

HIH CASUALTY

AND GENERAL

INSURANCE LIMITED

ACN 008 482 291

SPECIAL PURPOSE

FINANCIAL REPORT

FOR THE

FINANCIAL YEAR

ENDED

31 DECEMBER 1994



HEATH
INSURANCE

1994 ANNUAL REPORT

DIRECTORS' REPORT

The directors have pleasure in submitting the financial statements of the company for the year ended 31 December 1994 and report as follows:

Directors

The names of the directors in office at the date of this report are:

R R Williams	K W Fitzgerald
G O Sturesteps	W F Kane
T K Cassidy	M W Payne
R A Eade	J E Radley
B W Ellis	

Principal Activities

The principal activity of the company during the year was general insurance underwriting. There were no significant changes in the nature of these activities during the year.

Results

The net loss for the financial year was \$6 539 000 after income tax benefit of \$6 927 000.

Dividends

A dividend of \$12 898 000 was paid by the company during the year.

Review of Operations

The operating loss after income tax includes the net abnormal profit, amounting to \$16 267 000, arising from the dividend received (net of diminution in value of the controlled entity which paid that dividend) out of the profit from the sale of controlled entities engaged in the workers compensation insurance operation in California.

Directors' Benefits

Since the end of the previous financial year, 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.


Rounding of Amounts

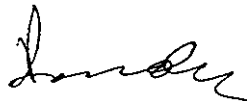
As the company is of a kind referred to in Regulation 3.6.05(6) of the Corporations Regulations, all amounts shown in the financial statements and in the directors' report have been rounded to the nearest thousand dollars in accordance with Section 311 of the Corporations Law and Corporations Regulation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

Unearned Premiums

The company is of a kind referred to in the class order covered by National Companies and Securities Commission release 627 exempting the directors from compliance with the requirements of Clause 19 of Schedule 7 of the Companies Regulations (corresponding to the present Clause 20 of Schedule 5 of the Corporations Regulations) relating to the deduction of unearned premiums from receivables.

Signed in accordance with a resolution of the directors.


T K Cassidy Director


R A Eade Director

Sydney, 30 March 1995

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1994

		1994	1993
	Note	\$000	\$000
Underwriting profit/(loss)	3	7 305	(4 604)
Investment revenue before realised and unrealised gains/(losses) on investments	4	21 725	16 516
Operating loss from other business activities		(2 473)	(2 133)
Operating profit before realised and unrealised gains/(losses) on investments, abnormal item and income tax		26 557	9 779
Realised and unrealised gains/(losses) on investments before income tax	4	(56 290)	40 153
Abnormal item	6	16 267	-
Operating profit/(loss) before income tax	5	(13 466)	49 932
Income tax (expense)/benefit attributable to operating profit	7	6 927	(9 680)
Operating profit/(loss) after income tax attributable to members of the parent entity		(6 539)	40 252
Retained profits at the beginning of the financial year		60 098	28 970
Total available for appropriation		53 559	69 222
Dividends provided for or paid		(12 898)	(9 124)
Retained profits at the end of the financial year		40 661	60 098

