HIH Insurance Limited ACN 008 636 575
50 Bridge Street, Sydney, NSW 2000, Australia
DX 10149 Sydney Stock Exchange, GPO Box 9814 Sydney 2001
Telephone 61 2 9650 2000 Facsimile 61 2 9650 2030

SYD.ASX 16NOV'00 17:29

16 November 2000

The Manager
Company Announcement Office
Australian Stock Exchange Limited
Level 4
20 Bridge Street
Sydney, NSW 2000

Dear Sir / Madam

LISTING RULES 3.17, 4.7 AND 15.4

Enclosed please find the following documents which are being sent to the Company's shareholders:

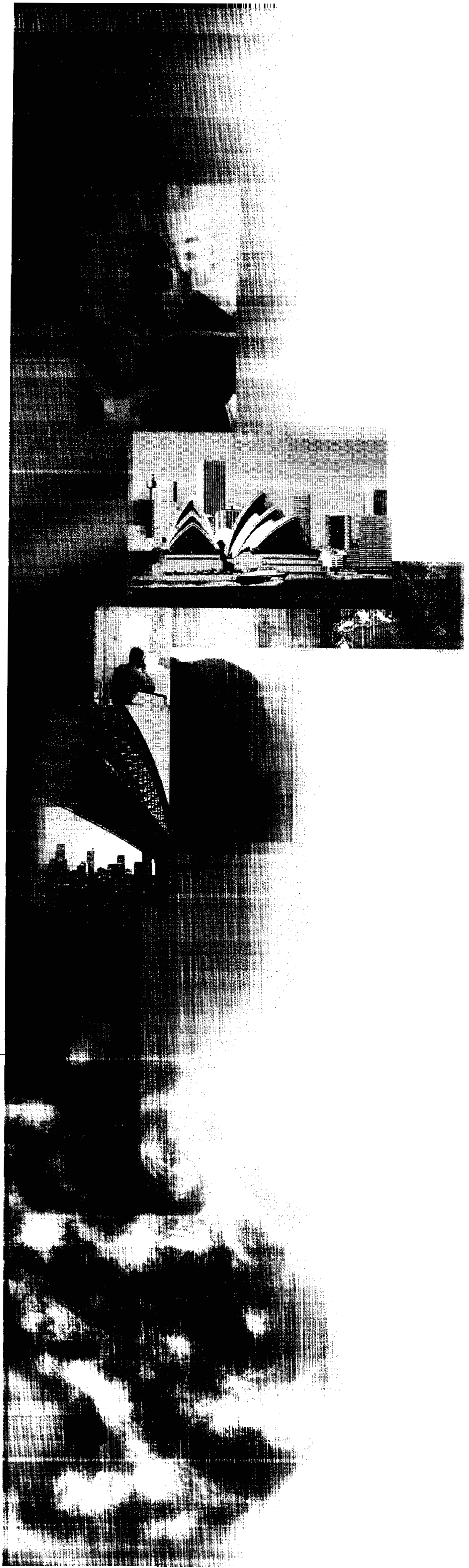
(a) notice of annual general meeting to be held on 15 December 2000;

(b) 2 copies of the Concise Annual Report for the year ended 30 June 2000; and

(c) 2 copies of the Annual Report for the year ended 30 June 2000.

Yours faithfully,

Frederick Lo
Company Secretary



INSURANCE

The year in review was a tough one for the company. I am also the first to acknowledge it was an even tougher year for our shareholders, given the substantial erosion of value of holding that took place in the share price.

What went wrong? In short, the strong performance from our Australian and New Zealand operations was not sufficient to offset the market difficulties encountered in both the United Kingdom and the United States as well as substantial losses that emerged from the acquisition of FAI Insurances Limited.

How did it happen? Like many insurers, over time, we have sought to balance our business and spread our risks (by product and geographic market). In our case, this spread of operations beyond our Australian-base actually exacerbated the problems because of the coincidence of the high frequency of catastrophes faced in the London market and the continuing poor market conditions for California workers compensation. Moreover, while we streamlined and improved the operations of FAI post-acquisition, we suffered badly from adverse claims development from business acquired through the acquisition of FAI. While some deterioration had been anticipated from this area, the extent that we faced was not expected, nor could it have been anticipated.

The end result is that the events of the year inflicted material damage on both our profitability and our capital base.

What are we doing about it? Well, we now must live within the limits of our current capital and resources. This means we have had to review all of our business to ensure that we continue to pursue only those areas that are sustainable in the short to medium term.

As well as reviewing the whole business, we've made Board and management changes. Ray Williams will be retiring from the position of Chief Executive and will step down on the appointment of his replacement. On behalf of the Board, I would like to place on record our thanks to Ray Williams for his contribution to HIH. He founded this company and over 30 years of dedication and tireless effort he turned a start-up business into a global corporation with turnover of $3 billion and total assets of $8 billion – a remarkable achievement. Ray has inspired all around him with his selfless passion for the company and his work ethic. We all wish him well.

More changes will no doubt follow on the appointment of a new Chief Executive, an appointment currently expected to be made before this calendar year end. The key objectives for HIH going forward are to protect and nurture our core business areas and to ensure that the company has a sound financial base.

This report contains more details on all of these areas.

