Directors' report

The directors have pleasure in submitting the financial statements of the company for the year ended 31 December 1995 and report as follows:

Directors

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

R R	Williams	D	Fodera
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 activities of the company during the year were general insurance underwriting and investment funds management. There were no significant changes in the nature of these activities during the year.

Results

The net profit for the financial year was $60 267 000 after income tax expense of $13 184 000.

Dividends

Dividends of $20 676 000 were paid or provided by the company during the year.

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 relieving 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.

Coutts file 002322

Signed in accordance with a resolution of the directors.

R R Williams Director	*T K Cassidy* Director

Sydney, 17 May 1996

Profit and loss account *for the year ended 31 December 1995*

	Note	1995 $000	1994 $000
Operating profit/(loss) before income tax	2, 5	**73 451**	(13 466)
Income tax (expense)/benefit attributable to operating profit	7	**(13 184)**	6 927
Operating profit/(loss) after income tax		**60 267**	(6 539)
Retained profits at the beginning of the financial year		**40 661**	60 098
Total available for appropriation		**100 928**	53 559
Dividends provided for or paid		**(20 676)**	(12 898)
Retained profits at the end of the financial year		**80 252**	40 661

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

Balance sheet at *31 December 1995*

	Note	1995 $000	1994 $000
Current assets			
Cash		**45 302**	39 435
Receivables	8	**351 654**	215 967
Investments	9	**173 901**	179 066
Reinsurance recoveries receivable	10	**47 610**	52 394
Deferred acquisition costs		**38 009**	26 588
Other	11	**16 231**	5 950
Total current assets		**672 707**	519 400
Non-current assets			
Investments	12	**556 182**	253 107
Plant and equipment	13	**29 005**	21 672
Reinsurance recoveries receivable	10	**105 977**	76 193
Intangibles	14	**3 000**	4 000
Other	15	**10 625**	14 490
Total non-current assets		**704 789**	369 462
Total assets		**1 377 496**	888 862
Current liabilities			
Creditors and borrowings	16	**98 512**	42 659
Provisions	17	**6 656**	5 886
Outstanding claims	18	**194 383**	198 588
Unearned premiums		**189 370**	134 284
Other	20	**17 568**	5 183
Total current liabilities		**506 489**	386 600
Non-current liabilities			
Provisions	21	**25 273**	18 874
Outstanding claims	18	**432 666**	295 309
Total non-current liabilities		**457 939**	314 183
Total liabilities		**964 428**	700 783
Net assets		**413 068**	188 079
Shareholders' equity			
Share capital	22	**303 025**	147 418
Retained profits		**80 252**	40 661
Total shareholders' equity		**383 277**	188 079
Subordinated debt	23	**29 791**	-
Total shareholders' equity and subordinated debt		**413 068**	188 079

The accompanying notes form an integral part of this balance sheet

Statement of cashflows *for the year ended 31 December 1995*

	Note	1995 $000	1994 $000
Cash flows from operating activities			
Premiums and fees received		**467 699**	443 390
Claims paid		**(209 611)**	(191 438)
Payment to reinsurers, suppliers and employees		**(201 147)**	(225 853)
Dividends received			
- non-related bodies corporate		**14 327**	5 232
- related bodies corporate		**-**	54 845
Interest received		**30 225**	9 922
Rent received		**419**	808
Interest paid		**-**	(822)
Income taxes paid		**(4 646)**	(7 255)
	3(c)	**97 266**	88 829
Cash flows from investing activities			
Purchase of plant and equipment		**(15 264)**	(8 642)
Proceeds from sale of plant and equipment		**469**	778
Payments, net of proceeds, for investments		**(54 746)**	(165 671)
Payment for purchase of controlled entity, net of cash acquired	3(b)	**(50 374)**	-
		(119 915)	(173 535)
Cash flows from financing activities			
Proceeds from subordinated debt		**29 791**	-
Dividends paid		**(11 484)**	(9 979)
Repayment of loans from controlled entities		**10 209**	68 724
		28 516	58 745
Net increase/(decrease) in cash held		**5 867**	(25 961)
Cash at the beginning of the financial year		**39 435**	65 396
Cash at the end of the financial year	3(a)	**45 302**	39 435

The accompanying notes form an integral part of this statement of cashflows

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.