The accompanying notes form an integral part of these financial statements

BALANCE SHEET AT 31 DECEMBER 1994

		1994	1993
	Note	\$000	\$000
<i>Current Assets</i>			
Cash		39 435	65 396
Receivables	8	215 967	173 703
Investments	9	179 066	171 923
Reinsurance recoveries receivable	10	52 394	40 443
Deferred acquisition costs		26 588	19 636
Other	11	5 950	2 794
TOTAL CURRENT ASSETS		519 400	473 895
<i>Non-Current Assets</i>			
Investments	12	253 107	209 534
Plant and equipment	13	21 672	16 481
Reinsurance recoveries receivable	10	76 193	70 296
Intangibles	14	4 000	5 000
Other	15	14 490	7 250
TOTAL NON-CURRENT ASSETS		369 462	308 561
TOTAL ASSETS		888 862	782 456
<i>Current Liabilities</i>			
Creditors and borrowings	16	42 659	41 127
Provisions	17	5 886	7 958
Outstanding claims	18	198 588	143 375
Unearned premiums		134 284	92 813
Other	20	5 183	3 665
TOTAL CURRENT LIABILITIES		386 600	288 938
<i>Non-Current Liabilities</i>			
Provisions	21	18 874	20 175
Outstanding claims	18	295 309	268 746
TOTAL NON-CURRENT LIABILITIES		314 183	288 921
TOTAL LIABILITIES		700 783	577 859
NET ASSETS		188 079	204 597
<i>Shareholders' Equity</i>			
Share capital	22	147 418	144 499
Retained profits		40 661	60 098
TOTAL SHAREHOLDERS' EQUITY		188 079	204 597

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 1994

	1994	1993
Note	\$000	\$000
<i>Cash flows from operating activities</i>		
Premiums and fees received	443 390	343 950
Claims paid	(191 438)	(195 329)
Payment to reinsurers, suppliers and employees	(225 853)	(114 536)
Dividends received - non-related bodies corporate	5 232	3 282
Dividends received - related bodies corporate	54 845	-
Interest received	9 922	15 172
Rent received	808	770
Interest paid	(822)	-
Income taxes paid	(7 255)	(3 905)
2(b)	88 829	49 404
<i>Cash flows from investing activities</i>		
Purchase of plant and equipment	(8 642)	(8 968)
Proceeds from sale of plant and equipment	778	1 456
Payments, net of proceeds, for investments	(165 671)	(7 097)
	(173 535)	(14 609)
<i>Cash flows from financing activities</i>		
Proceeds from issue of shares	-	14 620
Dividends paid	(9 979)	-
Repayment of loans from controlled entities	68 724	-
	58 745	14 620
Net increase/(decrease) in cash held	(25 961)	49 415
Cash at the beginning of the financial year	65 396	15 981
Cash at the end of the financial year	2(a) 39 435	65 396

The accompanying notes form an integral part of these financial statements

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.

The financial statements have been prepared in accordance with the requirements of Schedule 5 of the Corporations Regulations, the bases of accounting specified and the disclosure requirements of all applicable accounting standards, with the exception of AASB 1024 "Consolidated Accounts".

(a) Basis of Accounting

The financial statements have been prepared in accordance with historical cost convention and do not take into account changes in either the general purchasing power of the dollar or the prices of specific assets, except for investments, which are stated at net market values (refer Note 1(d)).

All amounts are in Australian dollars.

(b) Premium Revenue and Acquisition Costs

The entity 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.

The provision for unearned premiums is calculated by apportioning written premiums, excluding statutory charges, brokerage and commission paid, on a daily basis over the risk period involved. The provision for unearned premiums comprises unearned premiums as calculated above and unearned commission income applicable to these premiums. The provision is shown net of reinsurance premiums applicable thereto.

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.

Fire service levies received or receivable are included with premiums.

(c) 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 years.

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 years.

(d) 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 determined using a last sale price basis. Market values for investments not traded on prescribed stock exchanges are at independent valuation or at directors' valuation on the basis of current economic conditions and the latest available information on these investments. Investment in controlled entities is recorded at directors' valuation based on the net asset value of the controlled entities.

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

(e) 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.

(f) 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 year period during which the benefits are expected to arise. The unamortised goodwill is reviewed annually at balance date.

(g) Income Tax

The entity follows the policy of tax effect accounting. The income tax per the profit and loss account 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.

(h) 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 profit and loss from operations.

(i) Depreciation

Depreciation and/or amortisation is provided for plant and equipment using the straight line method. **Depreciation** and/or amortisation rates are based upon the estimated useful lives of the assets.