Before concluding, I would like to thank my fellow Directors and all of the management and staff for their efforts through what has obviously been a testing period for the company and its shareholders. Everyone has shown exceptional commitment to the company and its future.

Geoffrey A Cohen AM
Chairman

- *Continuing improvement in the HIH Australian book (two-thirds of the company's business).*
- *Strong results, yet again, in New Zealand.*

- *Further adverse experience from FAI run-off business.*
- *Losses flowing from the depressed stage of the United Kingdom rate cycle.*
- *A volatile and problematic market environment for our California-based United States workers compensation business.*
- *Continuing challenges in establishing a supportable critical mass for our Asian operations.*
- *A regulatory reform process that will make Australia one of the world's most capital intensive insurance jurisdictions.*
- *A post results announcement Standard & Poor's ratings downgrade from A- strong financial strength to BBB+ good.*

- *Initiating, early in 2000, a global business review.*
- *Arising out of that review, post-balance date, by :*
  - *forming a new retail insurance venture with Allianz Australia Limited designed to provide steady earnings and a capital base tailored to meet Australia's proposed new regulatory regime*
  - *introducing changes to Board structure and management aimed at substantially improving corporate governance and Board efficiency*
  - *ceasing to underwrite new workers' compensation business in the United States and selling the renewal rights to California workers' compensation business*
  - *accelerating the financial restructuring of our Asia operations.*

- *With corporate insurance market leadership in Australia and New Zealand.*
- *With a 5 year 49% interest in one of Australia's leading retail general insurance franchises.*
- *With a significant presence at Lloyd's of London.*
- *On a strengthened capital base and a clear focus on our core businesses.*

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UNITED KINGDOM

- [illegible] ence [illegible] ificant [illegible] low [illegible] in the ma[illegible] are [illegible]. This combi[illegible] ed [illegible] worst trading c[illegible] a [illegible] de.
- [illegible] the year, the HI[illegible] Branch [illegible] were placed into run-off [illegible] on-going business now [illegible] within the Group's Cotesworth syndicates at Lloyd's [illegible].
- [illegible] capital now represents [illegible] Lloyd's capacity and is [illegible] to represent 85% of Lloyd's £10 billion capacity for the 2001 year. HIH, through Cotesworth, provides around 2% of this total capacity. Recent acquisitions mean that another Australian insurer, the QBE Insurance Group, is now the largest provider of capital at Lloyd's.
- *Results for the year from both the UK Branch run-off and the Cotesworth syndicates were generally poor, although it is worth noting that the historical financial performance of the principal Cotesworth syndicates has been favourable compared with the Lloyd's market overall.*
- *Lloyd's results are produced on the basis of 3 year accounting. This means that the 1998, 1999 and 2000 underwriting years have not yet closed.*
- *According to international rating agency, Standard & Poor's, "Poor results are expected for the 1998 and 1999 years of account. Results will improve in 2000, but will remain significantly negative. Pricing conditions and results will be substantially stronger in 2001" (September 2000). Standard & Poor's has affirmed its A+ "strong" rating on the Lloyd's insurance market, "reflecting the fact of Lloyd's attractiveness as a market place, the robustness of its capital base, and the strong oversight provided by regulatory management".*
- *The experience of HIH's Cotesworth syndicates matches that of the Lloyd's market overall – strong, but volatile, earnings over the course of insurance cycles. With the market now moving into the upward phase of the rate cycle, there are grounds for optimism. In addition, HIH's strategic application of whole of account reinsurance protection is assisting to reduce earnings volatility going forward.*

ASIA

- *HIH has been in Asia for more than 15 years and this year wrote $101.8 million of gross earned premium in the region.*
- *Beyond the group's Hong Kong base, HIH also has operational interest in Thailand, the Philippines, Indonesia, Malaysia, South Korea, Mainland China and Papua New Guinea.*
- *The combined operating ratio for Asia operations this year was 112.5%. This outcome was primarily due to a high business expense base (which itself was compounded by the level of unearned premium generated from recent growth).*
- *The HIH Asia business base is sound and the management team in place is excellent. The prospects for the medium-term, in particular, are good.*
- *Our 2000 global business review identified that a substantial increase in the volume of business written in Asia is required to properly develop the business and to optimise earnings. The timing for such expansion is favourable now, with Asia insurance markets quickly maturing and with macro-economic indicators showing generally positive signs.*
- *HIH has different priorities for its capital, however. Consequently, in the interests of shareholders, the preferred course is to sell the Asia business to another party with a stronger Asia focus.*
- *This means that the Asia operations are under active review for capital restructuring.*

UNITED STATES

- *United States business represented 10% of HIH's total gross earned premium in 1999/2000, but the financial performance of the United States portfolio has been problematic.*
- *All of the portfolio is comprised of workers' compensation insurance (a key competency of HIH), of which two-thirds is California business.*
- *The situation in California has shown greater volatility than any other United States property/ casualty segment.*
- *HIH has thus far survived the oppressive California environment. However, conditions in California are not improving at a sufficient pace to meet our earnings imperatives.*
- *Consequently, on 31 October 2000 the company announced the sale of renewal rights to the California business and that it had ceased underwriting workers' compensation business in the United States. The California operations will be transformed into a managing agency in order to generate externally-sourced fee income while retaining claims management expertise and managing the HIH run-off in an orderly and efficient manner.*