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 applicable Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the disclosure requirements of Schedule 5 of the Corporations Regulations.

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

All amounts are in Australian dollars.

(b) Core earnings

Whilst the financial statements have been prepared in accordance with applicable Accounting Standards, the company has also undertaken to include additional information for the benefit of readers of these financial statements. The approach adopted for the measurement of the company's insurance and other activities, styled core earnings, is set out in some detail in Note 2 to these financial statements.

Core earnings is a measure of the profitability of the insurance business encompassing the net underwriting components of earned premium, claims incurred and acquisition and underwriting related expenses, as well as investment revenue (which includes the running yield on fixed interest securities, equities and rental properties) and net result on other business activities. The impact on claims incurred as a consequence of the movement in net discount rates is disclosed after the core earnings 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 core earnings as part of, "changes in the net market of investments". This disclosure under this approach provides a view of profitability of insurance activities free of the volatility arising from the impact of movements in interest rates. Inclusion of investment revenue in core earnings allows the matching of investment income and the claims expense in the current year arising from the release of discount on prior year's claims reserves.

(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.

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. Fire service levies received or receivable are included with premiums.

(d) Outward reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received, and a portion of outward reinsurance premium is recognised as a prepayment at balance date.

(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 year. 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.

(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 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.

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.

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 year 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 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.

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.

(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.

(n) Lease commitments

Leases classified as operating leases are not capitalised and each lease payment is expensed on an accrual basis.

(o) 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.

(p) Provision for employee entitlements

Provision made in the financial statements for benefits accruing to employees is in accordance with AASB 1028, Accounting for Employee Entitlements. These employee entitlements were previously measured at nominal values. The impact of this change in accounting policy for the economic entity is not material.

(q) 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.

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

	1995 $000	1994 $000
Cash at bank	**45 302**	39 435

(b) ***Business acquired***

During the financial year the entity acquired 100% the following controlled entity:

CIC General Insurance Holdings Limited

Details of the acquisition of the controlled entity are as follows:

Consideration:		
Cash	**50 374**	-
Investments	**52 425**	-
Total consideration	**102 799**	-
Fair value of net assets acquired:		
Investments	**102 799**	-
	102 799	-

Cash paid on the purchase of controlled entity, net of cash acquired:

Cash paid	**50 374**	-
Outflow of cash	**50 374**	-

2 Results of insurance activities

	Note	1995 $000	1994 $000
Gross written premium		**599 299**	477 257
Gross premium earned		**532 394**	431 953
Outward reinsurance expense		**(134 326)**	(110 356)
Net premium earned		**398 068**	321 597
Claims expense			
Direct		**(324 055)**	(269 278)
Inward reinsurance		**(38 679)**	(27 716)
Claims handling costs		**(9 183)**	(7 228)
Total claims expense		**(371 917)**	(304 222)
Reinsurance recoveries received		**56 625**	56 053
Net claims expense		**(315 292)**	(248 169)
Underwriting expenses		**(46 319)**	(39 201)
Fire brigade charges		**(7 454)**	(6 081)
Net acquisition costs		**(37 630)**	(27 841)
Total underwriting expenses		**(91 403)**	(73 123)
Core underwriting profit/(loss)		**(8 627)**	305
Insurance investment revenue	4	**42 754**	21 725
Other business activities (net)		**(2 779)**	(1 473)
Core earnings	1(b)	**31 348**	20 557
Net discount rate adjustment		**(11 649)**	7 000
Changes in net market value of investments			
- realised		**27 444**	(21 554)
- unrealised		**27 308**	(34 736)
Goodwill amortisation		**(1 000)**	(1 000)
Abnormal items	6	**-**	16 267
Operating profit/(loss) before income tax	5	**73 451**	(13 466)

(c) Reconciliation of net cash provided by operating activities to operating profit/(loss) after income tax

