buildings which are owned and occupied by the Group.

12.2 Investments in participating interests

Group

	Cost		Carrying Value	
	31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
	£m	£m	£m	£m
Investments in joint ventures (note 12.3)	137	173	231	260
Investments in associates (note 12.4)	405	429	411	413
Total	542	602	642	673

12.3 Investments in joint ventures

Movements in the Group's investments in joint ventures comprise:

	Total £m
Share of result for the year after tax (Disposals) / additions	8 (37)
Movements in investments in joint ventures	(29)
At 1 January 2003	260
At 31 December 2003	<u>231</u>

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

12. Investments (continued)

12.4 Investments in associates

Group	Long term business		Non Long term business			Total carrying value £m
	Share of capital and reserves £m	Loan £m	Share of capital and reserves £m	Loan £m	Goodwill £m	
At 1 January 2003	318	30	(42)	101	6	413
Operating profit for the year after tax	24	-	2	-	-	26
(Disposals) / Additions	(27)	9	-	(1)	-	(19)
Capitalisation of loans	-	-	6	(9)	3	-
Impairment of goodwill	-	-	-	-	(9)	(9)
Movements in year	(3)	9	8	(10)	(6)	(2)
At 31 December 2003	315	39	(34)	91	-	411

12.5 Other financial investments

Group	31 Dec 03		31 Dec 02	
	Market Value £m	Cost £m	Market Value £m	Cost £m
Shares and other variable yield securities and units in unit trusts	3,330	2,638	7,565	7,985
Debt securities and other fixed income securities	14,345	13,738	11,811	10,509
Loans secured by mortgage	85	73	80	80
Other loans	19	19	17	17
Deposits with credit institutions	3,727	3,727	3,564	3,563
	21,506	20,195	23,037	22,154
Listed investments included above	17,210	16,449	19,420	20,876
Assets held to cover linked liabilities	4,349	5,064	3,909	4,812

Deposits with credit institutions include a Collateral Fund of £113m (2002: £110m) (note 26.1 (h))

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

12. Investments (continued)

12.6 Investments of the Company

	Shares in subsidiary under- takings £m	Loans to subsidiary under- takings £m	Loans to associated under- takings £m	Total fixed asset investments £m
Cost				
At 1 January 2003	4,441	338	5	4,784
Additions	810	15	-	825
Disposals	-	(55)	(5)	(60)
At 31 December 2003	5,251	298	-	5,549
Provision for impairment				
At 1 January 2003	(1,098)	-	-	(1,098)
Charge for the year	(1,269)	(53)	-	(1,322)
At 31 December 2003	(2,367)	(53)	-	(2,420)
Net book value				
At 31 December 2003	2,884	245	-	3,129
At 31 December 2002	3,343	338	5	3,686

	Units in unit trusts £m
Cost	
At 1 January 2003	-
Additions	67
At 31 December 2003	67
Net book value	
At 31 December 2003	67
At 31 December 2002	-

Investments in subsidiary undertakings are included at cost less any provision for impairment where circumstances indicate that the carrying value may not be recoverable. The requirement for any provision for impairment at 31 December 2003 has been determined by reference to the following:

- For life companies, an external valuation based on traditional embedded value techniques discounted at the risk free rate plus a risk premium of 6% to 9%; and
- For non life entities, cost has been compared to net assets at 31 December 2003 or an external valuation where available.

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

13. Debtors

13.1 Debtors arising out of direct insurance operations

Group	31 Dec 03 £m	31 Dec 02 £m
Amounts owed by policyholders	31	30

13.2 Other debtors

	31 Dec 03 £m	Group 31 Dec 02 £m	31 Dec 03 £m	Company 31 Dec 02 £m
Outstanding sale of investments	138	308	-	-
Amounts due from group undertakings	-	3	25	19
Other debtors	288	242	4	-
Prepayments and accrued income	-	-	-	16
Corporation tax recoverable	-	-	13	4
	426	553	42	39

14. Tangible assets

	Total £m
Cost	
At 1 January 2003	55
Additions	4
Disposals	(17)
	42
At 31 December 2003	
Depreciation	
At 1 January 2003	14
Charge for the year	9
On disposals	(8)
	15
At 31 December 2003	
Net book value	
At 31 December 2003	27
At 31 December 2002	41

NOTES TO THE ACCOUNTS (continued)

15. Present value of acquired in force long term business

	Total £m
Cost	
At 1 January and 31 December 2003	101
Amortisation and Impairment	
At 1 January 2003	68
Amortisation charge	4
Impairment charge	19
At 31 December 2003	91
Net book value	
At 31 December 2003	10
At 31 December 2002	33

The principal assumptions used to calculate the acquired PVIF are the same as those used to calculate the Long Term Business Provision (note 21).

16. Prepayments and Accrued Income

16.1 Deferred Acquisition Costs

	Long term Business £m
At 1 January 2003	243
Decrease in year	(137)
At 31 December 2003	106

16.2 Other prepayments and accrued income

Other prepayments and accrued income includes £111m (2002: £232m) of accrued income which represents the value of surpluses arising on the block of business securitised (note 26.1(h)).

17. Share capital

17.1 Share capital authorised

	31 Dec 03 £m	31 Dec 02 £m
4,250,000,000 ordinary shares of 10p each	425	-
1,000,000,000 undesignated shares of £1 each	-	1,000

The authorised share capital at 31 December 2002 was undesignated in accordance with the Company's Memorandum and Articles of Association.

On 23 October 2003, the existing authorised but unissued share capital of £196m was designated as 196,160,000 preferred ordinary shares of £1 each and the authorised share capital was then increased from £1,000m to £2,350m by the creation of 1,350,000,000 preferred ordinary shares of £1 each.

NOTES TO THE ACCOUNTS (continued)

17. Share capital (continued)

17.1 Share capital authorised (continued)

On 26 November 2003 the High Court of Justice confirmed a reduction in the authorised share capital from £2,350m to £27m through the cancellation and extinguishing of 759,870,000 ordinary shares of £1, all of the 16,770,000 'A' redeemable preference shares of £1 and all of the 1,546,160,000 preferred ordinary shares of £1. Subsequently on 12 December 2003, the effective date of the AMP Limited Demerger, the remaining 27,200,000 ordinary shares of £1 were sub-divided into 272,000,000 ordinary shares of 10p and the authorised share capital was then increased from £27m to £200m by the creation of 1,728,000,000 ordinary shares of 10p each.

