

FC17672

**HHH CASUALTY AND GENERAL INSURANCE LIMITED**  
**A.C.N. 008 482 291**

**SPECIAL PURPOSE FINANCIAL REPORT FOR THE EIGHTEEN MONTHS**  
**ENDED 30 JUNE 1999**



## **DIRECTORS' REPORT**

The directors have pleasure in submitting the financial statements of the company for the eighteen months ended 30 June 1999 and report as follows:

### **Directors**

The names of the directors in office during or since the end of the financial period are:

R R	Williams AM	
G O	Sturesteps	
T K	Cassidy	
D	Fodera	
M W	Payne	(resigned 16 July 1999)
J E	Radley	(resigned 25 May 1999)
W F	Kane	(resigned 16 July 1999)
R A	Eade	(resigned 16 July 1999)
B W	Ellis	(resigned 16 July 1999)

### **Principal Activities**

The principal activities of the company during the period were general insurance underwriting and investment funds management. There were no significant changes in the nature of these activities during the period.

### **Results**

The operating loss for the eighteen months to 30 June 1999 was \$30 614 000 after income benefit of \$29 762 000, as compared to the operating profit after tax of \$53 039 000 for twelve months to 31 December 1997.

### **Dividends**

Dividends of \$70 492 000 were paid or provided by the company during the period.

### **Directors' Benefits**

Since the end of the previous period, no director has received or become entitled to receive a benefit by reason of a contract made by the company or a related body corporate with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements or the fixed salary of a full-time employee of the company.

### **Change of Financial Year End**

The entity has changed its financial year end from 31 December to 30 June. These financial statements have been prepared to provide financial information and statements for the eighteen month period to 30 June 1999.

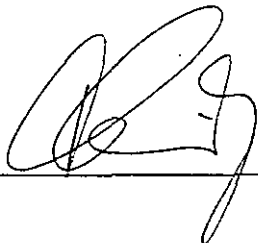


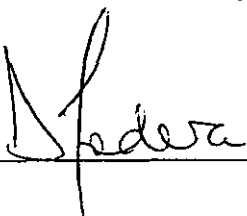
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**Rounding of Amounts**

As the company is of a kind referred to in Regulation 3.6.05(6) of the Corporations Regulations, all amounts shown in the financial statements have been rounded to the nearest thousand dollars in accordance with Section 311 of the Corporations Law and Corporations Regulation 3.6.05.

Signed in accordance with a resolution of the directors.

  
\_\_\_\_\_  
T K Cassidy Director

  
\_\_\_\_\_  
D Fodera Director

Sydney, 15 November 1999

**PROFIT AND LOSS STATEMENT  
FOR THE EIGHTEEN MONTHS ENDED 30 JUNE 1999**

	<u>Note</u>	<u>1.1.98 to</u> <u>30.6.99</u> \$000	<u>1.1.97 to</u> <u>31.12.97</u> \$000
Operating profit/(loss) before abnormal item and income tax	2,5	(27 876)	49 168
Abnormal item before income tax	6	(32 500)	-
Operating profit/(loss) before income tax		<u>(60 376)</u>	<u>49 168</u>
Income tax benefit attributable	7	29 762	3 871
Operating profit/(loss) after income tax		<u>(30 614)</u>	<u>53 039</u>
Retained profits at the beginning of the period		151 472	121 137
Total available for appropriation		<u>120 858</u>	<u>174 176</u>
Dividends provided for or paid		<u>(70 492)</u>	<u>(22 704)</u>
Retained profits at the end of the period		<u>50 366</u>	<u>151 472</u>

The accompanying notes form an integral  
part of this profit and loss statement

**HIH CASUALTY AND GENERAL INSURANCE LIMITED**  
**A.C.N. 008 482 291**

**BALANCE SHEET**  
**AT 30 JUNE 1999**

	<u>Note</u>	<u>30.6.99</u> \$000	<u>31.12.97</u> \$000
<b>CURRENT ASSETS</b>			
Cash		106 537	71 688
Receivables	8	615 327	500 160
Investments	9	296 326	287 301
Reinsurance recoveries receivable	10	160 441	113 131
Deferred acquisition costs		66 041	63 251
Other	11	23 821	11 799
<b>TOTAL CURRENT ASSETS</b>		<u>1 268 493</u>	<u>1 047 330</u>
<b>NON-CURRENT ASSETS</b>			
Investments	12	578 833	740 236
Plant and equipment	13	87 243	48 755
Reinsurance recoveries receivable	10	251 131	191 358
Intangibles	14	114	1 442
Other	15	70 731	66 119
<b>TOTAL NON-CURRENT ASSETS</b>		<u>988 052</u>	<u>1 047 910</u>
<b>TOTAL ASSETS</b>		<u>2 256 545</u>	<u>2 095 240</u>
<b>CURRENT LIABILITIES</b>			
Creditors and borrowings	16	166 620	115 626
Provisions	17	21 769	16 604
Outstanding claims	18	429 087	399 894
Unearned premiums		276 168	242 727
Other	19	24 423	26 600
<b>TOTAL CURRENT LIABILITIES</b>		<u>918 067</u>	<u>801 451</u>

The accompanying notes form an integral  
part of this balance sheet

**HIH CASUALTY AND GENERAL INSURANCE LIMITED**  
**A.C.N. 008 482 291**

**BALANCE SHEET**  
**AT 30 JUNE 1999**

	<u>Note</u>	<u>30.6.99</u> \$000	<u>31.12.97</u> \$000
<b>NON-CURRENT LIABILITIES</b>			
Outstanding claims	18	735 327	649 621
Provisions	20	3 898	4 732
		<hr/>	<hr/>
<b>TOTAL NON-CURRENT LIABILITIES</b>		739 225	654 353
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		1 657 292	1 455 804
		<hr/>	<hr/>
<b>NET ASSETS</b>		599 253	639 436
		<hr/>	<hr/>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	21	439 225	390 811
Reserves	22	16 806	4 297
Retained profits		50 366	151 472
		<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		506 397	546 580
Subordinated debt	23	92 856	92 856
		<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' EQUITY AND SUBORDINATED DEBT</b>		599 253	639 436
		<hr/>	<hr/>