AUSTRALIA

- *Australian operations contributed $1,633.2 million, or 57%, of the year's gross earned premium and $1,294.5 million, or 65%, of net earned premium.*
- *As predicted, the Australian financial performance continued to improve with a combined operating ratio of 102.0% recorded for the year. Strong performance was recorded in retail insurance and the expected rate improvements moved the corporate book substantially back towards profit.*
- *The Australian premium rate environment is now favourable for most classes of business.*
- *In Australia, we believe that we cannot independently achieve the scale necessary to maintain and further develop a large-scale retail distribution market franchise. Even the largest players in that arena have recently reported on the significant costs associated with such a market.*
- *Consequently, we have joined forces with Allianz, one of the world's largest insurers, to facilitate further generation of the scale economies required for retail business.*
- *In the medium to longer-term, we have decided to concentrate our operations and capital on the corporate classes of business in Australia. These business classes have been profitable historically and are where premium rates are now recording strong increases. They also constitute the original and core business base of HIH.*
- *The Allianz venture provides a 5 year timeframe to migrate to Australia's proposed new regulatory framework.*

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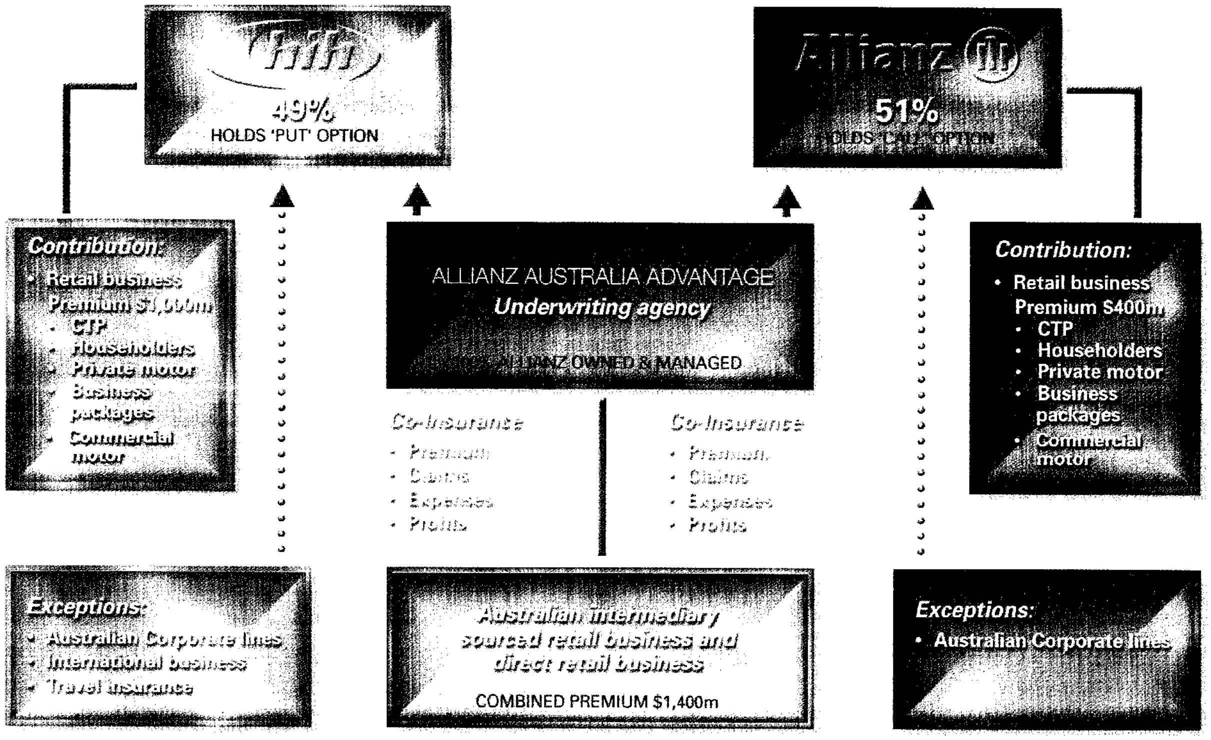
BACKGROUND

- *Wednesday 13 September marked yet another important chapter of development for HIH.*
- *The announcement of a major new initiative – the HIH / Allianz underwriting agency - was the culmination of a lengthy process aimed at ensuring that HIH is a financially strong and strategically well-positioned company, especially in view of substantial changes proposed for the Australian insurance regulatory framework.*
- *HIH Insurance Limited ("HIH") and Allianz Australia Limited agreed to market their retail general insurance business through a 100% owned Allianz company – a new market force second only to NRMA but with a superior geographic spread.*
- *The agency business will comprise Allianz and HIH retail insurance business sourced through all distribution channels with the primary exception of corporate brokers.*
- *The terms of the venture provide Allianz with 51% interest and HIH with 49% in the venture.*
- *Importantly, this transaction marks a managed shift in strategic direction for HIH. It is a staged, orderly and profitable exit from the retail insurance area.*
- *Our review has confirmed that a retail strategy is attractive but requires a level of scale that is not within our own means to support and grow if we are also to properly support our historically profitable and Australian market-leading corporate business base.*
- *An overwhelming positive is that we have formed a strong link and common interest with one of the world's largest and most highly respected insurance groups.*

ALLIANZ VENTURE - UNDERWRITING AGENCY: TRANSACTION



DETAILS

The venture with Allianz is designed to provide HIH with 5 years of continuing proportionate exposure to Australian retail insurance business.

