



Proposed sale of Life Services

10 December 2004

HHG PLC today announces that it has entered an agreement to sell the Life Services business to Life Company Investor Group Ltd for a cash consideration of £1.025 billion, subject to shareholder and regulatory approval.

Following completion, it is proposed that the majority of the proceeds be returned to shareholders in cash and that HHG, which will comprise Henderson Global Investors and Towry Law, be renamed Henderson Group plc.

Benefits

- Realisation of £1.025 billion in cash (approximately 79% of the embedded value at 30 June 2004)
- Return of approximately £875 million of the cash to shareholders in exchange for the cancellation of shares
- Revised Investment Management Agreements with Henderson Global Investors on a ten year term
- Transfer of £1.5 billion in employee pension assets and liabilities, thereby leaving the Henderson Group with assets and liabilities only in respect of its past and present employees.
- Removal of exposure to the UK life insurance sector and its related regulatory, solvency, mortality and surrender risks
- Accelerated release of shareholder capital from Life Services, thereby unlocking value now that may otherwise be realised only over a longer period

Commenting on the sale, HHG Chief Executive, Roger Yates, said: 'We have always said that HHG would deliver to shareholders through growth in Henderson Global Investors and the realisation of value in Life Services. This deal delivers on the second aspect of the strategy. It offers a good price in relation to embedded value; it provides certainty of outcome; it transfers significant pension liabilities; and it provides revenue protection for Henderson. The proposed combination of certainty, value and significant risk reduction delivers the right deal for shareholders.'

Mr Yates added: 'For staff and policyholders the sale is to a company whose core business focus is the management of closed life funds.'

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Businesses being sold

The businesses of Life Services comprise the life insurance and pensions books of Pearl, National Provident Life, NPI and London Life which are effectively all closed to new business and subsidiaries including the unit-linked life companies. The proposed Sale also includes the Service Company, which provides administrative services to Life Services. As at 30 June 2004, these Life Services entities had an embedded value of £1.3 billion, net assets of £1.3 billion and 4.8 million policies in force representing liabilities backed by assets of £26 billion. In the six months ended 30 June 2004, Life Services earned an operating profit before tax of £33 million.

Consideration

The consideration of £1.025 billion is payable in full and in cash on completion, which is expected to be in April 2005.

In addition to the cash proceeds:

- Approximately £1.5 billion of pension liabilities and assets relating to Life Services will be transferred to Life Company Investor Group, thereby ensuring Henderson Group retains assets and liabilities only in respect of the past and present employees of the businesses remaining.
- The Investment Management Agreements (“IMAs”) between Life Services and Henderson Global Investors have been revised to reflect that, following completion, these agreements will in future be moving to an arms length basis. The terms will be over 10 years.

Use of proceeds

HHG intends to return approximately £875 million of the proceeds directly to shareholders through two proposals which are contingent on the sale completing and on shareholder and court approval.

The first will return approximately £800 million pro-rata, so that each holder will receive cash in exchange for the cancellation of a set number of shares they hold in HHG.

The second will return to shareholders approximately £75 million to reduce the number of lower value holdings. This is intended to reduce the disproportionately high costs of servicing the investor base of approximately 880,000 holders. After the sale and initial return of capital, Henderson Group will be a significantly smaller company for which the shareholder servicing costs would be a considerable constraint. The Board of HHG believes that these measures would reduce corporate costs for the remaining Group by up to £4 million pre-tax per annum.

Approximately £150 million of the proceeds will be retained by the Group, consisting of

- £30 million to acquire Life Services' investment in Gruppo Banca Popolare di Lodi with which Henderson Global Investors has a strategic relationship.
- £20 million will be used to meet costs arising from the sale and the return of capital proposals
- The remaining proceeds will be retained by the Group to meet any residual liabilities arising from the transaction and for future business needs. It is intended that any residual capital retained, to the extent that it is not required for these purposes, would be returned to shareholders.

About the purchaser

Life Company Investor Group is a UK-based company established by Sun Capital Partners and TDR Capital to make long-term investments in the closed life fund sector.

The existing management team of Life Services, led by Ian Laughlin, Managing Director, will continue in place and will be complemented by John Reeve (formerly Sun Life Assurance MD) as Chairman and Ashok Gupta (formerly Actuary and Finance Director of Scottish Amicable), together with representatives from Sun Capital Partners and TDR Capital.

Sun Capital Partners was formed in 2001 with the life industry as a particular focus. TDR Capital is a private equity fund manager whose investor base primarily comprises UK and US pension funds. Since 1997, the founders of Sun Capital Partners and TDR Capital have built a long track record of successful co-operation in major investments across a variety of sectors.

Overview of Henderson Group after the Sale

Following the completion of the Sale and the proposed cash return and reduction of the investor base, Henderson Group will comprise Henderson Global Investors and Towry Law, whose business unit operating profits together were £25 million for the six months ended 30 June 2004.