The accompanying notes form an integral  
part of this balance sheet

**STATEMENT OF CASH FLOWS  
FOR THE EIGHTEEN MONTHS ENDED 30 JUNE 1999**

	<u>Note</u>	<u>1.1.98 to</u> <u>30.6.99</u> \$000	<u>1.1.97 to</u> <u>31.12.97</u> \$000
<b>Cash flows from operating activities</b>			
Premiums and fees received		1 055 060	701 518
Claims paid		(907 162)	(372 721)
Payment to reinsurers, suppliers and employees		(279 637)	(262 045)
Dividends received from non-related bodies corporate		344	2 916
Interest received		37 996	20 257
Rent received		9 538	636
Interest paid		(5 588)	(3 777)
Income taxes paid		(1 147)	(2 341)
	3(c)	<u>(90 596)</u>	<u>84 443</u>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(60 895)	(18 698)
Proceeds from sale of plant and equipment		1 657	2 049
Payments, net of proceeds, for investments		161 540	(85 717)
Payments for purchase of controlled entities, net of cash acquired	3(b)	-	-
Loans made to related bodies corporate		(6 257)	(47 033)
		<u>96 045</u>	<u>(149 399)</u>
<b>Cash flows from financing activities</b>			
Dividends paid		(22 078)	-
Repayment of loans from related bodies corporate		52 805	43 213
		<u>30 727</u>	<u>43 213</u>
Net increase/(decrease) in cash held		36 176	(21 743)
Cash at the beginning of the period		71 688	85 261
Effect of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the period		(1 327)	8 170
Cash at the end of the period	3(a)	<u>106 537</u>	<u>71 688</u>

The accompanying notes form an integral  
part of this statement of cash flows

## NOTES TO THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES :

This special purpose financial report has been prepared for distribution to members of the company to satisfy the directors' reporting responsibility imposed by the Corporations Law. The company has applied AASB 1025 "Application of the Reporting Entity Concept and Other Amendments", and in the opinion of the directors the company is not a reporting entity as defined.

#### (a) Basis of Accounting

The financial statements have been prepared in accordance with applicable Accounting Standards, with the exception of AASB 1024 "Consolidated Accounts" and AASB 1033 "Presentation and Disclosure of Financial Instruments"; other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Law.

Prior period comparatives have been reclassified, where applicable, to conform with the presentation of the current financial period.

All amounts are in Australian dollars.

#### (b) Insurance Result

Whilst the financial statements have been prepared in accordance with applicable Accounting Standards, the entity has also undertaken to include additional information for the benefit of users of these financial statements. The approach adopted for the measurement of the company's insurance and other activities, styled insurance result, is set out in some detail in Note 2 to these financial statements. The major change to prior period reporting is that investment returns are segregated into two funds, policyholders' funds and shareholders' funds.

Policyholders' funds are those investments which are held to fund the insurance liabilities of the entity. The remaining investments, primarily comprising investments in associated companies, equities and properties, represent shareholders' funds. Insurance result is derived by adding investment income on policyholders' funds to the underwriting result. The impact on claims incurred as a consequence of the movement in net discount rates is disclosed as "net discount rate adjustment". This amount is offset by the change in the capital value of fixed interest securities which is also disclosed after the underwriting result as part of investment return on policyholders' funds. This disclosure provides a view of profitability of the company's insurance activities.



1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued) :

(c) Premium Revenue

The company accrues for the total premiums due on policies where the risk commenced on or prior to balance date. Accordingly amounts due in relation to premiums identified but not processed at balance date are brought to account as accrued premiums. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. The unearned portion of these premiums, calculated in accordance with the policy noted below, has been included in the provision for unearned premiums.

Unearned premiums are calculated by apportioning written premiums, excluding statutory charges, brokerage and commission paid, on a daily basis over the risk period involved. They also include unearned commission income applicable to these premiums and are shown net of reinsurance premiums applicable thereto.

(d) Outward Reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

(e) Acquisition Costs

Acquisition costs comprise all brokerage paid and payable and other applicable acquisition costs incurred in acquiring premium revenue. Acquisition costs are deferred and amortised on a daily basis over the risk period.

(f) Fire Brigade and Other Charges

A liability for fire brigade and other charges is recognised on business written during the financial period. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued) :**

**(g) Provision for Outstanding Claims**

Full provision is made for the estimated cost of claims notified but not settled at balance date, by review of individual claims on the basis of current information and in the light of existing court awards and levels of compensation and likely inflationary trends. Provision is also made for claims handling costs, and for the cost of claims incurred by balance date, but not reported until after balance date, based on an analysis of claims reported after balance dates in prior periods.

The provision for outstanding claims is measured as the present value of expected future payments. Discount rates used are based on investment opportunities available on funds sufficient to meet future claims.

An actuarial estimate of outstanding claims for long tail classes of business is made and taken into consideration in determining the liability at balance date. Such actuarial review includes an allowance for unreported claims, an allowance for claims inflation, claims handling costs and anticipated investment earnings.

The provision for claims is classified into current and non-current liabilities according to estimated time of payment which has been based on a statistical analysis of payment patterns in prior periods.

Net claims expense includes claims settlement costs plus claims handling costs, less reinsurance recoveries received.

