

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 2011

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1 Introduction & background

1.1 Introduction

This is the fifth 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 2011.

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. In total, 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 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 was 30 May 2011. However, 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 further Scheme Payment Percentages by the members of the requisite Scheme Creditor Committees, which now total as follows:

	Creditors with insurance liabilities in Australia	Creditors with insurance liabilities outside of Australia	Creditors with non insurance liabilities in Australia	All other creditors worldwide
WMG	75.50%	30.00%	65.00%	nil

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

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentages for WMG are:

Creditors with insurance liabilities in Australia	75.50%
Creditors with insurance liabilities outside of Australia	30.00%
Creditors with non insurance liabilities in Australia	65.00%

To date, the Scheme Administrators have made distributions out of non-reinsurance assets in Australia, to creditors with liabilities in Australia, totalling 65%.

The Scheme Administrators have made distributions out of reinsurance assets to creditors with insurance liabilities worldwide, totalling 30%. As any distribution to creditors with insurance liabilities from assets other than reinsurance recoveries, is made after taking account of any recoveries they may have received from reinsurance assets, the effective total Scheme Payment percentage for creditors with insurance liabilities in Australia to date is 75.5%.

3.2 Projected further Scheme payments

The Scheme Administrators continually review the level of assets realised and those expected to be recovered within the coming year. As the majority of the remaining assets to be recovered comprise intercompany debts owed by other HIH Group companies in liquidation, the Scheme Administrators do not expect to be in a position to make any further interim Scheme Payments over the next twelve months.

3.3 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.

3.4 Scheme Payments for reinsurance creditors

As explained in previous annual reports, the Scheme Administrators remain 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.

3.5 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators' current best estimates of the ultimate Scheme 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 Scheme 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 11
WMG	30% to 40%	40% to 100%

The total estimated Scheme Payment range for creditors of 40% to 100% can be further analysed as:

	Range of estimated Scheme Payment percentage
Creditors with insurance liabilities in Australia	90% - 100%
Creditors with insurance liabilities outside of Australia	40% - 50%
Creditors with non insurance liabilities in Australia	90% - 100%

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 has adopted all of the provisions of the Australian Scheme, including the Australian distribution priorities, which will now apply to the English Assets.

5 Financial position

5.1 Estimated balance sheet at 30 June 2011

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 WMG as at 30 June 2011, is included as Appendix 1 to this report.

5.2 Receipts and payments to 30 June 2011

A summary of the Scheme Administrators receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2011 is set out in Appendix 2 to this report.

During this period \$61,873.50 has been approved by the WMG Creditors' Committee and paid to the Scheme Administrators in their role as Office Holders.

6 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.

7 Responsibilities

7.1 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.

7.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of WMG have previously 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, were Capita CMGL. The run-off managers for all business written by the UK branch of WMG are Whittington Insurance Services Limited.

Following an extensive review of the ongoing resources required to manage the run-off process for all business of the company (except business written with the UK branch), HIH terminated Capita CMGL's contract on 30 June 2011, and employed the personnel necessary to manage the run-off process in-house with effect from 1 July 2011.

7.3 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 Harry Neesham

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 in Australia

Scheme Creditors with claims adjustment queries (excluding those in relation to branch business) should call HIH Help Desk on +61 (0) 2 9650 5777. Written claims adjustment queries should be directed to HIH Group at the following address: HIH Group, GP Box 9814, Sydney NSW 2001, 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 2011

World Marine and General Insurance Pty Limited - (In Liquidation and subject to Schemes of Arrangement)

Balance Sheet as at 30 June 2011

All values in AUD

	RATA as at 30 June 2011 \$'000	RATA as at 30 June 2010 \$'000
Assets not specifically charged		
Cash		
Cash at bank	5,523	5,977
	<u>5,523</u>	<u>5,977</u>
Receivables		
Amounts owing by related bodies corporate	6,274	4,893
GST Recoverable	0	1
	<u>6,274</u>	<u>4,894</u>
Investments		
Short term deposits	2	1
Managed Investments	8,175	7,863
ADD back: Dividends Paid	5,585	3,690
	<u>13,762</u>	<u>11,555</u>
Reinsurance recoveries receivable	67	1,544
	<u>67</u>	<u>1,544</u>
Total assets not specifically charged	<u>25,626</u>	<u>23,969</u>
Assets subject to specific charges		
Investments		
Statutory Reinsurance Cut-Through	394	422
Total assets subject to specific charges	<u>394</u>	<u>422</u>
TOTAL ASSETS	<u>26,020</u>	<u>24,391</u>
Liabilities secured by specific charge over assets		
Accounts payable		
Statutory Reinsurance Cut-Through	(394)	(422)
	<u>(394)</u>	<u>(422)</u>
Total liabilities secured by specific charge over assets	<u>(394)</u>	<u>(422)</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(203)	(203)
Sundry creditors	(10)	(10)
	<u>(213)</u>	<u>(213)</u>
ACCs	(6,807)	(7,422)
Outstanding claims (Reserves)	(2,651)	(3,097)
IBNR Claims	(6,918)	(7,885)
Outstanding claims	<u>(16,376)</u>	<u>(18,404)</u>
Other liabilities		
Amounts owing to related bodies corporate	(9,904)	(9,904)
	<u>(9,904)</u>	<u>(9,904)</u>
Total unsecured creditors	<u>(26,493)</u>	<u>(28,521)</u>
TOTAL LIABILITIES	<u>(26,887)</u>	<u>(28,943)</u>
NET DEFICIT	<u>(867)</u>	<u>(4,551)</u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006
to 30 June 2011

World Marine & General Insurance Pty Limited (In Liquidation and subject to Schemes of Arrangement)

Receipts and Payments Account 1 July 2010 to 30 June 2011

	\$	\$
Balance at 1 July 2010		10,194,294.35
Receipts		
Scheme Payment Received	945,407.00	
Repatriation of Funds from UK Liquidator	270,670.84	
Unrealised Gain on Investment Portfolio	511,928.53	
Interest on cash and deposits	65,242.04	
Reinsurance Recoveries	10,494.08	
GST Refund from ATO	11,277.92	
Other receipts	12,748.70	
	<hr/>	
Total receipts		1,827,769.11
Payments		
Scheme Payments to Creditors	(1,945,023.77)	
Scheme Administrators' Fees	(35,257.50)	
Liquidators Fees	(1,460.50)	
Professional Fees	(21,847.10)	
Outsourced Claims Management Fees	(56,143.23)	
GST	(11,512.72)	
Central Expense paid to HIH C&G	(42,137.31)	
Unrealised Movement on Foreign Exchange Accounts	(61,311.84)	
IT Charges	(7,423.89)	
Other Sundry Payments	(2,195.44)	
	<hr/>	
Total payments		(2,184,313.30)
Balance at 30 June 2011		<u>9,837,750.16</u>