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To all known creditors, potential creditors and
brokers of FAI Insurances Limited

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13 October 2009

Dear Sir/Madam

**FAI Insurances Limited (In Provisional Liquidation and subject to Scheme of Arrangement)
English Scheme Administrators' Annual Report to Creditors**

1 Introduction

This is the third annual report to creditors of FAI Insurances Limited ("FAI Insurances") by the English Scheme Administrators. It will be published on the HIH website as a supplement to the Annual Report to creditors of the Australian Scheme Administrators, for the year ended 30 June 2009.

Background information in relation to FAI Insurances is contained in Appendix 1. The purpose of this report is to provide creditors with information on the progress of the English Scheme to date.

2 Key point

Following negotiations by the Scheme Administrators, the House of Lords costs have been finalised and settled at £750,000 compared to an initial claim of £1,268,000. Further details of the effect on English Scheme Creditors are set out in section 3.2 of this report.

3 Scheme Payment Percentages

3.1 Current Scheme Payment Percentages

There is no current Scheme Payment Percentage under the English or Australian Scheme for FAI Insurances Limited. The current ultimate expected outcome for creditors given by the Australian Scheme Administrators for FAI Insurances Limited is between 8% and 30% (see para 3.4 below). However these percentages are expected to apply to creditors with liabilities in Australia only. The ultimate outcome for any creditors with liabilities not in Australia will

depend on resolution of the company's involvement in the Ruddy Pool, but is expected to significantly lower than the outcome for creditors with liabilities in Australia.

The current Scheme Payment Percentages for the various classes of assets for all of the HIH Scheme companies, of which FAI Insurances is one, are set out on the HIH website www.hih.com.au.

3.2 House of Lords costs

As outlined in the 2nd Annual Report to creditors, the House of Lords ruled that the English assets will be distributed in accordance with Australian priorities. In addition, the Lords awarded the Australian Insurance Creditors (Amaca Pty Limited and Amaba Pty Limited, formerly known as the James Hardie Trust) their costs. The costs award covers all the proceedings including the initial High Court hearing, the appeal to the Court of Appeal, the action in the House of Lords and the final hearing in the High Court to implement their Lordships' Order.

The total of Clifford Chance's claim (acting on behalf of the Australian Insurance Creditors) against the English Scheme Administrators in relation to the House of Lords action was approximately £1,268,000. Following negotiations, the Scheme Administrators agreed on a figure of £750,000 in full and final settlement of these claims.

3.3 How the Scheme Payment Percentages are set

The Australian Schemes reflect the distribution priorities which apply to liquidations of insurance companies in Australia. This requires particular classes of assets to be distributed in priority to particular classes of creditor claims.

Under the terms of the Schemes, the Australian and English Scheme Administrators review the Scheme Payment Percentage for each relevant class of asset in consultation with the Creditors' Committees. Factors taken into account include current cash held, expected future asset realisations, expected future claims agreement levels and the remaining potential volatility of the account.

The objective in setting the Scheme Payment Percentages is to make interim distributions to creditors currently holding Established Scheme Claims, whilst ensuring that FAI Insurances will be capable of meeting that same percentage on all eligible liabilities reasonably expected to be admitted in the future.

3.4 Estimated ultimate Scheme Payment Percentages

The summary estimates of the ultimate Payment Percentages per company given by the Australian Scheme Administrators are shown below and compared to the original estimates of the Scheme Administrators. These estimates are dependant on a wide range of factors including the volatility of claims; levels of set-off; litigation outcomes; levels of reinsurance recovery; and the class of creditor claim. It is possible that the ultimate Payment Percentages could vary significantly either above or below those predicted.

In addition the final result for individual creditors will vary according to whether their claims are classed as insurance or non-insurance, and whether their claims are classed as Liabilities in Australia or Liabilities not in Australia. As a generalisation, creditors with insurance Liabilities in Australia are expected to receive higher ultimate distributions than creditors with Liabilities not in Australia.

Scheme Company	Initial Estimated Ultimate Scheme Payment Percentage	Revised Estimated Ultimate Scheme Payment Percentage
HIH C&G	15% to 25%	12% to 35%
FAIG	40% to 50%	45% to 55%
FAI	Less than 5%	30% (insurance creditors)* 8% (non insurance creditors)*
WMG	10%	30% to 95%
CIC	40% to 50%	55% to 65%
FAIT	Less than 5%	Less than 5%
FAI Re	More than 50%	100%
HIH U&I	5% to 10%	5% to 25%

* for creditors with
Liabilities in Australia only

4 Interaction between Australian and English Schemes

4.1 Claiming under the Australian and English Schemes

All creditors worldwide are entitled to claim in both the Australian and English Schemes for FAI Insurances. The Australian and English Scheme Administrators co-operate fully. Creditors do not need to lodge separate claims in each jurisdiction. Creditors need to lodge claims in one location only, which is then effective under both Schemes.

The Australian and English Scheme Administrators and their run-off manager Capita CMGL, operate a unified principal to principal ledger system and a unified dividend payment system.

The entitlements of individual creditors under both Schemes are automatically calculated, and when a Scheme payment is made, the creditor receives a statement showing how their liability has been classified, and therefore from which classes of assets their distribution has been paid.

5 Financial position

5.1 Gross Liabilities

The English Scheme Administrators currently expect the gross undiscounted liabilities of FAI Insurances to be approximately £447m, of which approximately £25.4m relates to business written through the former UK branch. Approximately £2.4m of UK branch liabilities have been agreed as Acknowledged Creditor Claims to date. The English Scheme Administrators have not yet published an estimate of the assets ultimately expected to be available for collection.