	1995 $000	1994 $000
Operating profit/(loss) after income tax	**60 267**	(6 539)
Depreciation and amortisation	**6 271**	4 541
Net profit from sale of plant and equipment	**(1)**	(72)
Changes in net market value of investments		
- unrealised	**(27 308)**	34 736
- realised	**(27 444)**	21 554
Diminution in value of controlled entity	**-**	40 733
Changes in assets and liabilities		
Decrease/(Increase)		
- Debtors	**(135 687)**	(90 952)
- Reinsurance recoveries	**(25 000)**	(17 848)
- Operating assets	**(17 477)**	(20 115)
Increase/(Decrease)		
- Creditors	**125 432**	46 315
- Outstanding claims	**133 152**	81 776
- Income and deferred tax provisions	**5 061**	(5 300)
	97 266	88 829

4 Operating revenue

	1995 $000	1994 $000
Gross premium earned		
- Direct	**468 763**	369 644
- Inward reinsurance	**63 631**	62 309
	532 394	431 953
Reinsurance recoveries revenue	**56 625**	56 053
Investment revenue		
- Dividends from non-related bodies corporate	**13 767**	4 232
- Interest from non-related bodies corporate	**28 568**	16 685
- Rentals	**419**	808
	42 754	21 725
Changes in net market value of investments		
- realised	**27 444**	(21 554)
- unrealised	**(211)**	(23 959)
Changes in net market value of controlled entities, unrealised	**27 519**	(10 777)
	54 752	(56 290)
Revenue from other business activities	**22 282**	13 817
Proceeds from sale of non-current assets	**469**	778
Dividends received from sale of controlled entities (included in Note 6 Abnormal Item)	**-**	57 000
Total revenue	**709 276**	525 036

5 Operating profit/(loss)

	1995 $000	1994 $000
Operating profit/(loss) before income tax has been determined after:		
(i) Charging as expense		
Bad debts written off	-	73
Operating lease rentals	**4 844**	3 865
Depreciation of plant and equipment	**5 271**	3 541
Amortisation of goodwill	**1 000**	1 000
Transfers to provisions		
- doubtful debts	**764**	-
- employee entitlements	**1 442**	1 029
Interest paid		
- non-related bodies corporate	-	987
- related bodies corporate	-	1 423
(ii) Crediting as income		
Profit on sale of non-current assets	**1**	72

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

	1995 $000	1994 $000
The difference between income tax (expense)/benefit provided in the accounts and the prima facie income tax (expense)/benefit is reconciled as follows:		
Operating profit/(loss)	**73 451**	(13 466)
Prima facie tax thereon	**(26 442)**	4 443
Tax effect of permanent and other differences		
- non-deductible net of non-assessable items	**3 278**	5 937
- revaluation of investment in controlled entities	**9 907**	(3 556)
Amount over provided in prior years	**73**	103
Total income tax attributable to operating profit/(loss)	**(13 184)**	6 927
This amount is attributable to:		
- the current period	**(478)**	(3 318)
- other periods	**(12 706)**	10 245
	(13 184)	6 927

8 Receivables *current*

Trade debtors	**52 886**	32 869
less provision for doubtful debts	**(1 959)**	(1 959)
Trade debtors, net	**50 927**	30 910
Amounts owing by related bodies corporate	**77 692**	62 983
Amounts owing by non-related bodies corporate	**3 012**	-
Amounts due from reinsurers, other insurers and statutory bodies	**25 540**	21 227
Accrued premiums	**163 233**	84 907
Accrued interest, commission and other income	**1 233**	8 087
Sundry debtors	**30 017**	7 853
Total current receivables	**351 654**	215 967

9 Investments *current*

	1995 $000	1994 $000
At Directors' valuation		
Debentures, unlisted	**32 518**	4 929
Short term deposits	**-**	20 873
Loans - secured	**6 400**	5 767
- unsecured	**-**	4 806
	38 918	36 375
At net market value		
Shares in non-related entities, listed	**135 530**	143 129
Total current investments	**174 448**	179 504
less provision for selling costs	**(547)**	(438)
Net market value	**173 901**	179 066