**(h) Investments**

Investments are measured at net market values at the balance date. Differences between the net market values of investments at the balance date and their net market values at the previous balance date, or the date of acquisition if later, are recognised in the profit and loss account.

Market values for investments traded on prescribed stock exchanges are based on last sale prices. Fixed interest securities which are not traded on prescribed stock exchanges are valued based on the latest market information. This market information is provided by leading fixed interest security brokers on a daily basis and the securities valued using the closing price at balance date. Market values for other investments not traded on prescribed stock exchanges are at independent valuation or at directors' valuation on the basis of current economic conditions. Investment in controlled entities is recorded at directors' valuation based on the net asset value of the controlled entities.

Estimated selling costs are deducted to arrive at the net market value of investments at balance date.

Dividend income is taken to account when the underlying shares become ex-dividend. Interest income and expenses are accrued.

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued) :**

**(i) Amounts Payable to/Due from Reinsurers, Other Insurers and Statutory Bodies**

Amounts payable to or on behalf of, or due from reinsurers, comprise reinsurance premiums less recoveries due from reinsurers for claims paid. Reinsurance recoveries receivable represents amounts due from reinsurers for claims outstanding and is measured at the present value of expected future receipts, calculated on the same basis as the liability for outstanding claims.

Amounts due from or payable to other insurers comprise that portion of claims paid which is the subject of an agreement or anticipated agreement with other insurers in relation to their expected contribution.

Amounts payable to or due from statutory bodies comprise claims recoveries payable to or due from those bodies under the various laws and regulations applying in the states and territories in which the entity operates.

**(j) Subordinated Debt**

Shareholders' equity has been disclosed with the inclusion of subordinated debt on the basis that the substance of the transaction is of an equity nature.

**(k) Goodwill**

The difference between the purchase consideration plus incidental expenses and the fair values of identifiable net assets in respect of controlled entities acquired is initially brought to account as goodwill. Purchased goodwill is amortised on a straight line basis over a ten period during which the benefits are expected to arise. The unamortised goodwill is reviewed annually at balance date.

**(l) Income Tax**

The entity follows the policy of tax effect accounting. The income tax per the profit and loss statement represents the tax on the reported result adjusted for income and expenses not assessable or allowable for taxation purposes. The provision for deferred income tax liability and the future income tax benefit accounts represent the tax effect of differences between amounts which have been added to or deducted from earnings in respect of income and expense items recognised in different accounting periods for book and tax purposes, calculated at the tax rates expected to apply when differences reverse.

The benefit arising from estimated carried forward tax losses are recorded in the future income tax benefit account where realisation of such benefit is considered to be virtually certain.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued) :

(m) Foreign Currency Transactions

Transactions in currencies other than Australian dollars are recorded at the rates of exchange in effect at the dates of the transactions.

Amounts payable to or by the entity in foreign currencies have been translated into Australian currency at the exchange rates ruling at balance date.

Gains and losses arising from fluctuations in exchange rates are included in operating profit.

Exchange gains or losses arising from translation are credited or debited to the foreign currency translation reserve.

(n) Derivatives

Gains and losses on derivatives used to hedge foreign exchange contracts, forward rate agreements, interest rate swaps, futures and options are brought to account as they arise and are measured at net market value, at balance date.

(o) Change of Financial Year End

The entity has changed its financial year end from 31 December to 30 June. These financial statements have been prepared to provide financial information and statements for the eighteen month period to 30 June 1999.

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**2. RESULTS OF INSURANCE ACTIVITIES :**

	<u>Note</u>	<u>1.1.98 to</u> <u>30.6.99</u> \$000	<u>1.1.97 to</u> <u>31.12.97</u> \$000
Gross written premium		1 110 175	752 550
Gross premium earned		1 081 292	715 046
Outward reinsurance expense		(417 719)	(199 242)
Net premium earned		663 573	515 804
Claims expense			
Direct		(832 764)	(526 573)
Inward reinsurance		(133 100)	(102 672)
Claims handling costs		(19 907)	(15 474)
Total claims expense		(985 771)	(644 719)
Reinsurance recoveries received		305 027	212 302
Net claims incurred	18(ii)	(680 744)	(432 417)
Underwriting expenses		(82 707)	(27 280)
Fire brigade charges		(9 193)	(7 275)
Net acquisition costs		(75 994)	(56 071)
Total underwriting expenses		(167 894)	(90 626)
<b>Underwriting loss</b>		<b>(185 065)</b>	<b>(7 239)</b>
Investment return on policyholders' funds	4	96 942	39 367
Net discount rate adjustment	18(ii)	(3 790)	(23 602)
Other business activities (net)		(578)	9
<b>Insurance result</b>	<b>1(b)</b>	<b>(92 491)</b>	<b>8 535</b>
Goodwill amortisation		(1 328)	(1 224)
Investment return on shareholders' funds	4	73 296	46 010
Interest expense	5	(7 353)	(4 153)
<b>Operating profit/(loss) before income tax</b>		<b>(27 876)</b>	<b>49 168</b>

3. NOTES TO THE STATEMENT OF CASH FLOWS :

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and deposits held at call with banks and/or financial institutions net of outstanding bank overdrafts.