5.2 Receipts and payments to 30 June 2009

A summary of the English Scheme Administrators' receipts and payments from 1 July 2008 to 30 June 2009 is set out on the next page. For comparison, a receipts and payments for the period from 1 July 2007 to 30 June 2008 is also shown.

FAI Insurances Limited		
Receipts and payments for the period 1 July 2008 to 30 June 2009		
	1 July 2008 – 30 June 2009	1 July 2007 – 30 June 2008
		£
Receipts		
Insurance and reinsurance recoveries	394	432,266
Bank Interest and Sundry Receipts	26,787	33,364
Total receipts	<u>27,181</u>	<u>465,630</u>
Payments		
Officeholders' fees and expenses	9,492	25,628
Bank Charges	36	400
Exchange Rate losses (gains)		(12,311)
Total payments	<u>9,528</u>	<u>13,717</u>
Total	<u>17,653</u>	<u>451,913</u>
Funds held as at 30 June 2009	783,573	

6 Closure

The Scheme for FAI Insurances provides for a planned Estimation Date of seven years after the Australian Scheme became effective, which means that the Estimation Date is expected to be in June 2013. By that time the Scheme Administrators expect that the majority of the reinsurance asset will have been collected or commuted, and the remaining tail of insurance liabilities will be sufficiently small to justify closure of the Scheme on cost benefit grounds. Under the terms of the Scheme all creditors will be given notice of the actual Estimation Date between six and three months prior to the time.

The Schemes provide that the Estimation Date may be moved two years either way from the expected seven years (to be as early as five years or as late as nine years after the Effective Date) by special resolution of creditors, on the recommendation of the Scheme Administrators and Creditors' Committees.

Following the Estimation Date all remaining outstanding and IBNR creditor claims will be crystallised by estimation, to allow for the closure of the Scheme.

7 Responsibilities

7.1 Scheme Administrators

The English Scheme Administrators of FAI Insurances are John Wardrop and Tom Riddell, partner and senior advisor respectively of KPMG LLP, based in London. The Australian Scheme Administrators are Tony McGrath and Chris Honey, partners of McGrathNicol, based in Sydney.

7.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of FAI Insurances have been outsourced to a specialist run-off organisation in Sydney. The run-off managers for all business written by FAI Insurances are Capita CMGL.

7.3 Creditors' Committee

The interests of creditors in the English Scheme are represented by a Creditors' Committee. The Committee sanctions significant transactions (such as commutations), is involved in the setting of the Scheme Payment Percentage, and approves the Scheme Administrators' fees.

The current constitution of the Committee is as follows:

Member	Represented by
FAI (NZ) General Insurance Company (In Liquidation)	Mr K Downey
HIH Casualty and General Insurance (NZ)(In Liquidation)	Mr K Downey
Markel International Insurance Company Limited	Mr G Appleton/Ms S Crofts

8 Contact details

Contact details for the Australian Scheme Administrators, the English Scheme Administrators, and the Australian and English Run-Off Managers are set out on the HIH website, www.hih.com.au.

8.1 Creditor enquiries

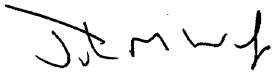
Scheme Creditors with claims adjustment queries in relation to UK business should call Capita CMGL on +61 (0) 2 9650 5777. Written claims adjustment queries should be directed in the first instance to Capita CMGL at the following address: Capita CMGL, Level 2, 117 Clarence Street, Sydney, NSW, 2000, Fax +61 (0) 2 9650 5710.

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KPMG LLP
FAI Insurances Limited
English Scheme Administrators' Annual Report to
Creditors
13 October 2009

Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the Scheme Administrators on +44 (0) 20 7694 3703. Written Scheme queries should be directed to the Scheme Administrators at the following address: KPMG LLP, 8 Salisbury Square, London EC4Y 8BB.

Yours faithfully
For FAI Insurances Limited



John Wardrop
English Scheme Administrator



Tom Riddell
English Scheme Administrator

Appendix 1

Background information on the insolvency

- The HIH Group failed on 15 March 2001. FAI Insurances was one of the licensed insurers in the group.
- Summary details of the history of the group; its failure; and other background information are available on the website maintained by the Australian Scheme Administrators at www.hih.com.au.
- Extensive information on the failure including the final report of the HIH Royal Commission established by the Australian Federal Government is available on the website www.hihroyalcom.gov.au
- On 30 May 2006, Schemes of Arrangement became effective for the eight licensed insurance companies in the HIH Group in Australia. Complementary Schemes of Arrangement became effective for four of those companies in England on 13 June 2006, following approval by creditors and the courts. Copies of the Scheme documents are available on the HIH website www.hih.com.au.
- For at least the first five years, the Schemes will be “reserving” Schemes, under which claims are made in the normal course of business. During this reserving period, interim Scheme distributions will be paid to creditors with Established Scheme Claims at the current applicable Scheme Payment Percentage.
- The Australian and English Scheme Administrators co-operate fully. A unified principal to principal ledger system is operated, together with a unified dividend payment system. Creditors need to lodge claims in one location only, which is then effective under both Schemes.
- The Record Date (the date at which liabilities are measured) for each of the Schemes is 27 August 2001.

There is no bar date for the Schemes during the reserving period. The earliest bar date permissible under the terms of the Schemes is in June 2011.