In broad terms, this means 5 years more of premium, claims, expenses and profits from what is currently a business segment generating consistent earnings returns overall.

The move is consistent with the company's view that retail insurance requires large scale in order to underpin market share, competitive strength and expense economies.

HIH is contributing approximately $1,000 million in premium to the venture and Allianz premium of approximately $400 million. In order to equalise the equity position, Allianz is paying HIH $200 million to acquire a 51% interest in the venture. Completion of the transaction is the date on which the new venture commences – 1 January 2001.

The venture parties each have options in relation to their interests. HIH has a put option that may be exercised at any time for $125 million. Allianz has a call option exercisable 5 years from commencement (or earlier in certain defined circumstances) for an exercise price representing HIH's 49% interest based on a fair market valuation subject to a minimum of $125 million and a maximum of $500 million.

These arrangements thus provide HIH with $200 million in January 2001, with an additional $125 - $500 million payable early in 2006, subject to specific exercise events and the fair market valuation (to be undertaken by an independent accountant).

The Australian general insurance industry's migration to a new set of prudential and regulatory standards, including new capital adequacy requirements, is currently not expected to be completed until 2007.

The

- *Operating profit after income tax for the year ended 30 June 2000 was $18.4 million compared with a loss of $39.8 million the previous year. The 2000 result included pre-tax abnormal items $(18.8) million (for the impact on the Group's tax balance of changes in the corporate tax range from 36% down to 30%) and $(6.0) million (reflecting the Queensland State Government's decision not to allow Compulsory Third Party insurers to charge Goods and Services Tax on the unearned premium as at 30 June 2000).*
- *Gross written premium grew by 18.7% to $2 867.6 million, mainly due to the first full year of the FAI acquisition being brought to account.*
- *The combined operating ratio improved from 108.8% to 105.2%, with most of the improvement attributable to the Australian operations. Significant factors contributing to the Australian performance were the impact of predicted rate increases and cost savings delivered through the FAI acquisition.*
- *Whole of account reinsurance, entered into with AAA and AA reinsurers consistent with industry practice, significantly protected the Group's underwriting portfolio. These contracts are long-term and are aimed at reducing the volatility of the profit and loss account.*
- *Cash flow from operating activities was negative $678 million, more than half of this number reflecting reinsurance payments on the whole of account protection programme. The settlement of large FAI run-off claims constituted the bulk of the balance. The whole of account reinsurance protection has led to a substantial increase in non-current reinsurance recoveries at 30 June 2000.*
- *Net investment income was $235.4 million, representing a return for the year of 9.8%. The Group's effective exposure to equities marginally reduced over the year (from 18.9% to 17.9%), with the asset allocation remaining heavily weighted (59.1%) towards fixed interest / cash.*

PROFIT AND LOSS - FOR THE YEAR ENDED 30 JUNE

	1999 $m	2000 $m
Gross written premium	2 415.0	**2 867.6**
Gross earned premium	2 318.4	**2 862.5**
Net earned premium	1 662.1	**1 995.4**
Net incurred claims	(1 299.8)	**(1 492.1)**
Net acquisition costs	(210.8)	**(259.0)**
Fire brigade charges/taxes	(36.6)	**(39.1)**
Underwriting expenses	(261.2)	**(308.7)**
Core underwriting profit/(loss)	(146.3)	**(103.5)**
Other business activities (net)	4.4	**1.3**
Investment income on policyholders funds	174.8	**175.0**
Net discount rate adjustment	9.9	**-**
Insurance result	**42.8**	**72.8**
Goodwill amortisation	(17.2)	**(35.3)**
Interest expenses	(17.9)	**(31.5)**
Coupon interest on convertible notes	(4.5)	**(4.5)**
Investment income on shareholders funds	71.1	**60.4**
Operating profit before income tax, abnormal and extraordinary items	74.3	**61.9**
CTP QLD Goods and Services Tax	(50.0)	**(6.0)**
Corporate tax rate change	-	**(18.8)**
Ocal coal mine	(50.1)	**-**
Operating (profit)/loss after abnormal and extraordinary items	(25.8)	**37.1**
Income tax benefit/(expenses)	(5.8)	**(17.9)**
Operating profit/(loss) after income tax	(31.6)	**19.2**
Outside equity interest	(8.2)	**(0.8)**
Operating profit/(loss) after income tax, attributable to shareholders	(39.8)	**18.4**

