

FAI Traders Insurance Company Pty Limited
ACN 000 177 177
(In liquidation and subject to a Scheme of Arrangement)

Scheme Administrators' annual report to
creditors

30 June 2008

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1 Introduction & background

1.1 Introduction

This is the second annual report to the Creditors of FAI Traders Insurance Company Pty Limited - in liquidation and subject to a Scheme of Arrangement ("FAI Traders").

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.

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-one 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%

To date no interim Scheme Payments have been made for FAI Traders.

More detail on Scheme Payments and the estimated ultimate Scheme Payment Percentage for FAI Traders is included in section 4 of this report.

- + Approximately \$451,000 in Scheme Payments has been received by FAI Traders as a creditor of FAI General Insurance Company Limited and CIC Insurance Limited; both of which are in liquidation and subject to Schemes of Arrangement.

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

To date no interim Scheme Payment has been made to the creditors of FAI Traders. In view of the small estimated final Scheme Payment to creditors and the large balance of outstanding and IBNR claims, it is not expected that an interim Scheme Payment will be made within the next twelve months.

3.2 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.

3.3 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.

3.4 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators' current best estimates of the ultimate Payment Percentage for FAI Traders 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 07
FAI Traders	Less than 5%	Less than 5%

4 Financial position

4.1 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. An updated balance sheet for FAI Traders as at 30 June 2007, is included as Appendix 1 to this report

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.

As can be seen from the balance sheet the estimated return to creditors has improved slightly materially over the period. This is due to an increase in the estimated Scheme Payments received and receivable from other HIH Group companies in liquidation and subject to Schemes of Arrangement.

4.2 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 paid to the Scheme Administrators in their role as Office Holders.

5 Closure

The Scheme for FAI Traders 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.

6 Responsibilities

6.1 Scheme Administrators

The Australian Scheme Administrators are Tony McGrath and Chris Honey, partners of McGrathNicol, based in Sydney.

6.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of FAI Traders have been outsourced to Capita CMGL, a specialist run-off organisation based in Sydney and London.

6.3 Creditors' Committee

At the meeting of creditors to consider the Scheme on 29 March 2006, the creditors of FAI Traders chose not to elect a creditors' committee.

7 Contact Details

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

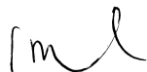
7.1 Creditor Enquiries in Australia

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 FAI Traders Insurance Company Pty Limited – in liquidation and subject to a Scheme of Arrangement



Tony McGrath
Scheme Administrator



Chris Honey
Scheme Administrator

Appendix 1

Updated balance sheet for FAI Traders as at 30 June 2008

***FAI Traders Insurance Company Pty Limited
(In Liquidation and subject to a Scheme of Arrangement)***

Balance Sheet

as at 30th June 2008

All values in AUD

	RATA as at 30 June 2008	RATA as at 30 June 07
	\$'000	\$'000
<i>Assets not specifically charged</i>		
Cash		
Cash at bank	416	15
	<u>416</u>	<u>15</u>
Receivables		
Amounts owing by related bodies corporate	459	229
GST Recoverable	1	2
	<u>460</u>	<u>231</u>
Investments		
Short term deposits	0	739
Managed Investments	703	0
	<u>703</u>	<u>739</u>
Reinsurance recoveries receivable	0	0
Renewal rights	0	0
Other		
Other receivables	0	0
	<u>0</u>	<u>0</u>
<i>Total assets not specifically charged</i>	<u>1,579</u>	<u>986</u>
TOTAL ASSETS	<u>1,579</u>	<u>986</u>
<i>Unsecured creditors</i>		
Accounts payable		
Trade Creditors	(0)	(0)
	<u>(0)</u>	<u>(0)</u>
ACCs	(6,608)	(6,058)
Outstanding claims	(1,927)	(2,101)
IBNR Claims	(13,425)	(14,086)
Outstanding claims	<u>(21,960)</u>	<u>(22,245)</u>
Unearned premiums	0	0
Other liabilities		
Other creditors and accruals	0	0
Amounts owing to related bodies corporate	(21,475)	(21,474)
	<u>(21,475)</u>	<u>(21,474)</u>
<i>Total unsecured creditors</i>	<u>(43,435)</u>	<u>(43,719)</u>
TOTAL LIABILITIES	<u>(43,435)</u>	<u>(43,719)</u>
NET DEFICIT	<u>(41,856)</u>	<u>(42,734)</u>

Appendix 2

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

**FAI Traders Insurance Company Pty Limited (In Liquidation and subject to a Scheme of Arrangement)
Receipts and Payments Account 1 July 2007 to 30 June 2008**

	\$
Balance brought forward 1 July 2007	755,341.28
Receipts	
Scheme Payments Received	450,635.20
Interest	41,935.43
Unrealised Gain on Investments	3,826.36
Reinsurance Recoveries	3,004.00
GST Refund from ATO	7,763.03
Total receipts	507,164.02
Payments	
Central Expense Reimbursement to HIH C&G	(59,565.26)
Professional Fees	(43,158.48)
Outsourced Claims Management Fees	(31,746.26)
GST	(7,618.21)
Other Sundry Payments (amounts<\$20,000)	(1,634.97)
Total payments	(143,723.18)
Balance at 30 June 2008	1,118,782.12