10 Reinsurance recoveries receivable

Expected future recoveries on outstanding claims (undiscounted)	**185 138**	154 100
Discount to present value	**(31 551)**	(25 513)
Reinsurance recoveries receivable	**153 587**	128 587
Current	**47 610**	52 394
Non-current	**105 977**	76 193
	153 587	128 587

11 Other assets *current*

Prepayments and deferred expenses	**16 231**	5 950
Total current other assets	**16 231**	5 950

12 Investments *non-current*

	1995 $000	1994 $000
At Directors' valuation		
Government and semi-government stocks and bonds, unlisted	**195 744**	156 487
Debentures, unlisted	**12 092**	15 726
Shares in controlled entities (Refer Note 25)	**290 706**	6 180
Loans - secured	**33 248**	10 899
- unsecured	**-**	29 760
	531 790	219 052
At market value		
Investment properties	**-**	510
	-	510
*At Directors' valuation as at 31.12.95**		
Investment properties	**25 349**	34 553
Total non-current investments	**557 139**	254 115
less provision for selling costs	**(957)**	(1 008)
Net market value	**556 182**	253 107

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

Mr. R D M Gee AVLE (VAL.)
Qualified Valuer, of
FDP Raine and Horne (Vic) Pty Ltd

13 Plant and equipment

	1995 $000	1994 $000
Leasehold improvements, at cost	**14 718**	8 658
less accumulated depreciation	**(2 724)**	(2 148)
	11 994	6 510
Plant and equipment, at cost	**29 842**	24 889
less accumulated depreciation	**(12 831)**	(9 727)
	17 011	15 162
Total plant and equipment	**29 005**	21 672

14 Intangible assets *non-current*

Goodwill, at cost	**10 000**	10 000
less accumulated amortisation	**(7 000)**	(6 000)
Total intangible assets	**3 000**	4 000

15 Other assets *non-current*

Future income tax benefit - attributable to timing differences	**10 625**	14 490
Total non-current other assets	**10 625**	14 490

16 Creditors and borrowings *current*

Trade creditors	**12 026**	2 255
Amounts payable to statutory bodies	**5 326**	3 984
Amounts payable to or on behalf of reinsurers	**81 160**	36 420
Total current creditors and borrowings	**98 512**	42 659

17 Provisions *current*

	1995 $000	1994 $000
Income tax	**-**	473
Employee entitlements	**6 656**	3 897
Other	**-**	1 516
Total current provisions	**6 656**	5 886

18 Outstanding claims

Expected future claim payments (undiscounted)	**764 411**	592 949
Discount to present value	**(137 362)**	(99 052)
Liability for outstanding claims	**627 049**	493 897
Current	**194 383**	198 588
Non-current	**432 666**	295 309
	627 049	493 897

(i) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 2.7 years (1994: 2.7 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	**3.5 - 7.0**	5.5 - 6.5
- United Kingdom	**5.0**	5.5 - 6.5
Discount rate		
- Australia	**7.8**	8.5 - 9.5
- United Kingdom	**7.8**	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.

	1995 $000	1994 $000	1993 $000	1992 $000	1991 $000	1990 $000	1989 $000
Reported net liability	**473 462**	365 310	301 382	262 571	260 808	210 261	166 919
Cumulative under/(over) estimation after discounting							
1995		**11 231**	**24 775**	**3 751**	**(15 605)**	**(33 459)**	**(50 038)**
1994			23 302	(1 243)	(2 350)	(20 334)	(31 712)
1993				(11 965)	125	(10 131)	(31 737)

20 Other liabilities *current*

	1995 $000	1994 $000
Other creditors and accruals	**17 568**	5 183

21 Provisions *non-current*

Employee entitlements	**1 891**	1 026
Deferred income tax liability	**23 382**	17 848
Total non-current provisions	**25,273**	18 874