On 17 December 2003, the authorised share capital was increased from £200m to £425m by the creation of 2,250,000,000 ordinary shares of 10p.

17.2 Share capital allotted

Group	31 Dec 03 £m	31 Dec 02 £m
Allotted, called up and fully paid equity shares:		
538,140,000 ordinary shares of £1 each	-	538
2,464,049,508 ordinary shares of 10p each	246	-
Non-equity shares:		
16,770,000 'A' non-redeemable preference shares of £1 each	-	17
248,930,000 'C' redeemable preference shares of £1 each	-	249
	<u>246</u>	<u>804</u>

On 31 January 2002 HHG PLC issued 178,070,000 'C' redeemable non-cumulative preference shares to AMP Life Limited. On the same day, HHG PLC redeemed 178,070,000 'B' redeemable non-cumulative preference shares.

On 11 December 2002 the allotted share capital of HHG PLC was increased by the creation of 184,140,000 ordinary shares of £1 each. On the same day, HHG PLC redeemed 184,140,000 'C' redeemable non-cumulative preference shares and issued 184,140,000 ordinary shares.

On 30 June 2003 the Company issued 10,000,000 ordinary shares with a par value of £1 each in exchange for AMP Financial Services Holdings Limited's minority interest in Pearl Group Limited, which was valued at £15 million. As set out under the Basis of Presentation and Consolidation this transaction meets the FRS 6 definition of a group reconstruction. Accordingly, the additional share capital of £10m and share premium of £5m created by this transaction have also been included in the comparatives.

On 30 June 2003 the Company issued 248,930,000 ordinary shares with a par value of £1 each for a total consideration of £249m. On the same day the Company redeemed the 'C' class redeemable preference shares with a par value of £1 each, for a total redemption value of £249m.

On 14 November 2003 the Company issued 27,657,688 preferred ordinary shares with a par value of £1 each for a consideration of £27m and on 21 November 2003 a further 1,323,046,626 preferred ordinary shares with a par value of £1 each for a consideration of £1,323m (note 29.7).

On 26 November 2003 the High Court of Justice confirmed a reduction in the authorised share capital from £2,350m to £27m and as part of this 759,870,000 ordinary shares of £1, all of the 16,770,000 'A' redeemable preference shares of £1 and all of the 1,350,704,314 preferred ordinary shares of £1 in issue were cancelled and extinguished. Subsequently on 12 December 2003, the effective date of the AMP Limited Demerger, the remaining 27,200,000 ordinary shares of £1 were sub-divided into 272,000,000 ordinary shares of 10p each.

Also on 12 December 2003 as part of the Demerger of the Company from AMP Limited, the Company issued 1,539,128,508 ordinary shares of 10p each to the shareholders of AMP Limited for an aggregate consideration of £1,105m (note 29.7) with the balance of £951m being taken to share premium account (note 18).

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NOTES TO THE ACCOUNTS (continued)

17. Share capital (continued)

17.2 Share capital allotted (continued)

On 23 December 2003 as part of an institutional capital raising, the Company issued 652,920,962 ordinary shares of 10p each for an aggregate consideration of £190m (net of expenses of £6m) (note 29.7) with the balance of £125m being taken to share premium account (note 18).

Company	31 Dec 03 £m	31 Dec 02 £m
Allotted, called up and fully paid equity shares:		
528,140,000 ordinary shares of £1 each	-	528
2,464,049,470 ordinary shares of 10p each	246	-
Non-equity shares:		
16,770,000 'A' non-redeemable preference shares of £1 each	-	17
248,930,000 'C' redeemable preference shares of £1 each	-	249
	246	794

18. Reserves

Group	Share Premium £m	Capital Reserve £m	Profit and Loss Account £m	Capital Reduction Reserve* £m
At 1 January 2003	5	292	(56)	-
Consideration for acquisition of Henderson Global Investors (Jersey) Limited and its subsidiaries from the AMP Group	-	-	(28)	-
Reserve arising on cancellation of share capital	-	-	-	2,127
Application of capital reduction reserve to pay 'A' preference shares	-	-	-	(17)
Application of capital reserve to repay AMP Financial Services Holdings Limited	-	-	-	(1,105)
Premium arising on issue of ordinary shares (note 17.2)	951	-	-	-
Premium arising on issue of ordinary shares (note 17.2)	125	-	-	-
Transfer of balance of capital reduction reserve to profit and loss account	-	-	1,005	(1,005)
Retained loss for the year ended 31 December 2003	-	-	(848)	-
Foreign exchange rate movements	-	-	(3)	-
At 31 December 2003	1,081	292	70	-

* On 26 November 2003 the High Court of Justice confirmed a reduction in the authorised share capital from £2,350m to £27m and as part of this 759,870,000 ordinary shares of £1, all of the 16,770,000 'A' redeemable preference shares of £1 and all of the 1,350,704,314 preferred ordinary shares of £1 in issue were cancelled and extinguished. Conditional upon the Demerger of the Company from AMP Limited becoming effective, the High Court of Justice also approved the utilisation of the capital reduction reserve to:

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NOTES TO THE ACCOUNTS (continued)

18. Reserves (continued)

1. Repay an amount equal to the amount paid up on the 'A' preference shares plus any arrears of dividend thereon down to the effective date of the capital reduction;
2. Repay £1,105,000,000 to AMP Financial Services Holdings Limited (conditional upon the resubscription for new ordinary shares of 10p each by the shareholders of AMP Limited pursuant to the Demerger); and
3. Credit the balance remaining to the profit and loss account to first eliminate the deficit on the accumulated profit and loss account of the Company as at 31 December 2003 with any balance remaining then being treated as realised profit capable of being distributed.

The consolidated profit and loss account includes non-distributable amounts in respect of the Pacific fund of £609m (2002: £782m).