The strategic focus of Henderson Group will be the development of Henderson Global Investors as a leading international investment management business. It will be based around both its core equity and fixed income capability and its offering of alternative products, such as property and private capital. Management will focus on improving and sustaining investment performance, strengthening distribution and client servicing and expanding revenue and profit margins.

Henderson Group will continue to develop Towry Law UK as an effective standalone business, following the closure of Towry Law International earlier in 2004.

Dividend

If the proposals proceed in full, Henderson Group expects to make its first dividend payment in early 2006.

Employees

The Board and management of HHG will remain in place with the exception of Ian Laughlin (Life Services Managing Director, HHG executive director) and Jonathan Moss (Life Services Finance Director) who would both transfer with Life Services on completion of the Sale. The existing employment rights, including pension rights, of all management and employees of Life Services and HHG will be safeguarded.

Listings

HHG intends to retain its listings in Australia and the United Kingdom. In the UK, HHG expects the remaining Group to continue as a member of the FTSE 250 in the Speciality and Other Financials sector. In Australia, it is expected to remain in the ASX 200 and would apply to be reclassified from Insurance to Asset Management and Custody Banks.

Outlook for 2004 and beyond

HHG is currently on track to meet its published targets for operational business units for the full year 2004 and is performing in line with the Board's expectations. Life Services will continue to improve its operational efficiency and its Embedded Value is expected to grow in line with the investment return and emergence of earnings from the in-force book of business.

The businesses that will comprise Henderson Group are expected to deliver second half operating profits for 2004 in line with first half of 2004, before charges (approximately £10 million) in the second half for one off items, including the restructuring of Henderson Global Investors and Towry Law's UK businesses, corporate office and higher run off costs in Towry Law International (TLI).

Total assets under management (AUM) are expected to reduce slightly in the second half of 2004 – driven by anticipated institutional outflows and the run-off of Life Services – but the mix of assets should remain in line with that at 30 June 2004.

In addition, if the proposed reduction in investor base proceeds as outlined, corporate office expenses are expected to decrease by approximately £4 million per year from the second half of 2005.

The new accounting standard FRS27, Life Assurance, is not expected to affect the financial results of the HHG PLC group for the year ended 31 December 2004 although additional disclosure is likely to be required. The financial impact of the transaction will not be reflected in the full year 2004 results except for the writedown of the Group's remaining intangible assets in the Life Services sub-group (approximately £39 million).

Approvals

The Sale requires shareholder approval under the UK Listing Rules and ASX Listing Rules. The return of capital proposals require shareholder and court approval. Shareholders will be invited to vote on all the proposals and attend an Extraordinary General Meeting in late February 2005 to be held in London and broadcast as a satellite meeting to a venue in Sydney. It is expected that the circular containing a formal notice of the meeting and detailed information on the proposals will be lodged with the relevant Stock Exchanges and placed on the HHG website, www.hhg.com, in late December 2004. It will be sent to shareholders during January 2005.

Preliminary discussions have been held with regulators in Australia and the United Kingdom in advance of HHG issuing the detailed circular to shareholders. The Sale is also conditional on FSA approval. It is expected that the FSA approval process may take up to three months from the date of this announcement.

In addition, completion of the transaction requires satisfaction of certain other conditions and approvals in relation to the Pension Scheme. The Trustee has agreed to change the principal employer of the Scheme to Pearl Assurance Group Holdings Ltd.

Board Recommendation

HHG Chairman, Sir Malcolm Bates said: 'The HHG Board firmly believes the proposals to be in the best interests of shareholders, and the Directors of HHG will be voting in favour of the proposed Sale and return of capital proposals'.

Notes to editors

Cazenove & Co. Ltd and UBS Limited are acting as joint financial adviser and broker to HHG in relation to the transaction.

For further information

www.hhg.com or

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Details of Analyst and Investor briefings

Australia – 10.00am (Sydney), 10 December

For a telephone link to the briefing, dial numbers below at 9.55am, for 10.00am start.

From

Australia	1 800 303 526 (free call)
United States	1 866 384 2826 (free call)
All others	+ 44 (0) 208 515 2334 (this is not a free call)

United Kingdom – 10.00am (London), 10 December

For a telephone link to the briefing, dial numbers below at 9.55am, for 10.00am start.

From

United Kingdom	0800 358 0856 (free call)
United States	1 866 384 2824 (free call)
All others	+ 44 (0) 208 901 6908 (this is not a free call)

Both briefings will also be audiocast live online at www.hhg.com

Details of newswire briefings

Australia – 9.00 to 9.30am (Sydney), 10 December

From

Australia	1 800 730 220 (free call)
All other locations	+ 61 296 960 962

United Kingdom – 7.30 to 8.00am (London), 10 December

From

United Kingdom	0800 358 0857 (free call)
All other locations	+ 44 (0) 208 515 2330