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

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28 September 2007

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 first 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 2007.

The purpose of this report is to provide creditors with information on the progress of the English Scheme to date.

2 Key points

- 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.
- There is no current Scheme Payment Percentage for FAI Insurances under the English Scheme.
- 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.
- In December 2007 an appeal to the House of Lords will be heard in relation to the distribution priorities which are to apply to the assets held by the English Scheme Administrators. Brief details of this are explained in section 4.2 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 is less than 5%.

The current Scheme Payment Percentages for the various classes of assets for all eight of the Australian schemes are set out on the HIH website, www.hih.com.au.

3.2 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.

The English scheme has only one class of asset, and one distribution rate for all creditors worldwide.

Under the terms of the schemes, the Scheme Administrators review the Scheme Payment Percentage for each relevant class of asset at least annually 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.

3.3 *Estimated ultimate Scheme Payment Percentages*

The summary estimates of the ultimate Payment Percentages per company given by the Australian Scheme Administrators are shown below. 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	Estimated Ultimate Scheme Payment Percentage
HIH C&G	15% to 25%
FAIG	25% to 35%
CIC	30% to 40%
FAIT	Less than 5%
FAI Re	More than 50%
FAI Insurances	Less than 5%
WMG	30% to 40%
HIH U&I	Less than 5%

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 the 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 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 proportional distribution.

4.2 Distribution Priorities

The English Scheme is designed to complement the Australian scheme by adopting most of the provisions of the Australian Scheme, with the exception of the distribution priorities that are 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, 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 court directed that the English Assets are not to be remitted to the Australian liquidators for distribution in accordance with the Australian statutory distribution priorities. The English Scheme therefore applies the distribution priorities of the English statutory regime to the English Assets, subject to the comments below in relation to the House of Lords appeal.

4.3 Appeal to the House of Lords

The Australian liquidators and two Australian creditors (the James Hardie Trusts) unsuccessfully appealed the initial court directions obtained by the English provisional liquidators, and have now appealed that decision further to the House of Lords. The appeal is to be heard in December 2007.

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

5 Financial position

5.1 Gross Liabilities

The English Scheme Administrators currently expect the gross undiscounted liabilities of FAI Insurances to be approximately £400m, 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 2007

A summary of the English Scheme Administrators' receipts and payments from 13 June 2006 (the commencement of the Scheme of Arrangement) to 30 June 2007 is set out on the following page.

FAI Insurances Limited	
Receipts and payments for the period 13 June 2006 to 30 June 2007	
	£
Receipts	
Balance transferred from the English Provisional Liquidators at 13 June 2006	394,151
Insurance and reinsurance recoveries	80,166
Bank Interest and Sundry Receipts	19,097
	493,414
Total receipts	493,414
Payments	
Officeholders' fees and expenses	179,357
Bank Charges	50
	179,407
Total payments	179,407
Funds held at 30 June 2007	314,007

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 insolvency 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 insolvency.

7 Responsibilities

7.1 Scheme Administrators

The English Scheme Administrators of FAI Insurances are Tom Riddell and John Wardrop, based in London. The Australian Scheme Administrators are Tony McGrath and Chris Honey, partners of McGrathNicol+Partners, 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. It is reported to, and meets on a quarterly basis. 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

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 41, 50 Bridge Street Sydney NSW Australia 2000.

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.



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Yours faithfully
For FAI Insurances Limited

John Wardrop
English Scheme Administrator

Tom Riddell
English Scheme Administrator