Company	Share Premium £m	Capital Reserve £m	Profit and Loss Account £m	Capital Reduction Reserve £m
At 1 January 2002	-	-	1,387	-
Capital contribution received from AMP Financial Services Holdings Limited	-	290	-	-
Loss for the year	-	-	(918)	-
Dividend on non-equity shares	-	-	(25)	-
At 31 December 2002	-	290	444	-
Retained loss for the financial year	-	-	(1,359)	-
Dividend on preference shares	-	-	(1)	-
Reserve arising on cancellation of share capital	-	-	-	2,127
Application of Capital Reserve to pay preference shares	-	-	-	(17)
Application of capital reserve to repay AMP Financial Services Holdings Limited	-	-	-	(1,105)
Premium arising on issue of ordinary shares	1,081	-	-	-
Transfer of balance of capital reduction reserve to profit and loss account	-	-	1,005	(1,005)
At 31 December 2003	1,081	290	89	-

The Capital Reserve of £290m is not distributable.

NOTES TO THE ACCOUNTS (continued)

19. Reconciliation of movement in shareholders' funds

Group	31 Dec 03 £m	31 Dec 02 £m
Shareholders' funds at 1 January	1,045	1,073
Total recognised losses arising in the year	(850)	(304)
Dividend on non-equity shares	(1)	(25)
Redemption of £178m 'B' preference shares	-	(178)
Issue of £178m 'C' preference shares	-	178
Redemption of £184m 'C' preference shares	-	(184)
Issue of £184m ordinary shares	-	184
Redemption of £249m 'C' preference shares	(249)	-
Issue of £249m ordinary shares	249	-
Consideration for acquisition of Henderson Global Investors (Jersey) Limited and its subsidiaries from the AMP Group	(28)	-
Cash received on disposal of Henderson Global Investors (Jersey) Limited and Henderson Global Investors (Japan) KK to the AMP Group	-	26
Dividends from Henderson Global Investors (Jersey) Limited to the AMP Group	-	(15)
Issue of £27m preferred ordinary shares	27	-
Issue of £1,323m preferred ordinary shares	1,323	-
Capital contribution	-	290
Issue of £65m ordinary 10p shares at a premium of £125m	190	-
Application of Capital Reserve to repay preference shares	(17)	-
Shareholders' funds at 31 December	<u>1,689</u>	<u>1,045</u>

On 19 December 2002 the Company received a capital contribution of £290m from AMP Limited.

20. Fund for future appropriations

	31 Dec 03 £m	31 Dec 02 £m
At 1 January	527	1,508
Transfer from / (to) the technical account	85	(981)
At 31 December	<u>612</u>	<u>527</u>

21. Policyholder liabilities

Long term business provision

Material judgement is required in calculating the long term business provision. In particular, there is discretion over the choice of assumptions used.

The principal assumptions used to calculate the long term business provision for the main classes of business, excluding linked business liabilities, are:

NOTES TO THE ACCOUNTS (continued)

21. Policyholder liabilities (continued)

21.1 Interest Rates

	Valuation interest rates			
	With-profits		Non profit	
	31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
	%	%	%	%
Basic life assurance	3.7 – 4.4	3.4 – 4.7	2.5 – 4.1	2.5 – 4.7
Pension business	3.3 – 5.45	3.25 – 6.0	3.3 – 5.0	3.25 – 5.0
Pension annuity in payment	4.7	2 – 6	4.75 – 4.9	4.25 – 5.3
General annuities	4.7	4.5	4.1 – 5.1	3.9 – 4.9
Unitised with profit (life)	3.0 – 4.26	1.5 – 6.0	N/a	N/a
Unitised with profit (pension)	3.9 – 5.45	2.5 – 5.5	N/a	N/a
PHI	N/a	N/a	2.3 – 3.3	4.8

The interest rate assumptions are based upon the yields on the assets backing the liabilities as at the year-end.

21.2 Mortality Rates

	31 Dec 03	31 Dec 02
Basic Life assurance	AM 80 Ult, A67/70 Ult, AM/F92 and ELT 14 (M) all with adjustments	AM 80 Ult, A67/70 Ult, AM/F92 and ELT 14 (M) all with adjustments
Pension Business	A67/70 Ult, AM/F92 and IM/F80 all with adjustments	A67/70 Ult, AM/F92 and IM/F80 all with adjustments
Annuity in payment	IM/IF80, IM/IF80 C2014/16, IML/IFL 92 and RMV/RF V92 Year of use all with adjustments	IM/IF80, IM/IF80 C2014/15, IML/IFL 92 and RMV/RF V92 Year of use all with adjustments
Unitised with-profits	A67/70 Ult and AM/F92 all with adjustments	A67/70 Ult, AM/F80 Ult and AM/F92 all with adjustments
PHI	100% CMIR 12 with adjustments	100% CMIR 12 with adjustments

The annuity mortality assumptions are based on published CMI mortality tables taking into account the results of the Group's own experience investigations.

21.3 Methodology

Conventional non-linked liabilities were valued using either a net premium method or a gross premium method with explicit allowance for future bonuses and expenses. Accumulating with-profits liabilities were valued using a gross premium valuation (allowing for any guaranteed bonus rate), subject to a minimum of the guaranteed policy benefit on surrender. The long term business provision for linked liabilities was calculated using a gross premium cash flow method of valuing the provision in respect of mortality and other risks.

NOTES TO THE ACCOUNTS (continued)

21. Policyholder liabilities (continued)

21.4 Provision for Bonuses

The provision includes £180m (2002: £165m) in respect of bonuses added following the valuation at the end of each period.

The total bonuses attributable to the year are as follows:

	31 Dec 03	31 Dec 02
	£m	£m
Provided declared bonuses, included in the movement in the long term business provision	180	165
Interim and terminal bonuses, included in claims paid	81	367
	<u>261</u>	<u>532</u>

21.5 Review of Mortgage Endowments

The Financial Services Authority carried out a review of mortgage endowments in 1999. As a result all mortgage endowment policyholders were provided with information on the performance of their policy. These accounts include provision for the estimated costs of investigating and settling complaints associated with mortgage endowments and for the estimated cost of meeting promises given to specific policyholders. The total amount provided for at 31 December 2003 was £231m (2002: £266m).