2. 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 financial year as shown in the statement of cash flows is reconciled to the related item in the balance sheet as follows:

	1994	1993
	\$000	\$000
Cash at bank	39 435	65 396
	39 435	65 396

(b) Reconciliation of Net Cash provided by Operating Activities to Operating Profit/(Loss) After Income Tax

Operating profit/(loss) after income tax	(6 539)	40 252
Depreciation and amortisation	4 541	3 143
Net (profit)/loss from sale of plant and equipment	(72)	139
Changes in net market value of investments		
- unrealised	34 736	(32 302)
- realised	21 554	(7 851)
Diminution in value of controlled entity	40 733	-
Changes in assets and liabilities		
Decrease/(Increase)		
- Debtors	(90 952)	(6 934)
- Reinsurance recoveries	(17 848)	(18 738)
- Operating assets	(20 115)	(6 694)
Increase/(Decrease)		
- Creditors	46 315	11 324
- Outstanding claims	81 776	57 549
- Income and deferred tax provisions	(5 300)	9 516
	88 829	49 404

3 UNDERWRITING PROFIT

	1994	1993
	\$000	\$000
Gross premium earned	431 953	315 797
Outward reinsurance expense	(110 356)	(105 615)
Net premium earned	321 597	210 182
Claims expense		
- Direct	(262 278)	(237 239)
- Inward reinsurance	(27 716)	(26 065)
	(289 994)	(263 304)
Reinsurance recoveries received	56 053	101 095
	(233 941)	(162 209)
Acquisition costs	(42 900)	(28 788)
Other underwriting expenses	(37 451)	(23 789)
Underwriting profit/(loss)	7 305	(4 604)

4 OPERATING REVENUE

Gross premium earned		
- Direct	369 644	272 708
- Inward reinsurance	62 309	43 089
	431 953	315 797
Reinsurance recoveries revenue	56 053	101 095
Investment revenue		
- Dividends from non-related bodies corporate	4 232	3 282
- Interest from non-related bodies corporate	16 685	12 466
- Rentals	808	768
	21 725	16 516
Changes in net market value of investments		
- realised	(21 554)	7 851
- unrealised	(23 959)	15 428
Changes in net market value of controlled entities, unrealised	(10 777)	16 874
	(56 290)	40 153
Revenue from other business activities	13 817	7 134
Proceeds from sale of non-current assets	778	1 456
Dividends received from sale of controlled entities (included in Note 6 Abnormal Item)	57 000	-
Total revenue	525 036	482 151

5 OPERATING PROFIT/(LOSS)

1994 1993

\$000 \$000

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

(i) Charging as expense

Bad debts written off	73	-
Operating lease rentals	3 865	3 919
Net loss from sale of non-current assets	-	139
Depreciation of plant and equipment	3 541	2 143
Amortisation of goodwill	1 000	1 000
Transfers to employee entitlements provision	1 029	94
Interest paid		
- non-related bodies corporate	987	-
- related bodies corporate	1 423	-

(ii) Crediting as income

Profit on sale of non-current assets	72	-
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6 ABNORMAL ITEMS

Dividend received out of profit arising from sale of controlled entities	57 000	-
Diminution in value of controlled entity after payment of abovementioned dividend	(40 733)	-
	16 267	-
Applicable income tax	-	-
	16 267	-

7. INCOME TAX

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

	1994	1993
	\$000	\$000
Operating profit/(loss)	(13 466)	49 932
Prima facie tax thereon	4 443	(16 478)
Tax effect of permanent and other differences		
- non-deductible net of non-assessable items	5 937	-
- revaluation of investment in controlled entities	(3 556)	5 568
Amount over provided in prior years	103	1 230
Total income tax attributable to operating profit/(loss)	6 927	(9 680)
This amount is attributable to:		
- the current period	(3 318)	(6 693)
- other periods	10 245	(2 987)
	6 927	(9 680)