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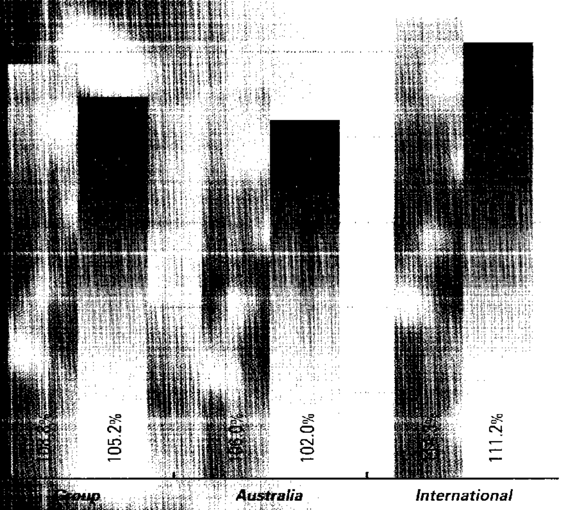
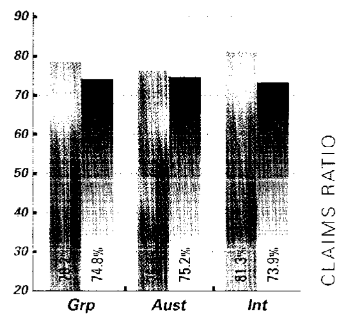
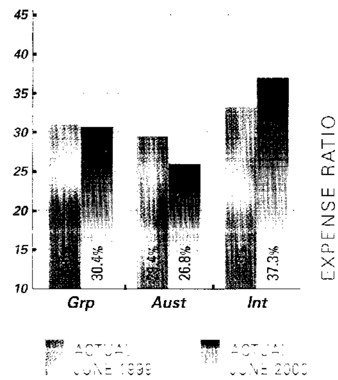
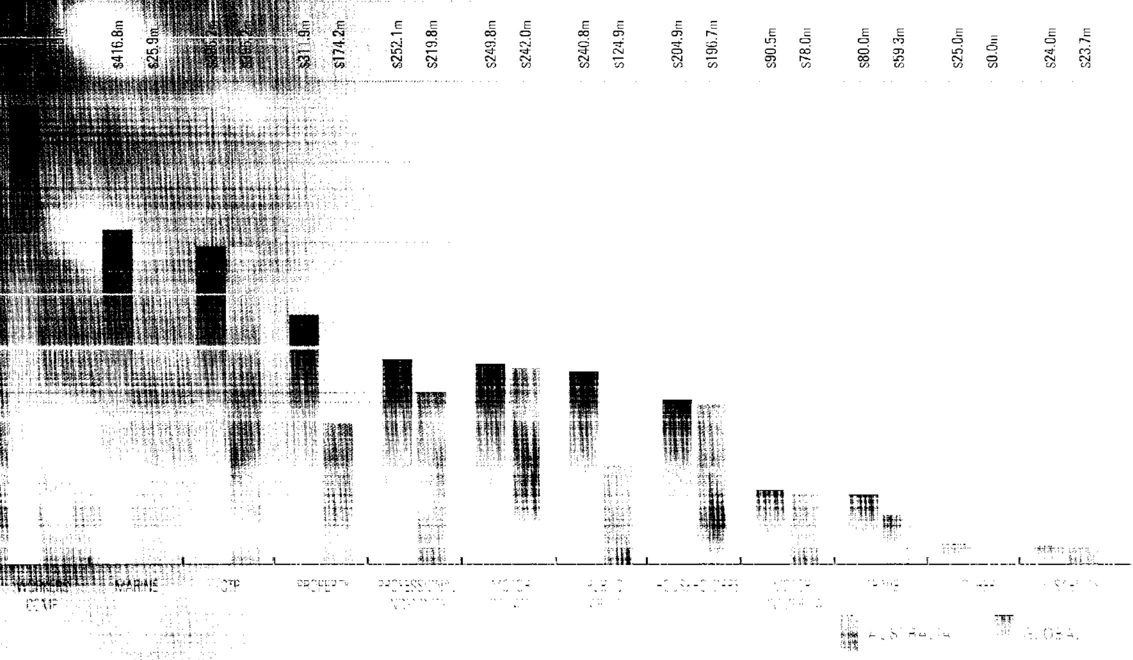