22 Share capital

	1995 $000	1994 $000
Authorised capital		
- 500 000 000 ordinary shares of $1 each	**500 000**	199 800
- 200 000 8% redeemable cumulative preference shares of $1 each	**200**	200
Total authorised capital	**500 200**	200 000
Issued and paid up capital		
- 303 024 547 ordinary shares of $1 each, fully paid	**303 025**	147 418
Total issued capital	**303 025**	147 418

Movements in the issued capital during the year were:	Number	Par Value $000
Balance at 31 December 1994	**147 417 642**	147 418
Shares issued under Dividend Reinvestment Plan	**9 192 333**	9 192
Shares issued for the purchase of a controlled entity	**146 414 572**	146 415
Balance at 31 December 1995	**303 024 547**	303 025

23 Subordinated debt

Subordinated debt (refer Note 28(g))	**29 791**	-

24 Commitments

Operating lease expenditure contracted for is payable as follows:		
Not later than one year	**6 150**	3 401
Later than one year but not later than two years	**6 275**	9 792
Later than two years but not later than five years	**19 418**	11 186
Later than five years	**26 679**	34 121
	58 522	58 500

25 Controlled entities

(a) The following were controlled entities at 31 December 1995. 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 company.

Name of controlled entity and country of incorporation	Book value of investment	
	1995 $000	1994 $000
HIH Winterthur (Travel) Pty. Limited, Australia (formerly C.E. Heath Corporate Services Pty. Ltd.)	**50**	50
C.E. Heath Workers' Compensation (N.S.W.) Pty. Limited, Australia	**500**	500
HIH Winterthur Overseas Holdings Limited, Australia (formerly C.E. Heath Overseas Holdings Limited)	**12 354**	-
Innes-Owens Pty. Limited, Australia	**3 674**	4 353
Heath Workers Compensation (Vic) Pty. Limited, Australia	**2 000**	2 000
CIC Insurance Limited, Australia	**162 272**	-
CIC General Insurance Holdings Limited, Australia	**109 928**	-
HIH Winterthur Underwriting (Australia) Pty. Limited, Australia (formerly HIH Australia Holdings Pty. Limited)	**-**	-
HIH Winterthur (Real Estate) Pty. Limited, Australia (formerly C.E. Heath Real Estate Pty. Limited)	**-**	-
Rehabilitation and Preventive Services Pty. Limited, Australia	**-**	-
HIH Premium Funding Pty. Limited, Australia	**-**	-
CIC Staff Benefits Pty. Limited, Australia	**-**	-
CIC (Commercial Insurance) Pty. Limited, Australia	**-**	-
Marine and Aviation Management Services Limited, Australia	**-**	-
	290 778	6 903
less provision for diminution in value	**(72)**	(723)
	290 706	6 180

Controlled entities *continued*

	Proportion of shares acquired	Consideration paid	Fair value of net tangible assets at time of acquisition
	%	$000	$000
(b) The following controlled entities were acquired during the financial year:			
Name of entity and date acquired			
CIC (Commercial Insurance) Pty. Limited (4 January 1995)	*100*	-	-
CIC Insurance Limited and its controlled entities (13 July 1995)	*100*	*154 207*	*136 158*
CIC Staff Benefits Pty. Limited (13 July 1995)	*100*	-	-
Rehabilitation and Preventive Services Pty. Limited (13 July 1995)	*100*	-	-
CIC General Insurance Holdings Limited (28 December 1995)	*100*	*102 799*	*102 799*
Marine and Aviation Management Services Limited (31 December 1995)	*100*	-	-

26 Directors' remuneration

	1995 $000	1994 $000
The aggregate remuneration received, or due and receivable, by the directors of the entity from the entity and related bodies corporate was:	***1 629***	*1 500*

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

	1995 Number	1994 Number
$ 140 000 - $ 149 999	-	*1*
$ 240 000 - $ 249 999	***1***	-
$ 400 000 - $ 409 999	-	*2*
$ 410 000 - $ 419 999	***2***	-
$ 540 000 - $ 549 999	-	*1*
$ 550 000 - $ 559 999	***1***	-

Relief provided by Australian Securities Commission Class Order 95/741 has been applied in the disclosure of directors' remuneration and retirement benefits.