8. RECEIVABLES (CURRENT)

Trade debtors	32 869	25 035
Less provision for doubtful debts	(1 959)	(1 959)
Trade debtors, net	30 910	23 076
Amounts owing by related bodies corporate	62 983	51 360
Amounts due from reinsurers, other insurers and statutory bodies	21 227	32 775
Accrued premiums	84 907	62 281
Accrued interest, commission and other income	8 087	1 844
Sundry debtors	7 853	2 367
Total current receivables	215 967	173 703

9 INVESTMENTS (CURRENT)

	1994	1993
	\$000	\$000
<i>At Directors' valuation</i>		
Debentures, unlisted	4 929	-
Short term deposits	20 873	7 277
Loans - secured	5 767	15 717
- unsecured	4 806	2 642
	36 375	25 636
<i>At net market value</i>		
Shares in entities, listed	142 691	146 287
Total current investments	179 066	171 923

10 REINSURANCE RECOVERIES RECEIVABLE

Expected future recoveries on outstanding claims (undiscounted)	154 100	129 969
Discount to present value	(25 513)	(19 230)
Reinsurance recoveries receivable	128 587	110 739
Current	52 394	40 443
Non-current	76 193	70 296
	128 587	110 739

11 OTHER ASSETS (CURRENT)

Prepayments and deferred expenses	5 950	2 794
Total current other assets	5 950	2 794

12 INVESTMENTS (NON-CURRENT)

	1994	1993
	\$000	\$000
<i>At Directors' valuation</i>		
Government and semi-government stocks and bonds, unlisted	156 487	75 750
Debentures, unlisted	15 726	4 687
Shares in controlled entities (refer Note 24.)	6 180	57 652
Loans - secured	10 249	27 062
- unsecured	29 760	4 163
	218 402	169 314
<i>At market value</i>		
Investment properties	510	1 090
	510	1 090
<i>At Directors' valuation as at 31.12.1994*</i>		
Investment properties	34 195	39 130
Total non-current investments	253 107	209 534

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

Mr. R D M Gee AVLE (VAL)
Registered Valuer, of
Chesterton International (Melb) Pty Ltd

Mr. J B Booth AVLE (VAL)
Registered Valuer, of
Richard Ellis (New South Wales) Pty Limited

13. PLANT AND EQUIPMENT

	1994	1993
	\$000	\$000
Leasehold improvements, at cost	8 658	5 703
less accumulated depreciation	(2 148)	(1 881)
	6 510	3 822
Plant and equipment, at cost	24 889	20 106
less accumulated depreciation	(9 727)	(7 447)
	15 162	12 659
Total plant and equipment	21 672	16 481

14. INTANGIBLES (NON-CURRENT)

Goodwill, at cost	10 000	10 000
less provision for amortisation	(6 000)	(5 000)
Total intangibles	4 000	5 000

15. OTHER ASSETS (NON-CURRENT)

Future income tax benefit - attributable to timing differences	14 490	7 250
Total non-current other assets	14 490	7 250

16. CREDITORS AND BORROWINGS (CURRENT)

Trade creditors	2 255	16 610
Amounts payable to statutory bodies	3 984	4 677
Amounts payable to or on behalf of reinsurers	36 420	19 840
Total current creditors and borrowings	42 659	41 127

17 PROVISIONS (CURRENT)

	1994	1993
	\$000	\$000
Income tax	473	4 339
Employee entitlements	3 897	3 105
Other	1 516	514
Total current provisions	5 886	7 958

18 OUTSTANDING CLAIMS

Expected future claim payments (undiscounted)	592 949	487 092
Discount to present value	(99 052)	(74 971)
Liability for outstanding claims	493 897	412 121
Current	198 588	143 375
Non-current	295 309	268 746
	493 897	412 121

- (i) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 2.7 years (1993: 3.4 years).
- (ii) The following average inflation rates and discount rates were used in measuring the outstanding claims liability for the succeeding and subsequent years:

	%	%
Inflation rate		
- Australia	5.5 - 6.5	5.0
- United Kingdom	5.5 - 6.5	-
Discount rate		
- Australia	8.5 - 9.5	7.0
- United Kingdom	9.0	-

19. NET CLAIMS DEVELOPMENT TABLE

This table presents the liability for outstanding claims net of reinsurance and other recoveries receivable, on the basis of the amounts reported in the balance sheets of the last six financial years, and the change to those net amounts from remeasuring as at the current balance date the liability for outstanding claims net of reinsurance and other recoveries receivable as at the end of each of those six years.

