

World Marine & General Insurances Pty Limited
ACN 000 093 112
(In liquidation and subject to Schemes of Arrangement)

Scheme Administrators' annual report to
creditors

30 June 2008

Contents

1	Introduction & background	3
1.1	Introduction.....	3
1.2	Background	3
2	Principal developments to report during the period	4
3	Current and projected Scheme Payment Percentages	5
3.1	The current Scheme Payment Percentage.....	5
3.2	House of Lords appeal decision.....	5
3.3	Distribution priorities.....	6
3.4	Projected further Scheme payments.....	6
3.5	Agreement of the current Scheme Payment Percentage	6
3.6	Scheme Payments for reinsurance creditors	7
3.7	Estimated ultimate Scheme Payment Percentage.....	7
4	Interaction between Australian and English Schemes	9
4.1	Claiming under the Australian and English Schemes.....	9
4.2	Distribution Priorities	9
5	Major Litigation	10
5.1	Background	10
5.2	The Trading Loss & Dividend claim	10
5.3	FAI Takeover claim	10
6	Financial position	11
6.1	Estimated balance sheet at 30 June 2008.....	11
6.2	Receipts and payments to 30 June 2008.....	11
7	Closure	12
8	Responsibilities	13
8.1	Scheme Administrators	13
8.2	Run-off Managers	13
8.3	Creditors' Committee	13
9	Contact Details	14
9.1	Creditor Enquiries in Australia.....	14
	Appendix 1	15
	Updated balance sheet for WMG as at 30 June 2008	
	Appendix 2	17
	Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2008	

1 Introduction & background

1.1 Introduction

This is the second annual report to the creditors of World Marine & General Insurances Pty Limited - in liquidation and subject to Schemes of Arrangement (“WMG”).

The report has been prepared in accordance with clause 43.2 of the Scheme of Arrangement, which became operative in Australia on 30 May 2006. Under the terms of the clause: “Within three months after each anniversary of the date, being either 31 December or 30 June, at the discretion of the Scheme Administrators, after The Australian Scheme becomes effective, the Scheme Administrators shall report to the Scheme Creditors on the progress of The Australian Scheme, including details of remuneration paid to the Office Holders, since the date of the last such report”. Accordingly this report has been prepared for the period to 30 June 2008.

An annual report has also been prepared by the Scheme Administrators of the UK Scheme of Arrangement for WMG. This will be published on the HIH website as a supplement to the Australian annual report for this company.

1.2 Background

HIH Insurance Limited and certain of its major subsidiaries were placed into Provisional Liquidation on 15 March 2001, and subsequently into liquidation on 27 August 2001. To date, eighty-two HIH Group companies in Australia have been placed into liquidation.

Summary details of the history of the group; its failure; and background information are available on the HIH website at www.hih.com.au. Extensive information on the failure of the group, including the final report of the HIH Royal Commission established by the Australian Federal Government, is available on the website www.hihroyalcom.gov.au.

Schemes of Arrangement for the eight licensed insurance companies in the HIH Group in Australia became effective on 30 May 2006, following approval by Creditors and the Court. Schemes of Arrangement for the UK branches of the four of these companies, detailed in section 3 of this report, became effective in the UK on 13 June 2006. Each of the Schemes has a Record Date (the date at which liabilities are measured) of 27 August 2001. The earliest bar date permissible under the terms of the Schemes is 30 May 2011. At this stage the Scheme Administrators expect the actual bar dates to be 30 May 2013.

2 Principal developments to report during the period

The principal developments to report during the period were:

- + Agreement of Scheme Payment Percentages by the members of the requisite Scheme Creditor Committees, which now total as follows:

	Creditors with insurance liabilities in Australia	All other creditors worldwide
HIH C&G	12.64%	9.00%
FAIG	30.00%	30.00%
CIC	30.00%	30.00%
WMG	5.00%	5.00%

More detail on Scheme Payments and the estimated ultimate Scheme Payment Percentage for WMG is included in section 3 of this report.

