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To all known creditors, potential creditors and
brokers of World Marine & General Insurances
Pty Limited

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13 October 2009

Dear Sir/Madam

**World Marine & General Insurances Pty Limited (In Provisional Liquidation and
Subject to a Scheme of Arrangement)
English Scheme Administrators' Annual Report to Creditors**

1 Introduction

This is the 3rd Annual Report to creditors of World Marine & General Insurances Pty Limited ("WM&G") 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 the failure of WM&G 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 developments since the last report

- Following the successful application to the US Bankruptcy Court for final Section 304 recognition, the monies can now be released from the US\$ bank account and an interim dividend is expected to be paid to creditors in Q4 2009.
- 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

The current Scheme Payment Percentage under the English and Australian Schemes for WM&G is 5%.

To date the only distributions which have been made are by the Australian Scheme Administrators out of non-reinsurance Assets in Australia, to creditors with Liabilities in Australia.

However, following the successful application to the US Bankruptcy Court for final Section 304 recognition, the monies can now be released from the US\$ bank account and an interim dividend is expected to be paid to other classes of creditors in Q4 2009. As there are relatively small amounts of Australian reinsurance recoveries, all insurance creditors share in the non-Australian reinsurance recoveries (as stipulated by the House of Lords ruling) but only Australian creditors share in the larger non-reinsurance Assets in Australia. Therefore the likely dividend rates for Australian creditors are likely to be significantly higher than for the Rest of the World creditors.

The current Scheme Payment Percentages for the various classes of assets for all of the HIH Scheme companies, of which WM&G 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 WM&G will be capable of meeting that same percentage on all eligible liabilities reasonably expected to be admitted in the future.

3.4 Scheme Payments for reinsurance creditors

Agreed claims (described as "Acknowledged Creditor Claims" under the Scheme) of WM&G's reinsurance creditors have generally not yet been accepted as Established Scheme Claims by the Scheme Administrators, and so the majority of reinsurance creditors have not yet been paid any Scheme distributions.

The reason for this is the difficulty in identifying all potential future set-off. The HIH companies wrote both inwards and outwards reinsurance business, in more than one location, and significant set-off is expected. In common with many solvent insurers, prior to insolvency the HIH Group did not maintain their insurance records on a principal to principal basis which means that the Scheme Administrators are not able to readily identify all transactions with a particular principal. However, considerable improvements to information management have now been made through the introduction of a P to P system.

3.5 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. Most creditors who wrote their business with WM&G as a result of its membership of the BD Cooke Pool (managed in the UK) will not have their claims classed as Liabilities in Australia, and so can expect to receive distribution rates towards the lower end of the range for WM&G.

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%
FAII	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%

Additionally, the Australian and English Scheme Administrators have modelled the expected return for the differing types of claims against WM&G. These are shown below:

	Range of estimated Scheme Payment percentage
Creditors with insurance liabilities in Australia	90% - 95%
Creditors with insurance liabilities not in Australia (including the beneficiaries of the US Trust Fund)	30% - 35%
Creditors with non insurance liabilities in Australia	90% - 95%

The expected return for creditors with insurance liabilities not in Australia has decreased significantly since the 2nd Annual Report to creditors due to the House of Lords ruling, which meant that creditors with insurance liabilities in Australia receive a larger amount of non-Australia reinsurance recoveries (see section 3.1 for further details).

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 WM&G. 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 respective run-off managers 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 WM&G to be £15m, of which approximately £4.7m relates to UK branch business written through the BD Cooke Pool. Approximately £1.8m of UK branch liabilities has been agreed as Acknowledged Creditor Claims to date.

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 on the next page. A comparison receipts and payments for the period from 1 July 2007 to 30 June 2008 is also shown.

World Marine and General 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	-	96,854
Gains and interest on funds invested	33,587	87,537
Total receipts	<u>33,587</u>	<u>184,391</u>
Payments		
Officeholders' fees and expenses	57,821	26,583
Run-off managers' fees	2,367	785
Legal fees	354	-
Operating Expenses	10,565	5,089
VAT	8,607	635
Bank Charges	2,298	555
Exchange Rate losses (gains)	(57,993)	(8,792)
Total payments	<u>24,019</u>	<u>24,855</u>
Balance	9,568	159,536
Equivalent Funds Held as at 30 June 2009	2,738, 824	

6 Closure

The Scheme for WM&G 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 WM&G 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 WM&G have been outsourced to specialist run-off organisations in London and Sydney, who work in close co-operation. The run-off managers for all UK business of WM&G are BD Cooke & Partners Limited. The run-off managers for all other business of the company are Capita CMGL, in Sydney.

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. It is reported to, and meets in Australia on a quarterly basis. The current constitution of the Committee is as follows:

Member	Represented by
HIH Claims Support Limited	Mr C Legg
CIC Insurance Limited (In Liquidation)	Mr C Honey

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

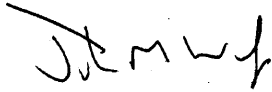
Scheme Creditors with claims adjustment queries in relation to UK business should call BD Cooke&Partners on +44 (0)168 981 4800. Written claims adjustment queries should be directed in the first instance to BD Cooke&Partners at the following address: BD Cooke&Partners, 2 Knoll Rise, Kent, BR6 0NX, Fax +44 (0)16 8 981 4800.

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World Marine and General 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 World Marine & General Insurances Limited



John Wardrop
English Scheme Administrator



Tom Riddell
English Scheme Administrator