Cash at the end of the period as shown in the statement of cash flows is reconciled to the related item in the balance sheet as follows:

	<u>30.6.99</u>	<u>31.12.97</u>
	\$000	\$000
Cash at bank	106 537	71 688

(b) Business Acquired or Established

During the period the entity acquired or established 100% of the following controlled entities:

Details of the acquisitions of the controlled entities are as follows:

Consideration:	<u>1.1.98 to</u> <u>30.6.99</u>	<u>1.1.97 to</u> <u>31.12.97</u>
	\$000	\$000
Cash	-	-
Other	-	.*
Total consideration	-	.*
Fair value of net assets acquired:	-	-
Cash	-	30 739
Receivables	-	44 727
Investments	-	26 522
Plant and equipment	-	567
Other assets	-	10 066
Creditors	-	(23 381)
Provisions	-	(89 240)
	-	.*
Goodwill on acquisition	-	-
	-	.*
Cash paid on the purchase of controlled entities:	-	-
Cash paid	-	-

\* Amount less than \$50 000

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**3. NOTES TO THE STATEMENT OF CASH FLOWS (continued) :**

**(c) Reconciliation of Net Cash provided by/(used in)  
Operating Activities to Operating Profit After Income Tax**

	<u>1.1.98 to</u> <u>30.6.99</u> \$000	<u>1.1.97 to</u> <u>31.12.97</u> \$000
Operating profit/(loss) after income tax	(30 614)	53 039
Provision for employee entitlements	2 656	2 139
Bad and doubtful debts	1 522	242
Depreciation and amortisation	18 630	15 742
Net (profit)/loss from sale of plant and equipment	198	(166)
Abnormal loss on provision for Goods and Services Tax	32 500	-
Changes in net market value of investments		
- unrealised	(32 809)	(52 456)
- realised	(18 403)	4 619
Changes in assets and liabilities		
Decrease/(Increase)		
- Debtors	(193 843)	(52 504)
- Reinsurance recoveries	(107 083)	(116 255)
- Operating assets	(50 743)	(68 170)
Increase/(Decrease)		
- Creditors	205 835	22 851
- Outstanding claims	114 899	295 600
- Income and deferred tax provisions	(33 341)	(20 238)
	<hr/>	<hr/>
	(90 596)	84 443
	<hr/>	<hr/>

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**4. OPERATING REVENUE :**

	<u>1.1.98 to</u> <u>30.6.99</u> \$000	<u>1.1.97 to</u> <u>31.12.97</u> \$000
Gross premium earned		
- Direct	873 773	561 081
- Inward reinsurance	207 519	153 965
	<hr/> 1 081 292	<hr/> 715 046
Reinsurance recoveries revenue	<hr/> 305 027	<hr/> 212 302
Investment revenue		
- Dividends from related bodies corporate	61 200	52
- Dividends from non-related bodies corporate	3 383	2 916
- Interest from non-related bodies corporate	52 101	31 496
- Interest from related bodies corporate	1 765	2 440
- Rentals	577	636
	<hr/> 119 026	<hr/> 37 540
Changes in net market value of investments		
- realised	32 809	(4 619)
- unrealised	9 690	(1 542)
Changes in net market value of controlled entities, unrealised	8 713	53 998
	<hr/> 51 212	<hr/> 47 837
Revenue from other business activities	20 396	13 786
Proceeds from sale of non-current assets	1 657	1 246
Total revenue	<hr/> 1 578 610	<hr/> 1 027 757



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<b>5. OPERATING PROFIT/(LOSS) :</b>	<b><u>1.1.98 to</u></b>	<b><u>1.1.97 to</u></b>
	<b><u>30.6.99</u></b>	<b><u>31.12.97</u></b>
	<b>\$000</b>	<b>\$000</b>

Operating profit/(loss) before income tax has been determined after:

**(i) Charging as expense**

Bad debts written off	1 439	42
Operating lease rentals	19 221	12 467
Depreciation of plant and equipment	17 302	14 518
Amortisation of goodwill	1 328	1 224
Provision for doubtful debts	83	200
Provision for employee entitlements	2 656	2 139
Interest paid to non-related bodies corporate	-	4 153
Interest paid to related bodies corporate	7 353	-

**(ii) Crediting as income**

Profit/(loss) on sale of non-current assets	(198)	166
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**6. ABNORMAL ITEM**

Provision for Goods and Services Tax	(32 500)	-
Applicable income tax	11 700	-
	<u>(20 800)</u>	<u>-</u>

**7. INCOME TAX :**

The difference between income tax benefit provided in the accounts and the prima facie income tax benefit is reconciled as follows:

Operating profit/(loss) before income tax	(60 376)	49 168
Prima facie tax thereon	21 735	(17 700)
Tax effect of permanent and other differences		
- non-deductible net of non-assessable items	130	(7 744)
- revaluation of investment in controlled entities	3 137	19 439
- dividend rebate	-	9 790
Amount over provided in prior periods	4 760	86
Total income tax attributable to operating profit/(loss)	<u>29 762</u>	<u>3 871</u>

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<b>8. RECEIVABLES (Current) :</b>	<u>30.6.99</u>	<u>31.12.97</u>
	\$000	\$000
Trade debtors	140 753	92 100
Less provision for doubtful debts	(2 741)	(2 659)
Trade debtors, net	<u>138 012</u>	<u>89 441</u>
Amounts owing by related bodies corporate	57 644	110 598
Amounts due from reinsurers, other insurers and statutory bodies	133 908	55 446
Accrued premiums	261 879	232 511
Accrued interest, commission and other income	6 657	6 083
Sundry debtors	17 227	6 081
Total current receivables	<u>615 327</u>	<u>500 160</u>
<b>9. INVESTMENTS (Current) :</b>		
<u>At Directors' valuation</u>		
Debentures - unlisted	28 543	52 972
	<u>28 543</u>	<u>52 972</u>
<u>At net market value</u>		
Shares in non-related entities, listed	268 470	234 925
Total current investments	<u>297 013</u>	<u>287 897</u>
<u>less</u> provision for selling costs	(687)	(596)
Net market value	<u>296 326</u>	<u>287 301</u>
<b>10. REINSURANCE RECOVERIES RECEIVABLE :</b>		
Expected future recoveries on outstanding claims (undiscounted)	455 060	360 840
Discount to present value	(43 488)	(56 351)
Reinsurance recoveries receivable	<u>411 572</u>	<u>304 489</u>
Current	160 441	113 131
Non-current	251 131	191 358
	<u>411 572</u>	<u>304 489</u>