	1994 \$000	1993 \$000	1992 \$000	1991 \$000	1990 \$000	1989 \$000
Reported net liability	365 310	301 382	262 571	260 808	210 261	166 919
Cumulative under/(over) estimation after discounting						
1994		23 302	(1 243)	(2 350)	(20 334)	(31 712)
1993		-	(11 965)	125	(10 131)	(31 737)

20. OTHER LIABILITIES (CURRENT)

	1994 \$000	1993 \$000
Other creditors and accruals	5 183	3 665

21. PROVISIONS (NON-CURRENT)

Employee entitlements	1 026	893
Deferred income tax liability	17 848	19 282
Total non-current provisions	18 874	20 175

22 SHARE CAPITAL

	1994	1993
	\$000	\$000
Authorised capital		
- 199 800 000 ordinary shares of \$1 each	199 800	199 800
- 200 000 8% redeemable cumulative preference shares of \$1 each	200	200
Total authorised capital	200 000	200 000
Issued and paid up capital		
- 147 417 642 ordinary shares of \$1 each, fully paid	147 418	144 499
Total issued capital	147 418	144 499

23 COMMITMENTS

Operating lease expenditure contracted for is payable as follows:

Not later than one year	3 401	2 263
Later than one year but not later than two years	9 792	4 180
Later than two years but not later than five years	11 186	5 185
Later than five years	34 121	15 385
	58 500	27 013

24 CONTROLLED ENTITIES

- (a) The following were controlled entities at 31 December 1994. All controlled entities are 100% owned. None of the controlled entities carry on any business outside Australia. The financial years of all controlled entities are the same as that of the ultimate parent entity.

<i>Name of Controlled Entity and Country of Incorporation</i>	BOOK VALUE OF INVESTMENT	
	1994	1993
	\$000	\$000
C.E. Heath Real Estate Pty. Limited, Australia	-	4
C.E. Heath Corporate Services Pty. Ltd., Australia	50	50
C.E. Heath Workers' Compensation (N.S.W.) Pty. Limited, Australia	500	500
C.E. Heath Overseas Holdings Limited, Australia	-	50 775
Innes-Owens Pty. Limited, Australia	4 353	4 361
Heath Workers' Compensation (Vic) Pty. Limited, Australia	2 000	2 000
HIH Premium Funding Pty. Limited	-	-
HIH Australia Holdings Pty. Limited	-	-
	6 903	57 690
<i>Less provision for diminution in value</i>	(723)	(38)
	6 180	57 652

CONTROLLED ENTITIES (CONT)

(b) The following controlled entities were acquired during the financial year:

<i>Name of entity and date acquired</i>	PROPORTION OF SHARES ACQUIRED	CONSIDERATION PAID	FAIR VALUE OF TANGIBLE ASSETS AT TIME OF ACQUISITION
	%	\$000	\$000
HIH Premium Funding Pty. Limited (3 May 1994)	100	-	-
HIH Australia Holdings Pty. Limited (1 December 1994)	100	-	-

(c) On 1 December 1994, HIH Casualty and General Insurance Limited disposed of its 100% interest in the following entities to HIH Australia Holdings Pty Limited. No profit or loss arose from the disposal of these controlled entities as they were sold for their net asset values which amounted to \$nil at the date of disposal.