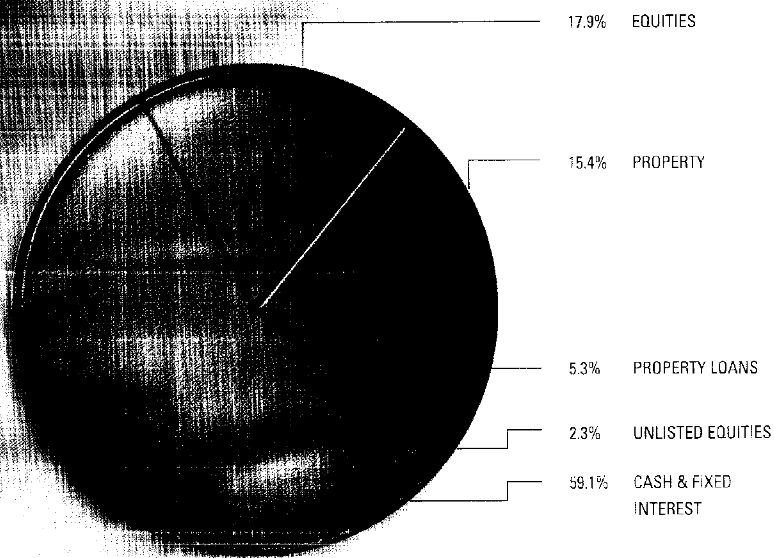
FINANCIAL PERFORMANCE

	12 months June 1996	12 months June 1997	12 months June 1998	12 months June 1999	**12 months June 2000**
	$m	$m	$m	$m	$m
Premium revenue earned - gross (excl VWA)	1 135.8	1 343.0	1 641.3	2 318.4	**2 862.5**
Premium revenue earned - net	888.5	1 067.0	1 300.5	1 662.1	**1 995.4**
Claims incurred and expenses	905.4	1 094.5	1 344.8	1 808.4	**2 098.9**
Combined ratio	101.9%	102.6%	103.4%	108.8%	**105.2%**
Underwriting profit/(loss)	(16.9)	(27.5)	(44.3)	(146.3)	**(103.5)**
Investment return on policyholders' funds	88.7	105.6	109.6	174.8	**175.0**
Net discount rate adjustment	2.9	(42.9)	(27.8)	9.9	**-**
Other business activities (net)	(3.7)	(1.7)	0.6	4.4	**1.3**
INSURANCE RESULT	71.0	33.5	38.1	42.8	**72.8**
Goodwill amortisation	(4.7)	(5.2)	(7.3)	(17.2)	**(35.3)**
Interest expense	(1.8)	(4.8)	(4.7)	(17.9)	**(31.5)**
Coupon interest on convertible notes	-	(5.4)	(2.3)	(4.5)	**(4.5)**
Investment return on shareholders' funds	26.1	95.8	31.4	71.1	**60.4**
Operating profit before income tax, abnormal & extraordinary items	**90.6**	**113.9**	**55.2**	**74.3**	**61.9**
Abnormal - provision for Goods and Services Tax	-	-	-	(50.0)	**(6.0)**
Extraordinary item	-	-	-	(50.1)	**-**
Corporate tax rate change	-	-	-	-	**(18.8)**
Income tax expense	(31.4)	(36.1)	(17.6)	(5.8)	**(17.9)**
Operating profit/(loss) after income tax, abnormal & extraordinary items	**59.2**	**77.8**	**37.6**	**(31.6)**	**19.2**
Outside equity interest	-	0.5	(0.1)	(8.2)	**(0.8)**
Operating profit/(loss) after income tax, attributable to shareholders	**59.2**	**78.3**	**37.5**	**(39.8)**	**18.4**
Dividend per share (cents)	13.0	15.0	16.0	12.0	**6.0**
Earnings per share (cents)	20.5	25.6	9.9	(0.4)	**(0.6)**
Net tangible asset backing per share - diluted *	1.23	1.38	1.66	1.02	**0.67**
Return on equity	15.4%	16.3%	6.5%	-5.0%	**2.0%**

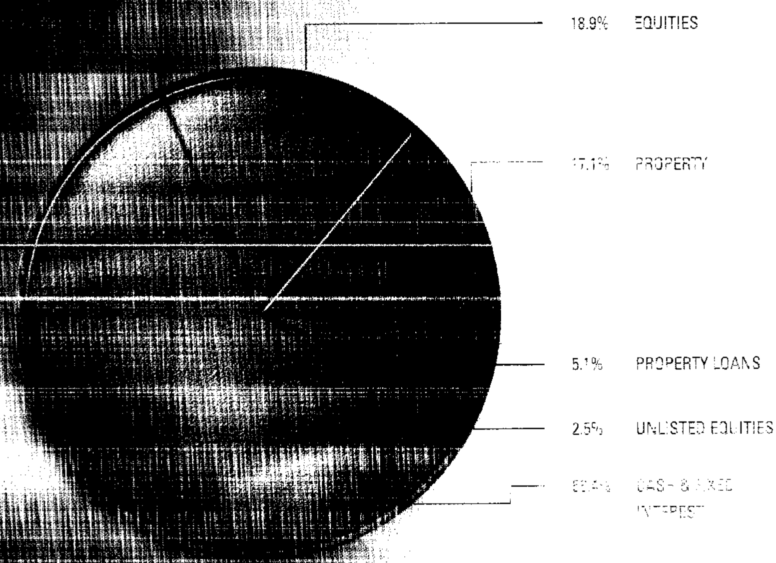
* *Adjusted for full effect of Convertible and Converting Note Issues, where applicable.*