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	<u>30.6.99</u>	<u>31.12.97</u>
	\$000	\$000
<b>11. OTHER ASSETS (Current) :</b>		
Prepayments and deferred expenses	23 821	11 799
	<hr/>	<hr/>
<b>12. INVESTMENTS (Non-current) :</b>		
<u>At Directors' valuation</u>		
Government and semi-government stocks and bonds - unlisted	74 193	167 246
Debentures - unlisted	66 649	63 502
Shares in controlled entities (refer Note 25)	350 794	412 640
Loans - secured	48 860	78 458
- unsecured	6 009	6 246
	<hr/>	<hr/>
	546 505	728 092
	<hr/>	<hr/>
<u>At Director's valuation as at 30 June 1999 *</u>		
Investment properties	32 738	12 895
	<hr/>	<hr/>
Total non-current investments	579 243	740 987
<u>less</u> provision for selling costs	(410)	(751)
	<hr/>	<hr/>
Net market value	578 833	740 236
	<hr/>	<hr/>

\* After having regard to valuations carried out by registered valuers as follows:

Mr J O'Grady AVLE (Val. And Econ.)  
 Qualified Valuer, of  
 First Pacific Davies (Vic) Pty. Limited

Mr M Smallhorn FVLE (Val. And Econ.)  
 Registered Valuer, of  
 JLW Advisory Corporate Property Pty. Limited

Mr P Donovan AVLE (Val.)  
 Registered Valuer, of  
 Landsbury's (Aust) Pty. Limited

Mr J Booth AVLE (Val.)  
 Registered Valuer, of  
 Richard Ellis (NSW) Pty. Limited

Mr R Montague AVLE (Val.) and  
 Mr I Blackall FVLE Registered Valuers,  
 of Chesterton International

**HIH CASUALTY AND GENERAL INSURANCE LIMITED**  
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<b>13. PLANT AND EQUIPMENT :</b>	<u>30.6.99</u> \$000	<u>31.12.97</u> \$000
Leasehold improvements, at cost	41 217	24 011
less accumulated depreciation	(7 850)	(6 939)
	<hr/> 33 367	<hr/> 17 072
	<hr/>	<hr/>
Plant and equipment, at cost	90 983	50 587
less accumulated depreciation	(37 107)	(18 904)
	<hr/> 53 876	<hr/> 31 683
	<hr/>	<hr/>
Total plant and equipment	<hr/> 87 243	<hr/> 48 755
	<hr/>	<hr/>
<b>14. INTANGIBLES (Non-current) :</b>		
Goodwill, at cost	10 666	10 666
less accumulated amortisation	(10 552)	(9 224)
	<hr/> 114	<hr/> 1 442
	<hr/>	<hr/>
<b>15. OTHER ASSETS (Non-current) :</b>		
Amounts owing by related bodies corporate	38 362	44 196
Prepayments and deferred expenditure	6 527	21 923
Future income tax benefit		
- attributable to timing differences	25 842	-
	<hr/> 70 731	<hr/> 66 119
	<hr/>	<hr/>
<b>16. CREDITORS AND BORROWINGS (Current) :</b>		
Trade creditors	2 924	5 362
Amounts payable to or on behalf of reinsurers	163 696	110 264
	<hr/> 166 620	<hr/> 115 626
	<hr/>	<hr/>

**HIH CASUALTY AND GENERAL INSURANCE LIMITED**  
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<b>17. PROVISIONS (Current) :</b>	<u>30.6.99</u>	<u>31.12.97</u>
	\$000	\$000
Income tax	-	1 106
Employee entitlements	18 505	11 088
Other	3 264	4 410
Total current provisions	<u>21 769</u>	<u>16 604</u>

**18. OUTSTANDING CLAIMS :**

**(i) Outstanding Claims Details**

Expected future claim payments (undiscounted)	1 317 991	1 311 302
Discount to present value	(153 577)	(261 787)
Liability for outstanding claims	<u>1 164 414</u>	<u>1 049 515</u>
Current	429 087	399 894
Non-current	735 327	649 621
	<u>1 164 414</u>	<u>1 049 515</u>

- (a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 2.9 years (31 December 1997: 2.9 years).
- (b) The following average inflation rates and discount rates were used in measuring the outstanding claims liability for the succeeding and subsequent periods:

	<u>30.6.99</u>	<u>31.12.97</u>
	%	%
Inflation rate		
- Australia	5.0	4.3
- United Kingdom	4.0	4.0
Discount rate		
- Australia	6.2	6.0
- United Kingdom	5.0	7.5

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**18. OUTSTANDING CLAIMS (continued) :**

**(ii) Net Claims Incurred**

Current period claims relate to risks borne in the current financial period. Prior period claims relate to a reassessment of the risks borne in all previous financial periods.