21.6 Guaranteed Annuity Options

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option. The total amount provided for at 31 December 2003 was £525m (2002: £723m).

21.7 Pension transfers and opt outs

Group companies have set up provisions for the review and possible redress relating to personal pension policies. These provisions, which have been calculated using data derived both from detailed file reviews of specific cases and from a statistical review of other outstanding cases, are included in the long term business provision. The provision for possible redress included in the long-term business provision for Phase 1 cases is £344m (2002: £323m) and for Phase 2 cases is £12m (2002: £25m). Included in the long term business provision are provisions for additional costs associated with the misselling of pensions policies of £18m (2002: £31m).

21.8 Other specific matters

The Financial Services Authority raises matters from time to time that impact the Group and many others in the industry. These accounts reflect those that the directors and reporting actuary consider require provisioning based on current regulatory requirements.

21.9 Operating exceptional charge

	31 Dec 03	31 Dec 02
	£m	£m
Operating exceptional charges included in change in long term business provision	<u>242</u>	<u>-</u>

The change in long term business provision for the financial year included the following exceptional charges:

- (a) Increases in technical provisions in National Provident Life Limited due to the changes in equity backing ratios and other actuarial assumption changes arising from the decision to close all Life Services' life companies to new business, which have led to the impairment of the contingent loans made by Pearl Assurance plc. The shareholders' share of the write-downs is £171m; and
- (b) Increases in technical provisions of £71m in Pearl Assurance plc resulting from the changes referred to in (a) above.

NOTES TO THE ACCOUNTS (continued)

21. Policyholder liabilities (continued)

21.9 Operating exceptional charge (continued)

Other operating exceptional charges of £242m have been grossed up by £28m, being the longer term effective tax rate attributable to the balance on the long term business technical account for the purpose of the Reconciliation of Group Operating Profit to Loss on Ordinary Activities before Taxation and segmental information in note 3.

22. Deferred taxation

22.1 Provisions for taxation

Reconciliation of movements in deferred tax:	31 Dec 03	31 Dec 02
	£m	£m
At 1 January	(9)	180
Charge / (release) for the year:		
Technical account – long term business	17	(194)
Non technical account	3	5
	<u>11</u>	<u>(9)</u>
At 31 December	<u>11</u>	<u>(9)</u>

22.2 Deferred taxation provisions

The components of the net deferred tax liability / (asset) are as follows	31 Dec 03	31 Dec 02
	£m	£m
Unrealised gains in investments	42	39
Deferred acquisition costs	(40)	(60)
Capital allowances	9	9
	<u>11</u>	<u>(12)</u>
Total undiscounted	<u>11</u>	<u>(12)</u>
Total on a discounted basis	<u>11</u>	<u>(9)</u>

A deferred tax asset has been recognised in respect of long-term business acquisition expenses where relief is deferred under corporation tax legislation. It has been determined that taxable income of future periods will be sufficient to enable relief for these expenses as they fall to be deductible. Due to the uncertainty of the quantum, source and timing of future taxable profits or chargeable gains no provision has been made for the following assets.

22.3 Factors that may affect future tax charges

The deferred tax assets, which have not been recognised due to the uncertainty of their recoverability in the foreseeable future, comprise:

	Long Term business		Non Long Term Business	
	31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
	£m	£m	£m	£m
Unrealised losses on investments	-	25	-	6
Provisions and other timing differences	6	6	46	19
Capital and trading losses	177	66	32	6
	<u>183</u>	<u>97</u>	<u>78</u>	<u>31</u>

NOTES TO THE ACCOUNTS (continued)

22. Deferred taxation (continued)

22.3 Factors that may affect future tax charges (continued)

The unrecognised assets have not been discounted. Further analysis is as follows:

- £44m (2002: £34m) arises on realised capital losses on chargeable securities and will be available to offset against realised chargeable gains of future years.
- £Nil (2002: £31m) would arise if the chargeable securities were sold at the market values included in these accounts.
- £8m (2002: £8m) arises from the transfer in of unutilised losses with the purchase of the business of UKLS Investor 2 Limited (formerly AMP Interactive Investor Limited) and will be available for offset against future profits arising from the business purchased.
- £165m (2002: £38m) in respect of trading losses arising from ongoing activities and will be available to offset against taxable profits for future years.
- £10m (2002: £11m) arises from three year funded general insurance business and will be available to offset against the Company's taxable profits in future periods when claims are paid.
- £34m (2002: £6m) in respect of provisions and other timing differences will be available to offset against taxable profits in future periods when the timing differences reverse or provisions are utilised.

23. Claims outstanding

23.1 Claims outstanding

	31 Dec 03 £m	31 Dec 02 £m
General business	301	360
Life business	128	86
	<u>429</u>	<u>446</u>

23.2 General business

2003	Gross £m	Reinsurance £m	Net £m
One year business:			
notified outstandings	26	23	3
incurred but not reported	<u>19</u>	<u>12</u>	<u>7</u>
	45	35	10
Funded business	256	209	47
	<u>301</u>	<u>244</u>	<u>57</u>
2002	Gross £m	Reinsurance £m	Net £m
One year business:			
notified outstandings	49	45	4
incurred but not reported	<u>21</u>	<u>18</u>	<u>3</u>
	70	63	7
Funded business	290	235	55
	<u>360</u>	<u>298</u>	<u>62</u>

NOTES TO THE ACCOUNTS (continued)

23. Claims outstanding (continued)

23.2 General business (continued)

In calculating the technical provisions in respect of certain long-term marine, aviation and reinsurance business, the future investment income on the assets held to cover the related provisions has been taken into account by discounting future cash flows. The average period before the liability will be settled has been estimated at 10.8 years for 2003 (2002: 9.5 years). The provision has been discounted at an interest rate of 4.00% for 2003 (2002: 4.25%).