27 Auditors' remuneration

	1995 $000	1994 $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*	**302**	335
- *providing other services*	**284**	316

28 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 of the company in Australia is Winterthur Holdings Australia Limited. The company is ultimately controlled by Winterthur Swiss Insurance Company, a company incorporated in Switzerland.*

(c) *During the year the entity received management fees from related bodies corporate and controlled entities, with transactions being conducted on normal commercial terms:*

Identities of related parties	Nature of ownership	Transaction Type	Received at 31.12.95 $000	Received at 31.12.94 $000
HIH Winterthur Underwriting and Agency Services Limited	Related body corporate	Debt Collection	**1 500**	445
CIC Insurance Limited	Controlled entity	Management Services	**4 800**	-
HIH Casualty and General Insurance (NZ) Limited	Controlled entity	Management Services	**2 769**	474
HIH Winterthur Underwriting and Agency Services (N.Z.) Limited	Controlled entity	Management Services	**1 060**	-
HIH Winterthur (NZ) Trust	Controlled entity	Management Services	**332**	-
Innes-Owens Pty. Limited	Controlled entity	Management Services	**2 765**	2 878
Heath Workers Compensation (Vic) Pty. Limited	Controlled entity	Management Services	**1 027**	3 183

(d) *The following kinds of transactions between the entity and related parties remained outstanding at year end:*
- 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:

Identities of related parties	**Nature of ownership**	**Ownership interest**	**Received/ (payable) at 31.12.95** ***$000***	**Received/ (payable) at 31.12.94** *$000*
Innes-Owens Pty. Limited	*Controlled entity*	*100%*	***7 670***	*4 066*
HIH Winterthur Overseas Holdings Limited	*Controlled entity*	*100%*	***11 944***	*23 968*
CIC Insurance Limited	*Controlled entity*	*100%*	***10 547***	*-*
HIH Winterthur Underwriting and Agency Services Limited	*Related body corporate*	*Nil*	***44 562***	*32 202*
HIH Winterthur Real Estate Pty. Limited	*Related body corporate*	*Nil*	**-**	*4*
Ready Plan Asia Pacific Pty. Limited	*Related body corporate*	*Nil*	***(607)***	*1 160*
HIH (UK) Limited	*Related body corporate*	*Nil*	***824***	*(1 450)*
C.E. Heath Underwriting and Agency Services Asia Limited	*Related body corporate*	*Nil*	***2 261***	*2 259*
Asia Area Reinsurance Company Limited	*Related body corporate*	*Nil*	***491***	*774*

(e) Under the CIC Insurance Limited sale agreement between Winterthur Holdings Australia Limited and HIH Casualty and General Insurance Limited indemnities have been provided as regards the adequacy of certain claims reserves as at 30 June 1995.

The indemnities provide that the total claims reserves booked in CIC Insurance Limited and certain nominated portfolios in the company, as calculated at 30 June 1995 will be compared at 30 June 1997 with amounts actually paid on the portfolios during this two year period, together with an estimate of the future payments that will be made in relation to these portfolios.

In the event of a shortfall in either party's reserves, the party with the deficient reserves will be required to compensate the other to make good that shortfall. The shortfall however will be offset by any shortfall in the other party's reserves and reduced by any tax benefit arising from the shortfall. Liability will only arise under the indemnity if, after the "offsetting" process, the shortfall exceeds 5% of the warranted reserves. The maximum liability of the economic entity under these indemnities is limited to $20 000 000.

In the event of a surplus in the CIC Insurance Limited portfolio (ie if the total reserves booked at 30 June 1995 exceed the aggregate of the amounts actually paid on the portfolios and the estimates of future payments under these portfolios), then the Company will be required to pay to Winterthur Holdings Australia Limited the amount of such surplus reduced by a percentage equal to the applicable corporate tax rate two years after completion.

At 31 December 1995 a review of claims reserves subject to the indemnity, including an actuarial assessment of long tail portfolios, has indicated that no provision for the indemnity was required at balance date.