	<u>30.6.99</u>			<u>31.12.97</u>		
	Current Year \$000	Prior Years \$000	Total \$000	Current Year \$000	Prior Years \$000	Total \$000
<b>Direct</b>						
Gross claims incurred - undiscounted	766 978	41 568	808 546	556 848	20 615	577 463
Reinsurance recoveries - undiscounted	(232 046)	(11 611)	(243 657)	(214 526)	(5 815)	(220 341)
Net claims incurred - undiscounted	534 932	29 957	564 889	342 322	14 800	357 122
Discount - Gross claims incurred	(109 070)	99 095	(9 975)	(60 556)	25 140	(35 416)
Discount - Reinsurance recoveries	23 333	(30 603)	(7 270)	11 909	(3 870)	8 039
Net discount rate adjustment	-	3 790	3 790	-	23 602	23 602
Net discount movement	(85 737)	72 282	(13 455)	(48 647)	44 872	(3 775)
Total net direct claims incurred	<u>449 195</u>	<u>102 239</u>	<u>551 434</u>	<u>293 675</u>	<u>59 672</u>	<u>353 347</u>
				<u>30.6.99</u>	<u>31.12.97</u>	
				\$000	\$000	
<b>Total</b>						
Direct				551 434	353 347	
Inwards reinsurance				133 100	102 672	
				<u>684 534</u>	<u>456 019</u>	
<b>Net Claims Incurred is reconciled to Note 2 as:</b>						
Direct				547 644	329 745	
Inwards reinsurance				133 100	102 672	
				<u>680 744</u>	<u>432 417</u>	
Net discount rate adjustment				3 790	23 602	
Total net claims incurred				<u>684 534</u>	<u>456 019</u>	

**Explanation of prior period claims incurred**

A significant portion of the prior periods claims incurred relates to movement in the discount component of claims expense. This movement is attributable to a natural reduction in the discount as claims move one period closer to maturity as well as the impact of the net discount rate adjustment due to lower interest rates used in the discount calculation. This movement in discount is offset by increased values of investment assets supporting the claims reserves.

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<b>19. OTHER LIABILITIES (Current) :</b>	<u>30.6.99</u>	<u>31.12.97</u>
	\$000	\$000
Other creditors and accruals	24 423	26 600
	<hr/>	<hr/>
<b>20. PROVISIONS (Non-current) :</b>		
Employee entitlements	3 898	3 228
Deferred income tax liability	-	1 504
Total non-current provisions	<hr/> 3 898	<hr/> 4 732
	<hr/>	<hr/>
<b>21. SHARE CAPITAL :</b>		
Issued capital		
439 225 415 ordinary shares - (1997: 390 810 661)	439 225	390 811
Total issued capital	<hr/> 439 225	<hr/> 390 811
	<hr/>	<hr/>
Movements in issued capital during the period:	<u>Number</u>	<u>Number</u>
Balance at 31 December 1997	390 810 661	344 256 200
Shares issued under Dividend Reinvestment Plan	48 414 754	46 554 461
Balance at 30 June 1999	<hr/> 439 225 415	<hr/> 390 810 661
	<hr/>	<hr/>

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<b>22. RESERVES :</b>	<b><u>30.6.99</u></b>	<b><u>31.12.97</u></b>
	<b>\$000</b>	<b>\$000</b>

Foreign currency translation

Opening balance	4 297	(269)
Translation adjustments	12 509	4 566
Closing balance	<u>16 806</u>	<u>4 297</u>

**23. SUBORDINATED DEBT :**

Subordinated debt (refer Note 28(f) and (g))	92 856	92 856
--	--------	--------

**24. COMMITMENTS :**

Operating lease expenditure contracted for  
is payable as follows:

Not later than one period	14 236	12 061
Later than one period but not later than two periods	11 775	11 654
Later than two periods but not later than five periods	49 355	35 317
Later than five periods	54 446	24 533
	<u>129 812</u>	<u>83 565</u>



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**25. CONTROLLED ENTITIES :**

The following were controlled entities at 30 June 1999. All controlled entities are 100 percent owned. None of the controlled entities carry on any business outside Australia. The periods of all controlled entities are the same as that of the company.

<u>Name of Entity and Country of Incorporation</u>	<u>Book value of Investment</u>	
	<u>30.6.99</u> \$000	<u>31.12.97</u> \$000
HIH Investments China Limited, Cayman Islands	-	21 940
HIH (Travel) Pty. Limited (formerly HIH Winterthur (Travel) Pty. Limited), Australia	50	50
HIH (NSW) Pty. Limited (formerly HIH Winterthur (NSW) Pty. Limited), Australia	21 421	17 261
HIH Overseas Holdings Limited (formerly HIH Winterthur Overseas Holdings Limited), Australia	-	65 680
Innes-Owens Pty. Limited, Australia	5 863	1 875
HIH Workers Compensation (Vic) Pty. Limited (formerly Heath Workers Compensation (Vic) Pty. Limited), Australia	19	-
CIC Insurance Limited, Australia	197 724	179 700
CIC General Insurance Holdings Limited, Australia	127 171	120 264
HIH (Real Estate) Pty. Limited (formerly HIH Winterthur (Real Estate) Pty. Limited), Australia	-	50
HIH Marine Insurance Services AB (Sweden)	20	-
Marine and Aviation Management Services Limited, Australia	2 384	579
Utilities Insurance Underwriting Agencies Pty. Limited, Australia	4 177	2 084
Colonial Mutual General Insurance Company Limited, Australia	8 234	3 491
	<hr/> 367 063	<hr/> 412 974
Less provision for diminution in value	(16 269)	(334)
	<hr/> 350 794	<hr/> 412 640

**HIH CASUALTY AND GENERAL INSURANCE LIMITED**  
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**26. DIRECTORS' REMUNERATION :**

<u>1.1.98 to</u>	<u>1.1.97 to</u>
<u>30.6.99</u>	<u>31.12.97</u>
\$000	\$000

The aggregate remuneration received, or due and receivable, by the directors of the entity from the entity and related bodies corporate was:

4 435	2 969
-------	-------

The number of directors who are also directors of the ultimate parent entity whose total income falls within the following bands was:

<u>1.1.98 to</u>	<u>1.1.97 to</u>
<u>30.6.99</u>	<u>31.12.97</u>
<u>Number</u>	<u>Number</u>