The overall effect is to reduce the net technical provisions for those classes of business referred to above at 31 December 2003 by £14m from £50m to £36m (2002: by £14m from £50m to £36m). The total amount of the investment return which corresponds to the unwinding of the discount is £1m (2002: £1m).

The overall effect is to reduce the gross technical provisions for those classes of business referred to above at 31 December 2003 by £18m from £66m to £48m (2002: by £20m from £70m to £50m). The total amount of the investment return which corresponds to the unwinding of the discount is £2m (2002: £2m).

23.3 Life business

	31 Dec 03	Gross and Net 31 Dec 02
	£m	£m
At 1 January	86	68
Increase in the year	42	18
At 31 December	128	86

24. Creditors: amounts falling due within one year

Company	31 Dec 03	31 Dec 02
	£m	£m
Loans due to group undertakings (note 26.2)	138	249
Amount owed to group undertakings	1,058	1,060
Other creditors	4	-
Accruals and deferred income	6	14
Corporation tax	-	10
	1,206	1,333

25. Creditors: amounts falling due after more than one year

Company	31 Dec 03	31 Dec 02
	£m	£m
Loans due to group undertakings (note 26.2)	337	953

NOTES TO THE ACCOUNTS (continued)

26. Debenture loans and amounts owed to credit institutions

26.1 Debenture loans and amounts owed to credit institutions

Group	31 Dec 03 £m	31 Dec 02 £m
DM1bn 4.875% notes due 2008 ¹ (note a)	-	355
£160m 6.375% notes due 2010 ¹ (note b)	-	159
£40m floating rate notes due 2003 ¹ (note c)	-	40
A\$1,150m floating rate perpetual loan notes ¹ (note d)	-	402
£32m 4.207% loan due 2003 (note e)	-	32
Floating rate guaranteed unsecured loan notes due 2004 and 2006 (note 29.7)	2	12
A\$253m loan due 2012 (note f)	-	90
Debenture loans, external	2	1,090
Subordinated Guaranteed Bonds undated ² (note g)	130	130
Limited Recourse Bonds 2012 7.39% ² (note h)	108	112
Limited Recourse Bonds 2022 7.58% ² (note h)	117	117
Total debenture loans	357	1,449
Bank loans (note i)	-	76
Refinancing loan (note j)	257	251
Total amounts owed to credit institutions	257	327
Total borrowings	614	1,776

Notes

¹ Issued under a US\$4bn debt securities programme of AMP Group Holdings Limited, AMP Group Finance Services Limited and A.M.P. (U.K.) Finance Services plc. The latter company was a wholly owned subsidiary of HHG PLC before it was transferred to AMP Limited as part of the Demerger. The other two companies are subsidiaries of AMP Limited, HHG PLC's ultimate parent company before the Demerger. AMP Group Holdings Limited guaranteed issues made by AMP Group Finance Services Limited and A.M.P. (U.K.) Finance Services plc. The programme is listed on the Luxembourg Stock Exchange.

² Borrowings of National Provident Life Limited long term fund.

- (a) The DM1bn 4.875% notes due 2008 were issued at a price of 101.781%. The DM proceeds of this issue and DM fixed interest rate were immediately swapped into sterling at a floating rate linked to 3 month LIBOR. During 1998 and 1999 interest rate swaps were entered into which fixed the interest rate at an average of 5.80%. The loan was settled on 12 December 2003 (note 29.7).
- (b) The loan was settled on 12 December 2003 (note 29.7).
- (c) The loan matured on 17 November 2003 (note 29.7).
- (d) The A\$1,150m perpetual loan notes were issued on 24 October 2002 at a floating interest rate. The A\$ proceeds of this issue and A\$ floating rate were immediately swapped into sterling at a floating rate linked to 3 months LIBOR. This loan was with a fellow subsidiary of AMP Limited until it was settled on 12 December 2003 (note 29.7).
- (e) The £32m loan was issued on 12 July 2002 at an interest rate of 4.207% and matured on 13 January 2003 (note 29.7).
- (f) On 11 December 2002 a subsidiary company borrowed A\$253m at a floating interest rate from AMP Life Limited. The A\$ proceeds of this issue and A\$ floating rate were immediately swapped into sterling at a floating rate equivalent to three month LIBOR plus 1.7% with AMP Finance Services Limited. The loan was repaid on 12 December 2003 (note 29.7).

NOTES TO THE ACCOUNTS (continued)

26. Debenture loans and amounts owed to credit institutions (continued)

26.1 Debenture loans and amounts owed to credit institutions (continued)

- (g) A £100m 9.625% subordinated Guaranteed Bond and a £30m 9.6257% subordinated Guaranteed Bond were both issued at par in 1996 by a wholly owned subsidiary of National Provident Institution (NPI). On 1 January 2000, NPI demutualised and these guarantees, along with the net proceeds of their issue, were transferred to National Provident Life Limited. The Bonds are repayable on a non-instalment basis, on 30 June 2006 and each fifth anniversary thereafter, so long as the Bonds are outstanding.
- (h) Prior to its acquisition by the Group, National Provident Institution raised £260m of capital through the securitisation of embedded value on a block of existing unit linked and unitised with-profit life and pension policies in 1998. On demutualisation, these were transferred to National Provident Life Limited. The Bonds are split between two classes, which rank pari passu. The £140m 7.39169% Class A1 Limited Recourse Bonds have an average life of 8 years maturing in 2012 and the £120m 7.5873% Limited Recourse Bonds have an average life of 18 years maturing in 2022. Amounts relating to the securitisation included within Loans represent the principal outstanding less unamortised deferred issued costs. The bonds are repaid out of margins emerging from the securitised block of business and from a Collateral fund of £113m (2002: £110m).
- (i) There were a number of bank loans, which were repayable either in 2002 or 2003. Each accrued interest at a fixed rate in a range of 6.0875% - 6.17531%.
- (j) The refinancing loan from Abbey National plc relates to the sale of Extra-Income Plan Policies that Abbey National plc finance to the value of the associated property reversions. As part of the arrangement, National Provident Life Limited and NPI Limited have undertaken to indemnify the Abbey National plc against profits or losses arising from mortality or surrender experience, which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years.