- + The Australian Scheme Administrators were successful in their appeal to the House of Lords. Their Lordships ruled that funds held by the English Scheme Administrators should be remitted to Australia for distribution by the Australian Scheme Administrators in accordance with Australian Corporations Act and Insurance Act priorities. This is explained in more detail in section 3.2 of this report.
- + Following receipt of the above judgement, application was made to the New York Bankruptcy Court for recognition of the HIH C&G Scheme of Arrangement in the United States. This has been granted subsequent to the date of this report. At the same time an application was made for the extension for a further 6 months of the sec 304, Chapter 11, US Bankruptcy Act protection in respect of US domiciled WMG assets, to allow the Scheme Administrators further time to clarify the expected final numbers and value of US domiciled creditors, and forecast recoveries of US domiciled assets.
- + Following settlement with some of the defendants to the Liquidators' major litigation actions last year, discussions have continued with the defendants to the FAI Takeover claim. Further details of this, and other major litigation matters, are included in section 4 of this report.

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for WMG is 5%.

To date the Australian Scheme Administrators have only made distributions out of non-reinsurance assets in Australia, to creditors with Liabilities in Australia. The English Scheme Administrators have also made an equal distribution to all other creditors worldwide.

3.2 House of Lords appeal decision

Before reviewing the timing and quantum of future dividend payments, it is necessary to consider the implications of the decision of their Lordships following the Australian Scheme Administrators' appeal to the House of Lords.

The English Scheme of Arrangement was originally designed to complement the Australian Scheme by adopting most of the provisions of the Australian Scheme, with the exception of the distribution priorities that were to apply to the English Assets.

As a result of the different statutory distribution priorities that apply to liquidators' distributions in Australia and the UK, and following a formal request to the UK Court by the Australian Court under section 426 UK Insolvency Act, the English Provisional Liquidators sought directions from the English High Court as to whether the assets they controlled should be released to the Australian Liquidators for distribution in accordance with the Australian statutory distribution priorities.

The High Court directed that the English Assets should not to be remitted to the Australian Liquidators for distribution in accordance with the Australian statutory distribution priorities. The English Scheme therefore applied the distribution priorities of the English statutory regime to the English Assets.

The Australian Liquidators and two Australian creditors (the James Hardie Trusts) unsuccessfully appealed the initial court directions obtained by the English Provisional Liquidators, and subsequently appealed that decision further to the House of Lords. The appeal was heard in December 2007.

In anticipation that the appeal process would otherwise hold up the adoption of the Schemes and the commencement of payments to creditors, the English Scheme contained an inbuilt alternative – if the House of Lords maintained the status quo of the first instance judgment and the Court of Appeal decision, the English Assets would continue to be distributed *pari passu* to all creditors worldwide. If however the House of Lords overturned the Appeal Court decision, the English Assets would be distributed in accordance with the Australian distribution priorities.

In May 2008, judgement was handed down in favour of the Australian Scheme Administrators. The practical effect of the judgement is that assets realised and held by the English Scheme Administrators will now be distributed to creditors in accordance with Australian priorities.

3.3 Distribution priorities

In light of the above, it is helpful to summarise the different distribution priorities as set out in section H of the Australian Scheme of Arrangement:

Asset funds	Creditors eligible to participate in distribution
1. Reinsurance assets in Australia	Creditors with insurance liabilities in Australia
2. Rest of the world reinsurance assets	Creditors with insurance liabilities outside of Australia until they have received an equivalent Scheme Payment percentage to 1. above, and then all Creditors with insurance liabilities worldwide
3. Non reinsurance assets in Australia	Creditors with insurance liabilities in Australia, net of any payments received under 1. and 2. above, and all other Creditors with liabilities in Australia at face value
4. Rest of the world non reinsurance assets	Creditors with insurance liabilities outside of Australia net of any payments received under 2. above, and all other Creditors with liabilities outside of Australia at face value. Once this group of creditors has received the same Scheme Payment percentage as those creditors under 3. above, then the latter also participate in any further Scheme payment to the extent that there are available funds

3.4 Projected further Scheme payments

The Scheme Administrators are currently reviewing the reclassification of assets within the categories set out in 3.3 above, following the outcome of the House of Lords appeal. Based on this review, the Scheme Administrators hope to make a second interim Scheme Payment of 15 cents in the dollar to all Creditors with liabilities in Australia by the end of December 2008. This Scheme Payment will be made from non reinsurance assets in Australia, and will bring the total Scheme distribution to these creditors to 20%.