\$ 270 000 - \$ 279 999  
 \$ 390 000 - \$ 399 999  
 \$ 500 000 - \$ 509 999  
 \$ 610 000 - \$ 619 999  
 \$ 790 000 - \$ 799 999  
 \$ 830 000 - \$ 839 999  
 \$ 910 000 - \$ 919 999  
 \$ 980 000 - \$ 989 999  
 \$ 1 460 000 - \$ 1 469 999

1	-
-	1
-	1
-	2
1	-
-	1
1	-
1	-
1	-

**27. AUDITORS' REMUNERATION :**

<u>1.1.98 to</u>	<u>1.1.97 to</u>
<u>30.6.99</u>	<u>31.12.97</u>
\$000	\$000

Total of all remuneration received, or due and receivable, by the auditors of the entity from the entity or any related bodies corporate, in connection with:

- auditing the financial statements
- providing other services

292	289
404	320

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**28. RELATED PARTY TRANSACTIONS :**

- a. The names of each person holding the position of director of the entity at any time during the past two financial years are R R Williams AM, G O Sturesteps, T K Cassidy, D Fodera, R A Eade, B W Ellis, W F Kane, M W Payne and J E Radley.
- b. The ultimate controlling entity of the company in Australia is HIH Insurance Limited.
- c. During the period the entity received/(paid) management fees from related bodies corporate and controlled entities, with transactions being conducted on normal commercial terms:

<u>Identities of related parties</u>	<u>Nature of ownership</u>	<u>Transaction Type</u>	<u>Received at 30.6.99 \$000</u>	<u>Received at 31.12.97 \$000</u>
HIH Underwriting and Agency Services Limited	Related body corporate	Management services/debt collection	407	1 084
HIH Underwriting and Insurance (Australia) Pty. Ltd	Related body corporate	Management Services	268	-
Ready Plan Asia Pacific Pty. Limited	Related body corporate	Management Services	13 715	8 374
CIC Insurance Limited	Controlled entity	Management Services	110 345	104 380
HIH (Real Estate) Pty. Limited	Controlled entity	Management Services	806	486
HIH Workers Compensation (NSW) Pty. Limited	Controlled entity	Management Services	19 537	13 798
HIH Premium Funding Pty. Limited	Controlled entity	Management Services	4 777	1 682
Utilities Insurance Underwriting Agencies Pty. Limited	Controlled entity	Management Services	(387)	111
HIH European Holdings Company Limited	Controlled entity	Management Services	(3 793)	-
HIH Workers Compensation (Vic) Limited	Controlled entity	Management Services	18 633	13 179
HIH Workers Compensation (SA) Limited	Controlled entity	Management Services	4 077	3 415
Colonial Mutual General Insurance Company Limited	Controlled entity	Management Services	3 500	8 082

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**28. RELATED PARTY TRANSACTIONS (continued) :**

d. The following kinds of transactions between the entity and related parties remained outstanding at the end of the period:

- loans advanced and repayments received on intercompany accounts; and
- balances resulting from normal trading activities between the entity and its controlled entities.

Details are as follows:

<u>Identities of related parties</u>	<u>Nature of ownership</u>	<u>Ownership interest</u>	<u>Receivable/ (Payable) at 30.6.99 \$000</u>	<u>Receivable/ (Payable) at 31.12.97 \$000</u>
HIH Insurance Limited	Related body corporate	Nil	14 946	271
HIH Underwriting and Agency Services Limited and its controlled entities	Related body corporate	Nil	(12 028)	31 806
Ready Plan Asia Pacific Pty. Limited	Related body corporate	Nil	(2 343)	(4 609)
FAI Insurances Limited and a controlled entity	Related body corporate	Nil	14 545	-
HIH Premium Funding Pty. Limited	Controlled entity	100%	(40 236)	(6 752)
HIH Overseas Holdings Limited	Controlled entity	100%	154 486	91 316
HIH (Real Estate) Pty. Limited	Controlled entity	100%	(66)	(183)
HIH (N.S.W.) Pty. Limited	Controlled entity	100%	500	500
Innes-Owens Pty. Limited	Controlled entity	100%	4 014	7 397
HIH Workers' Compensation (N.S.W.) Pty. Limited	Controlled entity	100%	(5 022)	(2 597)
CIC Insurance Limited and its controlled entities	Controlled entity	100%	(22 658)	64 957
Rehabilitation and Preventive Services Pty. Limited	Controlled entity	100%	(113)	200
CIC General Insurance Holdings Limited	Controlled entity	100%	3 483	(36 566)
Marine and Aviation Management Services Limited	Controlled entity	100%	2 308	2 333
Utilities Insurance Underwriting Agencies Pty. Limited	Controlled entity	100%	(3 795)	(324)
HIH Holdings (Asia) Limited and its controlled entities	Controlled entity	100%	2 926	3 394
HIH Interamericana Aseguradora de Riesgos del Trabajo S.A.	Controlled entity	65%	417	500
Riskcorp Australia Pty. Limited	Controlled entity	100%	570	381
HIH Insurance Holdings (NZ) Limited and a controlled entity	Controlled entity	100%	(32 629)	(3 700)
Insurance Holdings of Hawaii Limited	Controlled entity	100%	603	5 554
HIH European Holdings Company Limited and its controlled entities	Controlled entity	100%	7 533	4 264
HIH Investments China Limited	Controlled entity	100%	7 227	2 876
HIH Holdings (US) Inc and its controlled entities	Controlled entity	100%	1 998	3 330
HIH America Compensation Holdings Inc and a controlled entity	Controlled entity	100%	5 817	1 395
Colonial Mutual General Insurance Company Limited and a controlled entity	Controlled entity	100%	(10 019)	(15 430)
HIH Casualty and General Insurance (Labuan) Limited	Controlled entity	100%	3 543	901

28. RELATED PARTY TRANSACTIONS (continued) :

- e. During the period the entity received dividends from the following controlled entity:

<u>Controlled entity</u>	<u>Dividends received</u> \$000
CIC Insurance Limited and its controlled entities	8 800
CIC General Insurance Holdings Limited	47 000
Colonial Mutual General Insurance Company Limited	3 700
Utilities Insurance Underwriting Agencies Pty Limited	1 700
	<hr/> 61 200

- f. On 21 December 1995 the company borrowed an amount of \$29 791 310 from a related party, HIH Investment Holdings Limited. This loan is subordinated to rank after the claims of all creditors of the company but equally with claims of ordinary shareholders in the winding up, management or administration of the company. The term of the loan is for a period of five periods from 21 December 1995 to 20 December 2000. On the expiration of the term, the company must repay the loan in full to HIH Investment Holdings Limited, subject to the prior written approval of the Australian Prudential Regulatory Authority. The loan is interest free.