In

2000 ACTUAL - TOTAL $2.8 billion



TOTAL $3.2 billion

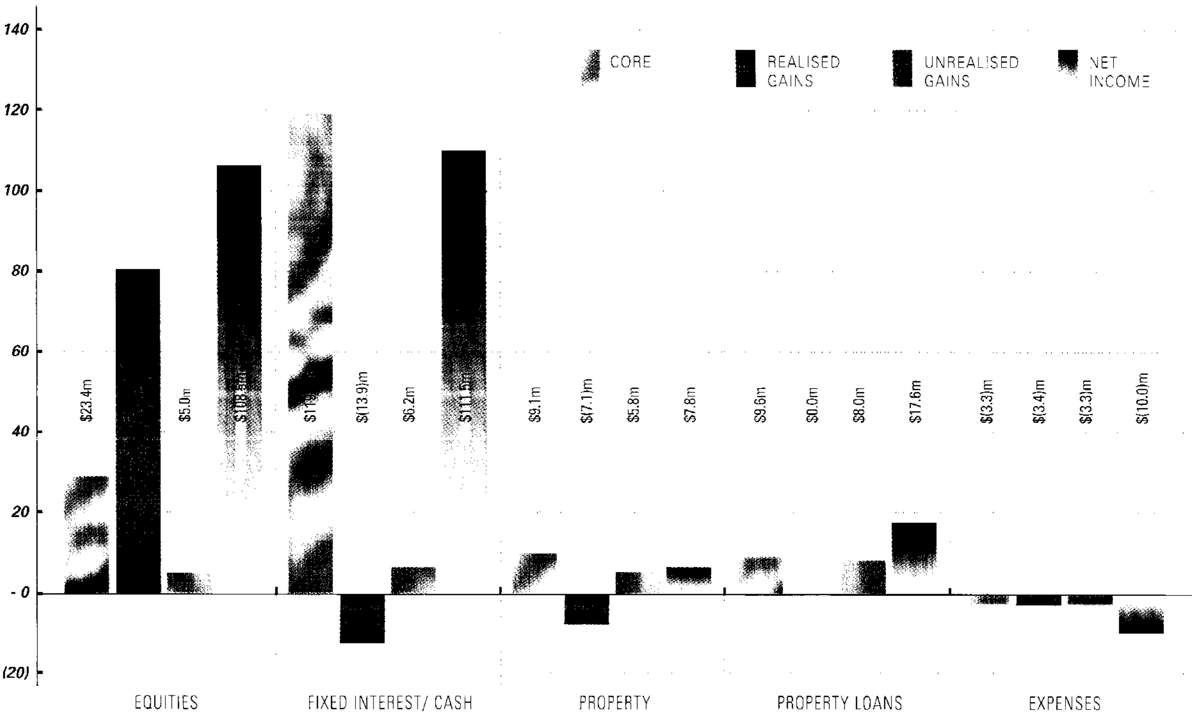


The Group's investment asset weightings changed marginally during the year, reflecting a slight reduction in exposure to equities and further progress in the property asset sale programme (undertaken following the company's acquisition of FAI).

The only large non-core FAI assets remaining with HIH are the St Moritz hotel in New York and the Emu Brewery site in Western Australia. HIH has now completed the first stage of the disposal of St Moritz and has received $125 million. The Emu Brewery asset will be realised in an orderly manner through on-going development.

The overall reduction of Group investment assets during the year was a function of the impact of claims payments relating to run-off portfolios and long-term whole of account reinsurance entered into during the period.

INVESTMENTS INCOME



Net investment income for 1999/2000 of $235.4 million was a solid performance.

The investment portfolio returned 9.8% for the year, in excess of the benchmark return set by the Group's Investment Committee. Equity stock selection by the internal and external equity fund managers substantially contributed to this out-performance.

HIH's non-core holding in One-Tel Limited contributed significantly to realised and unrealised gains in the first half. However, the market-to-market requirement meant that, by year end, virtually all of the unrealised gains had been reversed.

By the date of this report, HIH was no longer a substantial shareholder in One-Tel and the remaining holding is not material to HIH's investment fund. This position is consistent with the Group's investment policies and guidelines and does not reflect any particular investment view taken as to One-Tel.

Direct[illegible] r[illegible]

The Board of directors have pleasure in submitting its report for the year ended 30 June 2000.

DIRECTORS

The names and details of the directors in office during or since the end of the financial year are:

G A Cohen AM [illegible]
R R Williams AM
[illegible]
C P Abbott
R S Adler AM
T K Cassidy [illegible]
D Fodera [illegible]
J H Gardener
A W Gorrie [illegible]
N R Head [illegible]
M W Payne [illegible]
R R Stitt Q.C.
G O Sturesteps
RESIGNED [illegible]
H F R Wein

Details of the qualifications, experience and special responsibilities of the directors as at the date of this report, are as follows:

GEOFFREY ARTHUR COHEN AM

NON-EXECUTIVE CHAIRMAN (Aged 66)

Chairman of Audit, Human Resources, and Investment Committees. Mr Cohen has an extensive background in corporate financial management and was formerly a senior partner of Arthur Andersen. Mr Cohen's directorships include Foster's Brewing Group Limited and Diversified United Investment Limited.

RAYMOND REGINALD WILLIAMS AM

DEPUTY CHAIRMAN & CHIEF EXECUTIVE (Aged 64)

In 1968 Mr Williams, together with Mr Michael Payne, founded the Company that ultimately became HIH Insurance in Australia. He has held senior executive positions in the insurance industry for 40 years and is currently a Board Member of the Insurance Council of Australia Limited.

CHARLES PERCY ABBOTT

NON EXECUTIVE DIRECTOR (Aged 61)

Member of Audit Committee. Mr Abbott, a former partner and now a consultant to the major law firm Blake Dawson Waldron, is also a director of a number of other companies including Flinders Capital Limited and Bass Capital Limited.

RODNEY STEPHEN ADLER AM

NON-EXECUTIVE DIRECTOR (Aged 41)

Member of Investment Committee. Mr Adler is Chairman and Chief Executive of Adler Corporation Pty. Limited. He has a Bachelor of Commerce degree from the University of New South Wales, a Master of Economics degree from Macquarie University and is a Fellow of the Institute of Chartered Accountants in Australia. Mr Adler is a Governor of The Sydney Institute, an Adjunct Professor in the Faculty of Business at the University of Technology, Sydney, and is a director of other companies including Anaconda Nickel Limited and One-Tel Limited. He is chairman of Medicine Quantale Limited and Home Security International, and joint chairman of Juvenile Diabetes Australia.