(f) During the year the entity received a dividend of $8 450 000 from CIC General Insurance Holdings Limited, a controlled entity.

(g) On 21 December 1995 the company borrowed an amount of $29 791 310 from a related party, C.E. Heath Underwriting Holdings (Australia) 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 years from 21 December 1995 to 20 December 2000. On the expiration of the term, the company must repay the loan in full to C.E. Heath Underwriting Holdings (Australia) Limited, subject to the prior written approval of the Insurance and Superannuation Commissioner. The loan is 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.

29 Segment information

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

	Revenue	
	1995 $000	1994 $000
By Activity		
- Underwriting	**709 276**	525 036
By Geographical Area		
- Australia	**547 286**	494 917
- United Kingdom	**91 035**	30 119
- U.S.A.	**66 420**	-
- South East Asia	**4 535**	-
	709 276	525 036

	Operating profit/(loss) before income tax	
	1995 $000	1994 $000
By Activity		
- Underwriting	**73 451**	(13 466)
By Geographical Area		
- Australia	**70 002**	(14 958)
- United Kingdom	**7 140**	1 492
- U.S.A.	**(4 519)**	-
- South East Asia	**828**	-
	73 451	(13 466)

	Total assets	
	1995 $000	1994 $000
By Activity		
- Underwriting	**1377 496**	888 862
By Geographical Area		
- Australia	**1249 442**	837 578
- United Kingdom	**96 608**	51 284
- U.S.A.	**25 247**	-
- South East Asia	**6 199**	-
	1377 496	888 862

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 1995, as set out on pages 2 to 27. 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 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, and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

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 1995 and of its result for the year ended on that date; and*
- *(ii)* *the other matters required by Divisions 4 and 4B and 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 Accounting Standards and other mandatory professional reporting requirements, as described in Note 1 to the financial statements.*

Arthur Andersen

Arthur Andersen
Chartered Accountants

AP Davies

A.P. Davies
Partner

Sydney, 17 May 1996

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 1995, the related profit and loss account is drawn up so as to give a true and fair view of the profit of the entity for the year then ended and the statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the company 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 financial statements, the entity is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial statements 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.