As part of the review, there will need to be a reallocation of UK assets between Funds 2 and 4. Once this is done the Scheme Administrators would hope to be in a position to make a further payment to Creditors with insurance liabilities outside of Australia from Fund 2. At this stage the quantum and timing of this payment is uncertain, however, it is likely to be in the region of 10% to 15%, which would take the total interim Scheme Payment percentage for these creditors to 15% to 20%.

3.5 Agreement of the current Scheme Payment Percentage

The Scheme Administrators review the Scheme Payment percentages on a regular basis, as major asset recoveries are made and claims estimates are updated. This review is undertaken in consultation with the Creditors' Committees. Factors taken into account when estimating these percentages include current cash held, expected future agreed claims levels and the remaining potential volatility of the account.

3.6 Scheme Payments for reinsurance creditors

In the last annual report to creditors it was explained that agreed claims (described as “Acknowledged Creditor Claims” under the Scheme) of HIH C&G’s reinsurance creditors had generally not yet been accepted as Established Scheme Claims by the Scheme Administrators, and so reinsurance creditors would not generally have 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 reinsurance business 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 meant that the Scheme Administrators were not able readily to identify all transactions with a particular principal.

The Scheme Administrators have been willing to consider making Scheme Payments to reinsurance creditors with Acknowledged Creditor Claims before all potential set off has been finalised, provided the creditor is willing to give an undertaking to refund any amounts which subsequently prove to have been overpaid. Payment has been made to a number of such creditors over the last year and creditors interested in this should continue to contact the Scheme Administrators.

3.7 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators’ current best estimates of the ultimate Payment Percentage for WMG is shown below. This estimate is dependent on a wide range of factors including the volatility of claims; levels of set-off; levels of reinsurance recovery; the class of creditor claim; and litigation outcomes. It is possible that the ultimate Payment Percentage could vary significantly either above or below that predicted.

Scheme Company	Estimated Total Scheme Payment Percentage at Scheme date	Updated Total Scheme Payment Percentage at 30 June 08
WMG	30% to 40%	55% to 95%

A large part of WMG’s realisable assets are future reinsurance recoveries, the size and recoverability of which are dependent upon a number of factors including:

- + future claims development;
- + contract commutations; and
- + the credit risk of certain reinsurers.

It should be noted that the range of estimated payment percentages has increased since the last annual report to creditors, when it had been reduced from the original rates set at the Scheme date, to 10%. This reflected the inclusion of a provision for a claim by shareholders of HIH Insurance which, whilst rejected by the Scheme Administrators, was subject to a Court appeal. That Court application and a subsequent further appeal, was rejected and the provision has therefore now been removed.

The new estimated range is a function of two factors:

1. The difficulty in estimating the total final asset recoveries, and the final level of agreed creditor claims, in light of the issues listed above; and
2. The fact that in view of the application of Australian distribution priorities, certain groups of creditors are likely to receive a higher final Scheme Payment percentage than others.

Following receipt of the judgement in the House of Lords appeal, the Scheme Administrators are better able to estimate the range of Scheme Payment percentages for the different creditor groups. Accordingly, whilst the total estimated Scheme Payment range for creditors is now 55% to 95%, this may be further analysed as:

	Range of estimated Scheme Payment percentage
Creditors with insurance liabilities in Australia	85% - 95%
Creditors with insurance liabilities outside of Australia (including the beneficiaries of the US Trust fund)	55% - 65%
Creditors with non insurance liabilities in Australia	80% - 90%

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 WMG. 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 the respective run-off managers, operate a unified principal to principal ledger system and a unified distribution 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 classed, and from which classes of assets their distribution has been paid.

Both the Australian and English Schemes contain a “hotchpot” clause. The effect of the hotchpot clause is to prevent a creditor who has already been paid a distribution under one of the schemes, from receiving further payments under the other Scheme until such time as all other creditors with similarly ranked claims have received an equal proportionate distribution.