- g. On 25 June 1996, the entity borrowed an amount of \$44 523 597 from a related party, HIH Underwriting and Agency Services Limited. This loan is subordinated to rank after the claims of all creditors of the company but equally with claims of ordinary shareholders in the winding up, management or administration of the company. The term of the loan is for a period of five periods from 25 June 1996 to 12 September 2001.

On 12 September 1996, the entity borrowed a further amount of \$18 541 370 from HIH Underwriting and Agency Services Limited under the same arrangement. The term of the loan is for a period of five periods from 12 September 1996 to 12 September 2001.

On the expiration of the terms, the company must repay the loans in full to HIH Underwriting and Agency Services Limited, subject to the prior written approval of the Australian Prudential Regulatory Authority. The loans are interest free.

- h. Certain directors entered into the following transactions with the company on terms and conditions that are no more favourable than those available to other employees, reinsurers and/or customers:
- entered into general insurance contracts with the company
  - the company entered into reinsurance transactions with Lloyd's of London syndicates of which those directors were Names.

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**29. SEGMENT INFORMATION :**

Contributions to revenue, operating profit/(loss) before income tax and total assets held during the period were:

	<u>Revenue</u>		<u>Operating profit/(loss)</u> <u>before income tax</u>		<u>Total assets</u>	
	1.1.98 to 30.6.99 \$000	1.1.97 to 31.12.97 \$000	1.1.98 to 30.6.99 \$000	1.1.97 to 31.12.97 \$000	30.6.99 \$000	31.12.97 \$000
By Activity						
- Underwriting	<u>1 578 610</u>	<u>1 027 757</u>	<u>(60 376)</u>	<u>49 168</u>	<u>2 256 545</u>	<u>2 095 240</u>
By Geographical Area						
- Australia	977 790	658 329	5 623	45 257	1 890 235	1 709 734
- United Kingdom	467 442	266 711	(29 624)	7 689	337 225	350 546
- U.S.A.	59 516	68 178	(30 740)	(3 757)	15 405	28 961
- Asia	73 862	34 539	(5 635)	(21)	13 680	5 999
	<u>1 578 610</u>	<u>1 027 757</u>	<u>(60 376)</u>	<u>49 168</u>	<u>2 256 545</u>	<u>2 095 240</u>

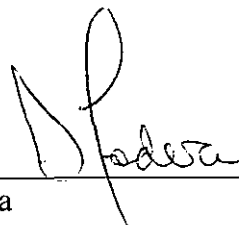
**DIRECTORS' DECLARATION**

The directors declare that:

- (a) the financial statements and associated notes comply with the accounting standards and Urgent Issues Group Consensus Views;
- (b) the financial statements and notes give a true and fair view of the financial position as at 30 June 1999 and performance of the company for the eighteen months then ended; and
- (c) in the directors' opinion:
  - (i) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
  - (ii) the financial statements and notes are in accordance with the Corporations Law, including sections 296 and 297.

Made in accordance with a resolution of the directors.

  
\_\_\_\_\_  
T K Cassidy Director

  
\_\_\_\_\_  
D Fodera Director

Sydney, 15 November 1999

# ARTHUR ANDERSEN

INDEPENDENT AUDIT REPORT

To the Members of HIH Casualty and General Insurance Limited:

## Scope

We have audited the special purpose financial report of HIH Casualty and General Insurance Limited for the financial period ended 30 June 1999. The company's directors are responsible for the financial report and have determined that the accounting policies used and described in Note 1 to the financial statements are appropriate to meet the requirements of the Corporations Law and the needs of the members. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. No opinion is expressed as to whether the accounting policies used, and described in Note 1, are appropriate to the needs of the members.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting requirements under the Corporations Law. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates, to any person other than the members, or for any purpose other than that for which it has been prepared.


Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the accounting policies described in Note 1 to the financial statements. These policies do not require the application of all Accounting Standards and other mandatory professional reporting requirements.

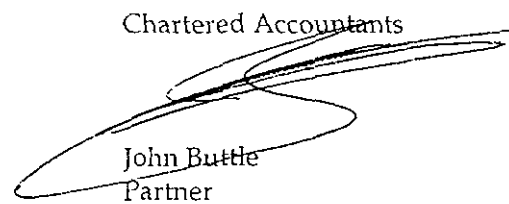
The audit opinion expressed in this report has been formed on the above basis.

## Audit Opinion

In our opinion, the financial report of HIH Casualty and General Insurance Limited is in accordance with:

- (a) the Corporations Law, including:
  - (i) giving a true and fair view, in accordance with the accounting policies described in Note 1 to the financial statements, of the company's financial position as at 30 June 1999 and of its performance for the period ended on that date; and
  - (ii) complying with the applicable Accounting Standards to the extent described in Note 1 to the financial statements and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements to the extent described in Note 1 to the financial report.

  
Arthur Andersen  
Chartered Accountants

  
John Buttle  
Partner

Sydney  
15 November 1999