26.2 Time period for payment

Group	31 Dec 03	31 Dec 02
	£m	£m
Payable as follows:		
In one year or less, or on demand	1	164
Between one and two years	-	7
Between two and five years	131	162
In five years or more	482	1,443
	614	1,776
 Company	 31 Dec 03	 31 Dec 02
	£m	£m
Payable as follows:		
In one year or less, or on demand	138	249
Between one and two years	290	-
Between two and five years	-	37
In five years or more	47	916
	475	1,202

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NOTES TO THE ACCOUNTS (continued)

26. Debenture loans and amounts owed to credit institutions (continued)

26.3 Nature of borrowings

After taking account of the various interest rate and currency rate swaps entered into by the Group, the currency exposure of Group borrowings is all in sterling and the interest rate exposure is as follows:

	31 Dec 03	31 Dec 02
	£m	£m
Fixed rate borrowings	355	981
Floating rate borrowings	2	544
Interest free borrowings	257	251
Total borrowings	614	1,776

27. Provisions

	Restructure	Leasehold Properties	Pensions Misselling	Staff Related	Other	Total
	£m	£m		£m	£m	£m
At 1 January 2003	108	58	7	27	45	245
Amounts utilised	(138)	(15)	(6)	(2)	(14)	(175)
Increase in provision	87	53	-	9	24	173
At 31 December 2003	57	96	1	34	55	243

The restructuring provision of £57m (2002: £108m) has been made for costs of restructuring management and staffing across HHG principally to complete the closure of the direct sales force operations of Life Services. It is expected that most of the expenditure will be incurred in 2004.

The leasehold property provision has been made for amounts in respect of the excess of lease rentals and other payments on properties that are currently vacant or expected to become vacant over the amounts to be recovered from subletting these properties on a discounted basis at 4.1% (2002: 6.3%). The provision is expected to be utilised over the next 15 years.

The pensions misselling provision held is in respect of Advizas Limited (a subsidiary of Towry Law plc) and is the maximum amount Advizas Limited will have to pay in compensation relating to pension misselling. Any amounts in excess of this amount will be paid directly by the Financial Services Compensation Scheme.

Staff related provisions include £18m (2002: £11m) held in respect of healthcare costs for former employees and £9m (2002: £7m) relating to long term staff incentives.

Other provisions include £11m (2002: £5m) for contractual obligations relating to the sale of Cogent Investment Operations Limited and £13m (2002: £5m) product provisions for possible claims arising from inappropriate advice which are expected to be utilised within the next five years.

28. Other creditors including taxation and social security

	31 Dec 03	31 Dec 02
	£m	£m
Corporation tax	77	15
Obligation under finance leases	1	7
Other creditors	456	643
	534	665

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For the year ended 31 December 2003

NOTES TO THE ACCOUNTS (continued)

29. Notes to the cash flow statement

29.1 Reconciliation of loss on ordinary activities to net cash outflow from operating activities

	31 Dec 03	31 Dec 02
	£m	£m
Loss on ordinary activities before non-operating exceptional items and taxation	(867)	(425)
Adjustments for financing expenses and items not involving movements of cash:		
Depreciation of tangible fixed assets	9	16
Amortisation and impairment of goodwill (note 11)	307	256
Amortisation and write-off of deferred issue costs	11	-
Decrease in debtors arising out of direct insurance operations	-	39
Decrease in creditors arising out of direct insurance operations	(10)	(22)
Decrease in technical provisions	(7)	(14)
Decrease in deferred acquisition costs	-	4
Decrease in present value of acquired in force business	23	47
Net loss arising on the disposal of fixed assets	-	1
Unrealised losses / (profits) on investments	379	(100)
Loss / (profit) from interest in associates	7	(2)
Movement in other assets	(355)	(85)
Movement in other liabilities	96	(136)
(Profits) / losses relating to long-term business funds, excluding Pacific fund	(19)	139
Loan interest expense	64	59
	(362)	(223)

29.2 Analysis of cashflows in respect of acquisitions and disposals

	31 Dec 03	31 Dec 02
	£m	£m
Cash consideration paid to acquire associate, including loans provided to associates	-	(1)
Cash proceeds received on disposal of associate, including loans repaid from associates	1	-
Cash proceeds received on disposal of subsidiary undertakings	14	110
Net cash disposed of with subsidiary undertakings	-	(27)
Costs associated with disposal of subsidiary undertakings	(12)	-
	3	82

29.3 Analysis of cash holdings included in Consolidated Balance Sheet

	31 Dec 03	31 Dec 02
	£m	£m
Cash at bank and in hand	395	236
Less: cash on deposit not repayable on demand	(191)	(60)
Add: Deposits with credit institutions repayable on demand included within other financial investments	26	25
	230	201

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NOTES TO THE ACCOUNTS (continued)

29. Notes to the cash flow statement (continued)

29.4 Analysis of portfolio investments included in Consolidated Balance Sheet

	31 Dec 03 £m	31 Dec 02 £m
Other financial investments	21,506	23,037
Add: cash on deposit not repayable on demand (note 29.3)	191	60
Less: Deposits with credit institutions repayable on demand included within other financial investments (note 29.3)	(26)	(25)
Total portfolio investments (note 29.6)	21,671	23,072

29.5 Net portfolio investments (excluding long-term business)

	31 Dec 03 £m	31 Dec 02 £m
Purchase of portfolio investments	664	258
Sale of portfolio investments	(583)	(436)
	81	(178)

29.6 Movements in cash, portfolio investments and financing

	At 01 Jan	Cash flow	Changes in long term business	Changes in market value and exchange rate effects	Non-cash movements	At 31 Dec
	£m	£m	£m	£m	£m	£m
2003						
Portfolio Investments	23,072	81	(1,103)	(379)	-	21,671
Cash holdings	201	(99)	128	-	-	230
	23,273	(18)	(975)	(379)	-	21,901
Borrowings (note 29.7)	(1,776)	59	74	-	1,029	(614)
Total	21,497	41	(901)	(379)	1,029	21,287
2002						
Portfolio Investments	25,920	(178)	(2,787)	117	-	23,072
Cash holdings	59	199	(57)	-	-	201
	25,979	21	(2,844)	117	-	23,273
Borrowings	(1,650)	(14)	(112)	-	-	(1,776)
Total	24,329	7	(2,956)	117	-	21,497

29.7 Analysis of financing activities

Issue of share capital

The cash inflow of £479m comprises £283m from AMP in November with the balance of £196m (gross of expenses) from the institutional capital raising in December. The £283m from AMP is part of the total share issues of £1,350m in November with the balance of £1,067m made being received in the form of promissory notes (p-note). These p-notes were used to acquire Henderson Global Investors (Jersey) Limited and its subsidiaries from AMP (£27m) and to repay loans owed to AMP (£1,040m) – see “repayment of loans” below. The £1,105m proceeds from the share issue to AMP in December was also received in p-note form and was then used to repay AMP in respect of the High Court approved reduction of share capital.