4.2 Distribution Priorities

The English Scheme is designed to complement the Australian Scheme. Following receipt of the House of Lords judgement the English Scheme will adopt all of the provisions of the Australian Scheme, including the Australian distribution priorities, which will now apply to the English Assets

5 Major Litigation

5.1 Background

Following the collapse of the HIH Group in 2001, the Australian Government established the HIH Royal Commission to inquire into the reasons for the failure of the Group. The Hon Justice Neville Owen was appointed as Royal Commissioner and began his enquiry in September 2001. He presented his findings on the outcome of the enquiry in April 2003.

Considerable work was undertaken by the Commissioner and his team in investigating the circumstances behind the HIH collapse. This provided an extremely useful background against which the Liquidators could assess which of those HIH Directors, auditors and former advisors may be liable under any successful recovery action.

Having reviewed the potential courses of action open to them, the Liquidators decided to focus on two major recovery actions:

- + The Trading Loss & Dividend claim; and
- + The FAI Takeover claim

5.2 The Trading Loss & Dividend claim

The Trading Loss and Dividend claims were brought by the Liquidators against a number of defendants including HIH and FAI directors, the Groups' auditors, the Groups' actuaries, reinsurers and a broker.

In June 2007, after filing but before serving the claims, the Liquidators settled with certain of the defendants. One of the consequences of those settlements is that the Liquidators have discontinued all of the Trading Loss and Dividend claims.

5.3 FAI Takeover claim

This claim arises from the takeover by the HIH Group of the FAI Group in 1998/99. The defendants to the claim include General Cologne Re, Guy Carpenter, Arthur Andersen and Goldman Sachs, who the Liquidators allege should compensate HIH for losses suffered through the takeover of the FAI Group.

The Liquidators have requested that the Court allow a three month standstill to the Court timetable to allow settlement discussions to be further explored. The matter is before the Court again on 18 December 2008 at which time it will be provided with a further update on the settlement discussions.

6 Financial position

6.1 Estimated balance sheet at 30 June 2008

Included as Appendix 3 to the Australian Explanatory Statement section of the Scheme of Arrangement documentation, which was sent to creditors prior to the creditors' meeting on 29 March 2006, were balance sheets for each of the Scheme companies at 25 September 2005. Included as Appendix 1 to this report is an updated balance sheet for WMG, as at 30 June 2008.

The Scheme Administrators have not commissioned a further full actuarial review of the insurance liabilities of the eight Scheme companies since the last annual report. It is their intention, however, to commission a further such review in the coming months, in order that there is an updated estimate of the final total insurance liabilities for the next annual report.

Factors that have led to adjustment to the WMG balance sheet over the last year include:

- + Further work on the validity of large inter-company balances;
- + The ongoing collection and commutation of outstanding reinsurance balances owing to WMG; and
- + Removal of the provision for claims lodged on behalf of the shareholders of HIH Insurance Limited, which were rejected by the Scheme Administrators. This decision has been endorsed by both the Supreme Court and the Court of Appeal;

6.2 Receipts and payments to 30 June 2008

A summary of the Scheme Administrators receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2008 is set out in Appendix 2 to this report.

During this period no fees have been approved by the WMG Creditors' Committee and paid to the Scheme Administrators in their role as Office Holders.

7 Closure

The Scheme for WMG provides for an 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 insolvency on cost benefit grounds.

The Scheme provides 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. 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.

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

At the date of this report, the Scheme Administrators consider that June 2013 remains the most likely Estimation Date for the Scheme.

8 Responsibilities

8.1 Scheme Administrators

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

8.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of WMG have been outsourced to specialist run-off organisation in Sydney and London, who work in close co-operation. The run-off managers for all business of the company, except business written with the UK branch, are Capita CMGL. The run-off managers for all business written by the UK branch of WMG are Whittington Insurance Services Limited.

8.3 Creditors' Committee

The interests of creditors in the Australian 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 on average, on an annual basis. The current constitution of the Committee is as follows:

Member	Represented by
HCSL – Australian Government Treasury	Mr Trevor King
CIC Insurance Limited – In liquidation	Mr James Thackray

9 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.

9.1 Creditor Enquiries in Australia

Scheme Creditors with claims adjustment queries (excluding those in relation to branch 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.

Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the HIH Help Desk on +61 (0) 2 9650 5777. Written scheme queries should be directed to the Scheme Administrators at the following address: McGrathNicol, GPO Box 9986, Sydney, NSW, 2001 or to the HIH Help Desk at enquires@hih.com.au

Yours faithfully

For World Marine & General Insurances Pty Limited – in liquidation and subject to Schemes of Arrangement



Tony McGrath
Scheme Administrator



Chris Honey
Scheme Administrator

Appendix 1

Updated balance sheet for WMG as at 30 June 2008

World Marine and General Insurance Pty Limited
(In Liquidation and subject to Schemes of Arrangement)
Balance Sheet
as at 30th June 2008
All values in AUD

	RATA as at 30 June 2008	RATA as at 30 June 2007
	\$'000	\$'000
Assets not specifically charged		
Cash		
Cash at bank	7,650	5,233
	<u>7,650</u>	<u>5,233</u>
Receivables		
Amounts owing by related bodies corporate	4,701	3,756
GST Recoverable	3	2
	<u>4,704</u>	<u>3,758</u>
Investments		
Short term deposits	0	7,672
Managed Investments	7,398	0
ADD back: Dividends Paid	243	132
	<u>7,641</u>	<u>7,805</u>
Reinsurance recoveries receivable	9,564	696
Renewal rights	0	0
Other		
Other receivables	0	0
	<u>0</u>	<u>0</u>
Total assets not specifically charged	<u><u>29,559</u></u>	<u><u>17,491</u></u>
Assets subject to specific charges		
Investments		
Statutory Reinsurance Cut-Through	171	171
Total assets subject to specific charges	<u>171</u>	<u>171</u>
TOTAL ASSETS	<u><u>29,730</u></u>	<u><u>17,662</u></u>
Liabilities secured by specific charge over assets		
Accounts payable		
Statutory Reinsurance Cut-Through	(171)	
Total liabilities secured by specific charge over assets	<u>(171)</u>	<u>0</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(203)	(204)
Amounts payable to or on behalf of reinsurers, other insurers and statutory bodies	0	0
Sundry creditors	(1)	(1)
	<u>(204)</u>	<u>(205)</u>
Provisions		
Other - Shareholder class action	0	(100,000)
	<u>0</u>	<u>(100,000)</u>
ACCs	(9,106)	(8,109)
Outstanding claims (Reserves)	(4,169)	(4,916)
IBNR Claims	(10,145)	(5,043)
Outstanding claims	<u>(23,420)</u>	<u>(18,068)</u>
Unearned premiums	0	0
Other liabilities		
Other creditors and accruals	0	0
Amounts owing to related bodies corporate	(9,904)	(9,904)
	<u>(9,904)</u>	<u>(9,904)</u>
Total unsecured creditors	<u><u>(33,527)</u></u>	<u><u>(128,177)</u></u>
TOTAL LIABILITIES	<u><u>(33,698)</u></u>	<u><u>(128,045)</u></u>
NET DEFICIT	<u><u>(3,969)</u></u>	<u><u>(110,383)</u></u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006
to 30 June 2008

**World Marine & General Insurances Pty Limited (In Liquidation and subject to Schemes of Arrangement)
Receipts and Payments Account 1 July 2007 to 30 June 2008**

	\$
Balance brought forward 1 July 2007	7,824,132.04
Receipts	
Scheme Payments Received	1,890,815.00
Interest on cash and deposits	405,083.20
Reinsurance Recoveries	243,189.29
Settlement Proceeds reallocated from HIH C&G	182,795.00
GST Refund from ATO	9,676.51
Unrealised Gain/Loss on Investment Portfolio	25,066.93
Repatriation of Funds from UK Liquidator	9,947.00
Claim Recoveries	2,026.36
Other receipts <\$20,000	560.55
Total receipts	2,769,159.84
Payments	
Professional Fees	(56,285.09)
Outsourced Claims Management Fees	(75,673.17)
Central Expense paid to HIH C&G	(55,256.29)
GST	(11,017.91)
Computer Costs	(7,606.03)
Claims Run-off expenses	(6,371.85)
Other Sundry Payments (amounts<\$20,000)	(8,496.17)
Sub Total payments	(220,706.51)
Scheme Payments to Creditors	(109,930.58)
Total payments	(330,637.09)
Balance at 30 June 2008	10,262,654.79