HIH Casualty and General (Professional Liability) Pty. Limited
 HIH Casualty and General (Marine) Pty. Limited
 C.E. Heath Casualty and General (Liability) Pty. Limited
 C.E. Heath Casualty and General (Disability) Pty. Limited
 C.E. Heath Casualty and General (Special Risks) Pty. Limited
 C.E. Heath Casualty and General (Workers' Compensation) Pty. Limited
 C.E. Heath Casualty and General (Property and Commercial) Pty. Limited

25 DIRECTORS' REMUNERATION

1994	1993
\$000	\$000

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

1 500	1 359
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The number of directors who are also directors of the ultimate parent entity whose total income falls within the following bands was:

1994	1993
Number	Number

\$ 110 000 - \$ 119 999
 \$ 140 000 - \$ 149 999
 \$ 360 000 - \$ 369 999
 \$ 370 000 - \$ 379 999
 \$ 400 000 - \$ 409 999
 \$ 500 000 - \$ 509 999
 \$ 540 000 - \$ 549 999

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

Relief provided by Australian Securities Commission Class Order 94/1529 has been applied in the disclosure of director's remuneration and retirement benefits.

26 AUDITORS' REMUNERATION

1994	1993
\$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

335	307
316	600

27. RELATED PARTY TRANSACTIONS

- (a) The names of each person holding the position of director of the entity at any time during the financial year are:
R R Williams, G O Sturesteps, T K Cassidy, R A Eade, B W Ellis, K W Fitzgerald, W F Kane, M W Payne and J E Radley.
- (b) The ultimate parent entity is C.E. Heath International Holdings Limited.
- (c) During the year the entity received a fee of \$478 000 (1993: \$2 823 000) from C.E. Heath Underwriting and Agency Services Limited for the provision of management and debt collection services. This fee included a reimbursement of expenses incurred amounting to \$478 000 (1993: \$2 909 000).
- (d) The entity provides funding to cover the working capital and investment requirements of certain controlled entities and related bodies corporate on an interest free basis. The repayment dates of these loans are subject to mutual agreement between the entity and the individual borrower. Details are as follows:

	NATURE OF OWNERSHIP	OWNERSHIP INTEREST	RECEIVABLE/ (PAYABLE) AT 31.12.94	RECEIVABLE AT 31.12.93
<i>Identities of related parties</i>			<i>\$000</i>	<i>\$000</i>
Innes-Owens Pty. Limited	Controlled entity	100%	4 066	3 996
C.E. Heath Overseas Holdings Limited	Controlled entity	100%	23 968	22 559
C.E. Heath Underwriting and Agency Services Limited	Related body corporate	Nil	32 202	22 092
C.E. Heath Real Estate Pty Limited	Related body corporate	Nil	4	-
Ready Plan Australia Pty. Limited	Related body corporate	Nil	1 160	-
HIH (UK) Limited	Related body corporate	Nil	(1 450)	-
C.E. Heath Underwriting and Agency Services Asia Limited	Related body corporate	Nil	2 259	911
Asia Area Reinsurance Company Limited	Related body corporate	Nil	774	1 802

- (e) During the year a related body corporate, C.E. Heath Underwriting and Agency Services Limited, purchased C.E. Heath & Co (Australia) Pty Limited and its controlled entities from C.E. Heath PLC, a substantial shareholder of the ultimate parent entity. On 30 September 1994 C.E. Heath Underwriting and Insurance (Australia) Pty. Limited (a controlled entity of C.E. Heath & Co (Australia) Pty Limited) entered into an agreement with C.E. Heath PLC, which caps C.E. Heath PLC's obligation to indemnify C.E. Heath Underwriting and Insurance (Australia) Pty. Limited for losses up to \$29 480 000 in respect of certain inwards reinsurance treaties.