NOTES TO THE ACCOUNTS (continued)**29. Notes to the cash flow statement (continued)***29.7 Analysis of financing activities (continued)***Proceeds from close out of swaps with AMP**

As part of the Demerger, the swaps associated with the A\$1,150m perpetual loan notes (see note 26.1.(d)) and A\$253m loan (see note 26.1.(f)) were closed out giving rise to cash proceeds of £73m and £17m respectively. The A\$1,150m and A\$253m loans were then repaid by way of p-note – see “repayment of loans” below.

New loans

Prior to the Demerger AMP provided £70m in new loans. These loans were repaid as part of the Demerger transactions – see “repayment of loans” below.

Repayment of loans

The cash repayment of £219m comprises the following:

- £107m in respect of A\$253m loan – see note 26.1.(f) and “Proceeds from close out of swaps with AMP above”;
- £32m in respect of 2003 loan – see note 26.1.(e);
- £10m in respect of floating rate guaranteed unsecured loan notes – see note 26.1; and
- £70m in respect of the intra year loan from AMP – see “New loans” above.

The non-cash movement on borrowings of £1,029m comprises repayment of £1,040m of loans by way of p-note – see “Issue of share capital” above reducing by £11m of unamortised issue costs written off in the profit and loss account in the year. The £1,040m of loans is made up as follows:

- £355m in respect of DM1bn loan – see note 26.1.(a);
- £160m in respect of 2010 notes – see note 26.1.(b);
- £40m in respect of 2003 floating rate loan notes – see note 26.1.(c); and
- £485m in respect of A\$1,150m perpetual loan notes – see note 26.1.(d) and “Proceeds from close out of swaps with AMP above”

30. The following contingent liabilities existed at 31 December 2003:

- (a) In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration.
- (b) Contingent liabilities, which are considered to be covered under an insurance policy, but where indemnity has not been granted yet, are not reported here, to avoid making an admission, which prejudices the insurer’s rights.
- (c) 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 the investment portfolio.
- (d) Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the

NOTES TO THE ACCOUNTS (continued)

- (e) provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of such contracts, or the circumstances in which policyholders have entered into them. The extent of such liabilities is influenced by the actions and requirements of the FSA, the Ombudsman rulings, by industry compensation and by court judgements.
- (f) In addition to existing claims for compensation from certain Towry Law International customers, a number of complaints have been received in respect of the performance of certain other investments made by a number of Towry Law International customers. These complaints are being fully investigated, some of which may potentially give rise to a requirement to pay appropriate compensation to the customers concerned, where legal liability is proven.

The Group is not aware of any circumstances that would result in any material future payments as a result of the above items.

31. Post Balance Sheet Event

Subsequent to 31 December 2003 the following transaction has occurred:

On 27 February 2004 100% of the issued shares in Interactive Investor Trading Limited were sold to Carruthers and Associates Limited which resulted in a loss on disposal of £0.6m.

The financial effect of this event has not been recognised during 2003.

DETAILS OF MOVEMENTS IN CONTROLLED ENTITIES

Contributions to net profit / (loss) after tax attributable to shareholders of HHG PLC from individual controlled entities gained or lost during the year are not material.

Controlled entities gained during the year ended 31 December 2003

Name of entity	Date control gained over entity
Towry Law International (Singapore) Private Limited	17 Jan 2003
Towry Law International (Southern Europe) SL	10 Feb 2003
Outlet Mall Holdings Sarl	18 Sep 2003
Henderson Enhanced Index (Jersey GP) Limited	01 Mar 2003
Henderson Investors Austria Immobilien GmbH	18 Jan 2003
Henderson International Holdings Limited	20 Oct 2003
34 Brook Street GP Limited	17 Jun 2003
Clarendon Road GP Limited	01 Apr 2003
NPI (34 Brook Street) Limited	31 Jul 2003
NPI (34 Brook Street) No2 Limited	08 Aug 2003
Shop Fund Jersey GP Limited	11 Sep 2003
Shop Fund Jersey Nominee A Limited	11 Sep 2003
Shop Fund Jersey Nominee B Limited	11 Sep 2003
Henderson Property Management (Luxembourg) No Sarl	26 Sep 2003
Henderson Private Capital Funds Limited	15 Aug 2003
Henderson International Finance Limited	19 Nov 2003
Henderson Funds Management Jersey Limited	22 Oct 2003
Henderson Global Investors (Japan) KK	11 Nov 2003
Henderson Global Investors (Jersey) Limited	11 Nov 2003
Henderson Global Investors (Hong Kong) Limited	11 Nov 2003
Henderson Global Investors (Singapore) Limited	11 Nov 2003
Henderson Global Investors (Ireland) Limited	11 Nov 2003
Henderson Management SA	11 Nov 2003
CPPF Jersey (General Partner) Limited	17 Nov 2003
CPPF (Kingsmead BP) Jersey Nominee A Limited	17 Nov 2003
CPPF (Kingsmead BP) Jersey Nominee B Limited	17 Nov 2003
CPPF (Tanners Drive) Jersey Nominee A Limited	17 Nov 2003
CPPF (Tanners Drive) Jersey Nominee B Limited	17 Nov 2003
CPPF (Gillingham PLTF) Jersey Nominee A Limited	17 Nov 2003
CPPF (Gillingham PLTF) Jersey Nominee B Limited	17 Nov 2003
CPPF (Garrick Road) Jersey Nominee A Limited	17 Nov 2003
CPPF (Garrick Road) Jersey Nominee B Limited	17 Nov 2003
CPPF (Tavistock Road) Jersey Nominee A Limited	17 Nov 2003
CPPF (Tavistock Road) Jersey Nominee B Limited	17 Nov 2003
CPPF (Medlock Street) Jersey Nominee A Limited	17 Nov 2003
CPPF (Medlock Street) Jersey Nominee B Limited	17 Nov 2003