R R Williams — *Director*

T K Cassidy — *Director*

Sydney, 17 May 1996

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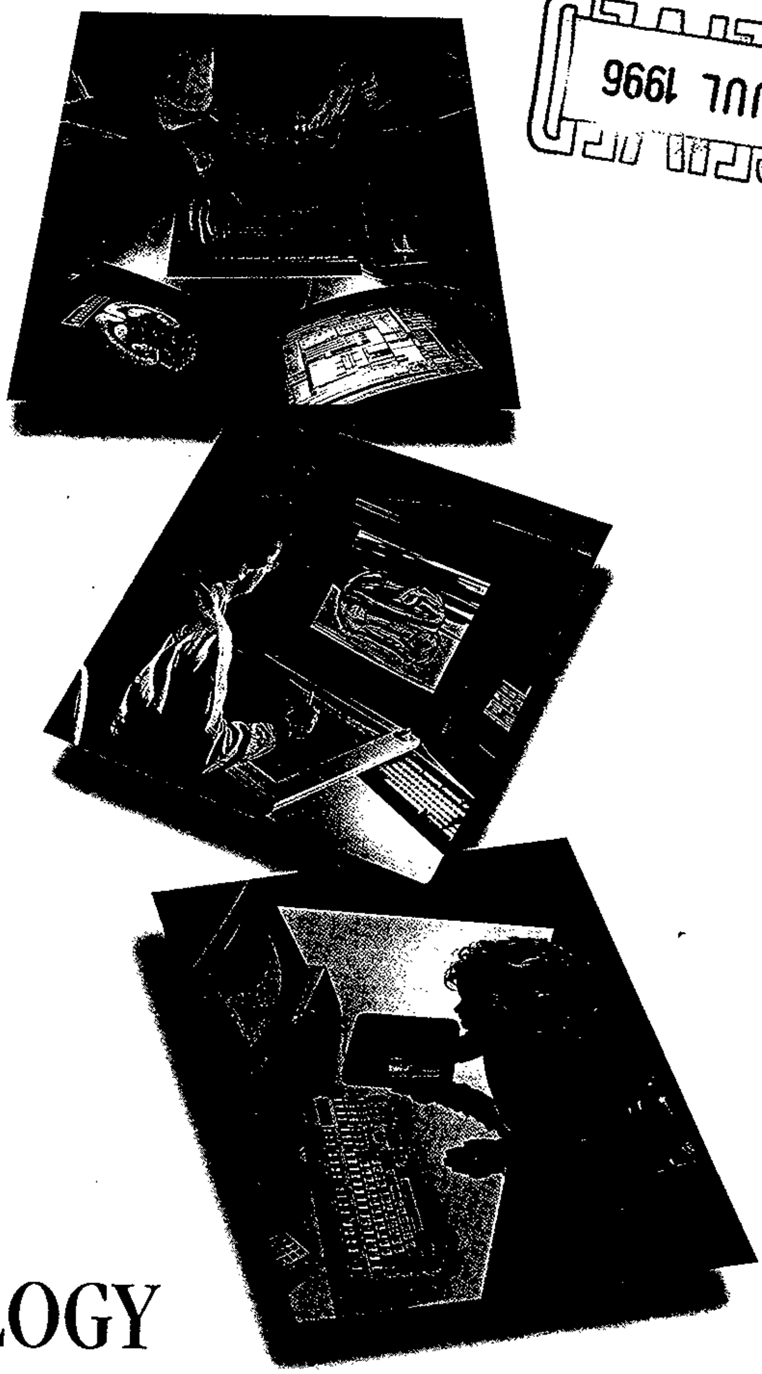
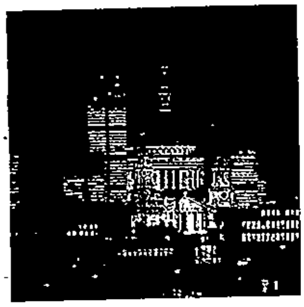
Honolulu, HI 96813 Hawaii
Tel: 808 566 2580
Fax: 808 5[illegible] [illegible]

1995 ANNUAL REPORT



TAKING TECHNOLOGY TO THE MARKETPLACE

STB Systems, Inc.

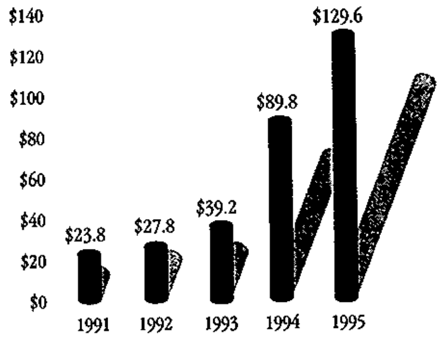


Financial Highlights

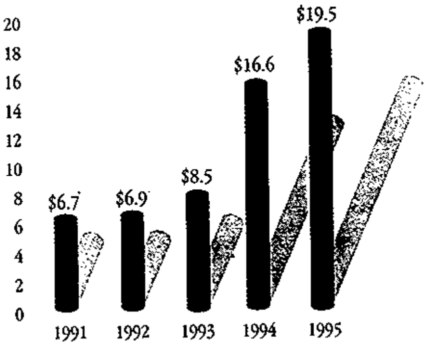
Fiscal Year Ended October 31, 1995

Contents

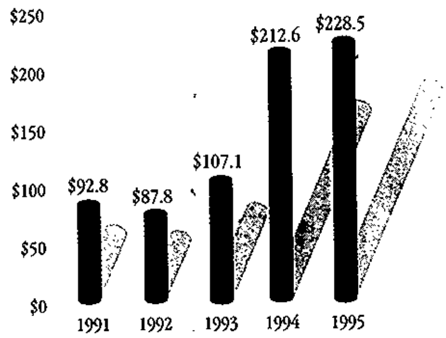
Net Sales (in millions)



Gross Profit (in millions)



Sales Per Employee† (in thousands)



† exclusive of sales of sub-contract services