Legal proceedings have been started in Sydney for the recovery of losses arising from the inwards reinsurance treaties noted above against the principal producers of this business. The beneficiaries of any proceeds from these proceedings will be the company and C.E. Heath PLC. Accordingly the company has agreed with C.E. Heath PLC that the balance owing by C.E. Heath PLC on the date of the purchase referred to above, plus any additional advances made, will be repaid once the legal proceedings have concluded. The balance owing by C.E. Heath PLC at 31 December 1994 amounted to \$28 815 000 (1993: \$4 163 000). A commercial rate of interest has been levied on the outstanding balance as from 1 July 1994. The amount of interest paid and payable by C.E. Heath PLC to the company for the year was \$824 000 (1993: nil).

- (f) 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:
- purchased general insurance cover from the company
 - the company entered into reinsurance transactions with Lloyd's of London syndicates of which those directors were Names.

28. CONTINGENT LIABILITY

Under recent amendments to the New South Wales Fire Brigades legislation, general insurers may be subject to duplicate assessments relative to the six months ended 31 December 1993. The Minister for Police and Emergency Services has written to the Insurance Council of Australia advising that the duplicate assessment is unintentional and rectification of the problem would occur. No provision has been made in the accounts for this contingent liability on this basis.

Amending legislation is now before the State Parliament to overcome this anomaly. The company may be liable to an estimated additional contribution of \$1 500 000 if the amending legislation is rejected.

29 SEGMENT INFORMATION

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

	REVENUE	
	1994	1993
	\$000	\$000
By Activity		
- Underwriting	525 036	482 151
By Geographical Area		
- Australia	494 917	468 981
- United Kingdom	30 119	13 170
	525 036	482 151

	OPERATING PROFIT/(LOSS) BEFORE INCOME TAX	
	1994	1993
	\$000	\$000
By Activity		
- Underwriting	(13 466)	49 932
By Geographical Area		
- Australia	(14 958)	50 834
- United Kingdom	1 492	(902)
	(13 466)	49 932

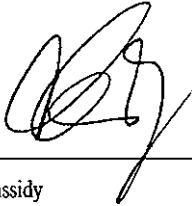
	TOTAL ASSETS	
	1994	1993
	\$000	\$000
By Activity		
- Underwriting	888 862	782 456
By Geographical Area		
- Australia	837 578	779 507
- United Kingdom	51 284	2 949
	888 862	782 456

STATEMENT BY DIRECTORS

In the opinion of the Board of Directors of HIH CASUALTY AND GENERAL INSURANCE LIMITED, the accompanying balance sheet is drawn up so as to give a true and fair view of the state of affairs of the entity at 31 December 1994, and the related profit and loss account is drawn up so as to give a true and fair view of the loss of the entity for the year then ended. At the date of this statement there are reasonable grounds to believe that the entity will be able to pay its debts as and when they fall due.

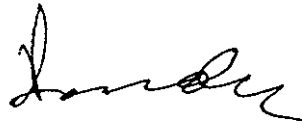
As detailed in Note 1 to the accounts, the entity is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the accounts who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this "special purpose financial report" has been prepared to satisfy the directors' reporting requirements under the Corporations Law.

Signed in accordance with a resolution of the directors.



T K Cassidy

Director



R A Eade

Director

Sydney, 30 March 1995

INDEPENDENT AUDIT REPORT

To the members of
HIH Casualty and General Insurance Limited

Scope

We have audited the attached financial statements, being a special purpose financial report, of HIH Casualty and General Insurance Limited for the year ended 31 December 1994 as set out on pages 2 to 23. The company's directors are responsible for the preparation and presentation of the financial statements and the information they contain, 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 statements in order to express an opinion to the members on their preparation and presentation. 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 statements have been prepared for distribution to members for the purpose of fulfilling the requirements of the Corporations Law. We take no responsibility for any reliance on this report or on the financial statements 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 statements and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are 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 statements of accounting standards.