DETAILS OF MOVEMENTS IN CONTROLLED ENTITIES (continued)

Controlled entities gained during the year ended 31 December 2003

Name of entity	Date control gained over entity
CPPF (Midsummer Court) Jersey Nominee A Limited	17 Nov 2003
CPPF (Midsummer Court) Jersey Nominee B Limited	17 Nov 2003
CPPF (Brandon Road) Jersey Nominee A Limited	17 Nov 2003
CPPF (Brandon Road) Jersey Nominee B Limited	17 Nov 2003
CPPF (Hagley Road) Jersey Nominee A Limited	17 Nov 2003
CPPF (Hagley Road) Jersey Nominee B Limited	17 Nov 2003
CPPF Jersey Nominee 1 (A) Limited	17 Nov 2003
CPPF Jersey Nominee 1 (B) Limited	17 Nov 2003
CPPF Jersey Nominee 2 (A) Limited	17 Nov 2003
CPPF Jersey Nominee 2 (B) Limited	17 Nov 2003
CPPF Jersey Nominee 3 (A) Limited	17 Nov 2003
CPPF Jersey Nominee 3 (B) Limited	17 Nov 2003
CLOF Jersey General Partner Limited	13 Oct 2003
CLOF Jersey Nominee A Limited	13 Oct 2003
CLOF Jersey Nominee B Limited	13 Oct 2003
CLOF (Holbrook House) Jersey Nominee A Limited	13 Oct 2003
CLOF (Holbrook House) Jersey Nominee A Limited	13 Oct 2003
CLOF (Holbrook House) Jersey Nominee B Limited	13 Oct 2003
CLOF (Ellerman House) Jersey Nominee A Limited	13 Oct 2003
CLOF (Ellerman House) Jersey Nominee B Limited	13 Oct 2003
CLOF (St Martins Place) Jersey Nominee A Limited	13 Oct 2003
CLOF (St Martins Place) Jersey Nominee B Limited	13 Oct 2003
CLOF (Broadway) Jersey Nominee A Limited	13 Oct 2003
CLOF (Broadway) Jersey Nominee B Limited	13 Oct 2003
SCF Jersey General Partner Limited	11 Nov 2003
SCF (Covent Garden) Jersey Nominee (Pearl) Limited	11 Nov 2003
SCF (Covent Garden) Jersey Nominee (NPL) Limited	11 Nov 2003
SCF (Princes Quay) Jersey Nominee A Limited	11 Nov 2003
SCF (Princes Quay) Jersey Nominee B Limited	11 Nov 2003
SCF (Bluewater) Jersey Nominee Limited	11 Nov 2003
SCF (Buchanan Galleries) Jersey Nominee Limited	11 Nov 2003
SCF (Bull Ring) Jersey Nominee Limited	11 Nov 2003

DETAILS OF MOVEMENTS IN CONTROLLED ENTITIES (continued)**Controlled entities lost during the year ended 31 December 2003**

Name of entity	Date of loss of control over entity
NPI (East Brickhill, Milton Keynes) Limited	26 Mar 2003
NPI (Stonecutter) Limited	23 May 2003
NPI Managed Properties Limited	14 Jan 2003
Pearl (76 / 77 Princes Street) Limited	08 May 2003
Towry Law Financial Services (Ireland) Limited	31 Mar 2003
Towry Law International Europe NV	27 Mar 2003
TR Development Capital Investments Limited	23 May 2003
Charter Sense Investment Limited	13 Jun 2003
Interactive Investor (Overseas) Limited	01 Jul 2003
AMP (UK) Finance Services PLC	12 Dec 2003
Stonecutter GP Limited	23 May 2003
London Life (Rivergate) Limited	01 Jul 2003
NPI (41 Kingsway) Limited	01 Jul 2003
NPI (Cribbs Causeway) Limited	01 Jul 2003
Pearl (Brighton Marine 2) Limited	01 Jul 2003
Pearl (Hounds Hill) Limited	01 Jul 2003
Pearl (Potteries) Limited	01 Jul 2003
34 Brook Street GP Limited	17 Nov 2003
NPI (34 Brook Street) Limited	17 Nov 2003
NPI (34 Brook Street) No2 Limited	17 Nov 2003
Henderson Global Investors Limitada	05 Dec 2003
Henderson Independent Fund Management Limited	14 Oct 2003

HHG PLC

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For the year ended 31 December 2003

DETAILS OF INVESTMENTS IN ASSOCIATED ENTITIES AND JOINT VENTURE ENTITIES

Contributions to the net loss after taxation attributable to shareholders of HHG PLC from individual associated and joint venture entities are not material.

Joint venture undertakings	Ownership Interest	
	31 Dec 03	31 Dec 02
	%	%

Property partnerships:

The Buchanan Galleries Partnership	50	50
The Premier Greenford Limited Partnership	50	50
The Potteries Shopping Centre Limited Partnership	50	50
The Romford Brewery Trust	-	50

Associated undertakings	Ownership Interest	
	31 Dec 03	31 Dec 02
	%	%

Virgin Money Group Limited	50	50
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Property partnerships:

The Bull Ring Limited Partnership	33	33
The Printworks Leisure Scheme Trust	38	38
The Moor House Limited Partnership	33	33
The Covent Garden Limited Partnership	19	19
The Pradera European Retail Fund	17	17
The Henderson (UK) Retail Warehouse Fund	38	38
Innisfree PFI	-	25
The Henderson French Property Fund	41	41