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

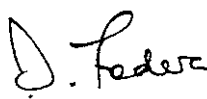
Audit Opinion

In our opinion, the financial statements of HIH Casualty and General Insurance Limited are properly drawn up:

- (a) so as to give a true and fair view, in accordance with the accounting policies described in Note 1 to the financial statements, of:
 - (i) the company's state of affairs as at 31 December 1994 and of its result for the year ended on that date; and
 - (ii) the other matters required by Divisions 4 and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law; and
- (c) in accordance with the statements of accounting standards as described in Note 1 to the financial statements.



Arthur Andersen
Chartered Accountants



Dominic Fodera
Partner

Sydney, 30 March 1995

CORPORATE DIRECTORY

HIH CASUALTY AND GENERAL INSURANCE LIMITED

AUDITORS

Arthur Andersen
141 Walker Street
North Sydney, NSW 2060

SOLICITORS

Mallacott Stephen Jacques
1 Farrer Place
Sydney, NSW 2000

Parry Carroll Keegan
MLC Centre, Martin Place
Sydney, NSW 2000

PRINCIPAL BANKER

St. George's Participations Bank Limited
37 Bridge Street, Sydney, NSW 2000

CONSULTING ACTUARIES

David A. Gomersley (Pty) Ltd
Sutcliffe House
Toorak, VIC 3182
London, UK
Plumtree Court
London, UK

REGISTERED OFFICE

Level 3, Brixton House
Sydney, NSW 2000

SYDNEY

AMP Centre, 50 Bridge Street
Sydney, New South Wales 2000
Tel: (02) 207 0000
Fax: (02) 207 0022

MELBOURNE

Collins Tower,
35 Collins Street,
Melbourne, Victoria 3000
Tel: (03) 204 0000
Fax: (03) 204 0014

PERTH

197 St. Georges Terrace,
Perth, Western Australia 6000
Tel: (09) 231 0000
Fax: (09) 231 0011

ADELAIDE

Level 9, Riverside Centre
North Terrace, Adelaide,
South Australia 5000
Tel: (08) 403 0000
Fax: (08) 403 0011

HOBART

Marine Board Building,
1 Franklin Wharf,
Hobart, Tasmania 7000
Tel: (002) 34 4672
Fax: (002) 34 0632

LAUNCESTON

65 Brisbane Street,
Launceston, Tasmania 7200
Tel: (003) 347 565
Fax: (003) 347 565

DARWIN

Pasopley Pearl Building,
19 The Mall, Darwin
Northern Territory 0800
Tel: (089) 81 2022
Fax: (089) 81 2151

CANBERRA

Gutbank Building,
24 Marcus Clarke Street,
Canberra, ACT 2600
Tel: (06) 248 9744
Fax: (06) 247 4971

BRISBANE

Ferrell, 135 Wickham Terrace,
Brisbane, Queensland 4000
Tel: (07) 839 5200
Fax: (07) 839 5300

ALBURY

641 Olive Street,
Albury, New South Wales 2600
Tel: (060) 41 3311
Fax: (060) 41 3188

GEELONG

107 Yarra Street,
Geelong, Victoria 3220
PO Box 4012, Geelong, 3200
Tel: (052) 29 0808
Fax: (052) 29 0757

NEW ZEALAND

Level 6, Quay Tower,
29 Customs Street,
West Auckland 1, New Zealand
PO. Box 2300, Auckland 1,
DX: 2070
Tel: (9) 379 7697
Fax: (9) 379 7777

HONG KONG

Suites 1701-4,
Dah Sing Financial Centre,
108 Gloucester Road,
Wanchai, Hong Kong
GPO Box 9955, Hong Kong
Tel: (852) 2598 6131
Fax: (852) 2598 5201

UNITED KINGDOM

85 Gracechurch Street,
London EC3V 0BH
United Kingdom
Tel: (0171) 621 0688
Fax: (0171) 621 1273

USA

HIH Corporate Services (US) Inc.
577 Airport Boulevard,
Burlingame, California, 94010
United States of America
Tel: (415) 696 3720
Fax: (415) 696 3727