JUSTIN HERBERT GARDENER

NON-EXECUTIVE DIRECTOR (Aged 64)

Member of Audit and Human Resources Committees. Mr Gardener had been a partner in Arthur Andersen since 1972 and ultimately was a Managing Practice Director with responsibility for the Asia Pacific Region over which he has developed a high level of expertise. He is chairman of Ashton Mining Limited and his other directorships include Austar United Communications Limited, Combined Communications Network Limited, Hillgrove Gold NL and Hutchinson Telecommunications (Australia) Limited.

ROBERT REGINALD STITT Q.C.

NON-EXECUTIVE DIRECTOR (Aged 59)

Member of Audit and Human Resources Committees. Mr Stitt has practised as a barrister extensively since 1968 and was appointed a Queen's Counsel in 1983. Mr Stitt has been a legal adviser to the Company since it commenced business in Australia.

HERMANN FRANZ RANDOLPH WEIN

CHIEF EXECUTIVE, ASIA (Aged 47)

Member of Reinsurance Committee. Mr Wein is an attorney-at-law and has had 20 years operational experience in the insurance industry, a substantial part of which is in the Asia Pacific area. Before joining the Company, he had been a senior executive of Winterthur Swiss Insurance Company for 8 years, with the last 4 as its Regional Chief Executive, Asia Pacific.

Unless indicated otherwise, all directors held their position as a director throughout the entire year and up to the date of this report.

DIRECTORS' MEETINGS

During the financial year the attendances of the directors at meetings of the Board and of its Committees were:

	BOARD MEETINGS	COMMITTEE MEETINGS			
		AUDIT	REINSURANCE	INVESTMENT	SHARE TRANSFER
Number of meetings held:	6	3	4	4	15
Number of meetings attended:					
G A Cohen AM	6	3		4	
R R Williams AM	6				15
C P Abbott	4	2			
R S Adler AM	5			4	
T K Cassidy	4		4	4	15
D Fodera	6		4	4	
J H Gardener	5	3			
A W Gorrie (1)	3				
N R Head (2)	1				
M W Payne	4		4		
R R Stitt Q.C.	5	3			
G O Sturesteps	4		4		
H F R Wein	4		3		

(1) Mr Gorrie was eligible to attend 4 Board Meetings prior to resigning from office

(2) Mr Head was eligible to attend 2 Board Meetings prior to resigning from office

Due to the change in the financial year in 1999 from 31 December to 30 June, the Human Resources Committee did not meet during the period of 1 July 1999 to 30 June 2000, as its meetings were scheduled either before or after these dates. This Committee meets at least once every calendar year.

DIRECTORS' INTERESTS

[illegible] this report, the relevant interest of the directors [illegible] options and convertible notes of the Company are:

	ORDINARY SHARES	OPTIONS	1998 NOTES
G A Cohen AM	61 566	-	4 260
R R Williams AM	12 222 715	500 000	19 200
C P Abbott	209 832	-	-
R S Adler AM	5 753 670	-	-
J H Gardener	112 713	-	-
R R Stitt Q.C.	140 260	-	1 129
H F R Wein	4 233	-	-

DIRECTORS' AND OFFICERS' REMUNERATION

Details of remuneration provided to Executive and Non-Executive Directors and the five most highly remunerated officers for the year to 30 June 2000 are as follows:

	BASE SALARY/FEE	COMMITTEE FEES	INCENTIVES	RETIREMENT BENEFITS	OTHER	TOTAL
NON-EXECUTIVE DIRECTORS	$	$	$	$	$	$
G A Cohen AM	150 000	18 000	-	48 090	-	216 090
C P Abbott	46 468	4 000	-	35 932	-	86 400
R S Adler AM	46 533	3 000	-	3 467	-	53 000
J H Gardener	-	7 000	-	50 000	-	57 000
A W Gorrie	17 451	3 000	-	11 856	-	32 307
N R Head	5 576	-	-	1 220	-	6 796
M W Payne	133 317	-	-	-	-	133 317
R R Stitt Q.C.	50 000	7 000	-	11 514	-	68 514
EXECUTIVE DIRECTORS						
R R Williams AM	1 140 625	-	-	7 067	-	1 147 692
T K Cassidy	664 833	-	-	7 067	-	671 900
D Fodera	646 602	-	-	30 526	-	677 128
G O Sturesteps	700 219	-	-	7 067	-	707 286
H F R Wein	529 410	-	118 918	-	-	648 328
OFFICERS						
G Davies	549 311	-	556 234	133 046	-	1 238 591
G Brown	632 145	-	88 012	34 917	-	755 074
H Simons	621 011	-	-	78 307	-	699 318
B Devereese	526 021	-	69 080	95 033	-	690 134
N Britten	496 754	-	67 157	101 368	-	665 279

No options were granted during the year

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year in Australia and internationally were general insurance underwriting, the operation of insurance underwriting agencies, investment funds management, financial services and property. The consolidated entity also managed workers compensation schemes in New South Wales, Victoria and South Australia.

GROUP RESULTS

Consolidated profit of the entity for the year ended 30 June 2000 was $18.4 million after extraordinary items, income tax expense and outside equity interests.

DIVIDENDS

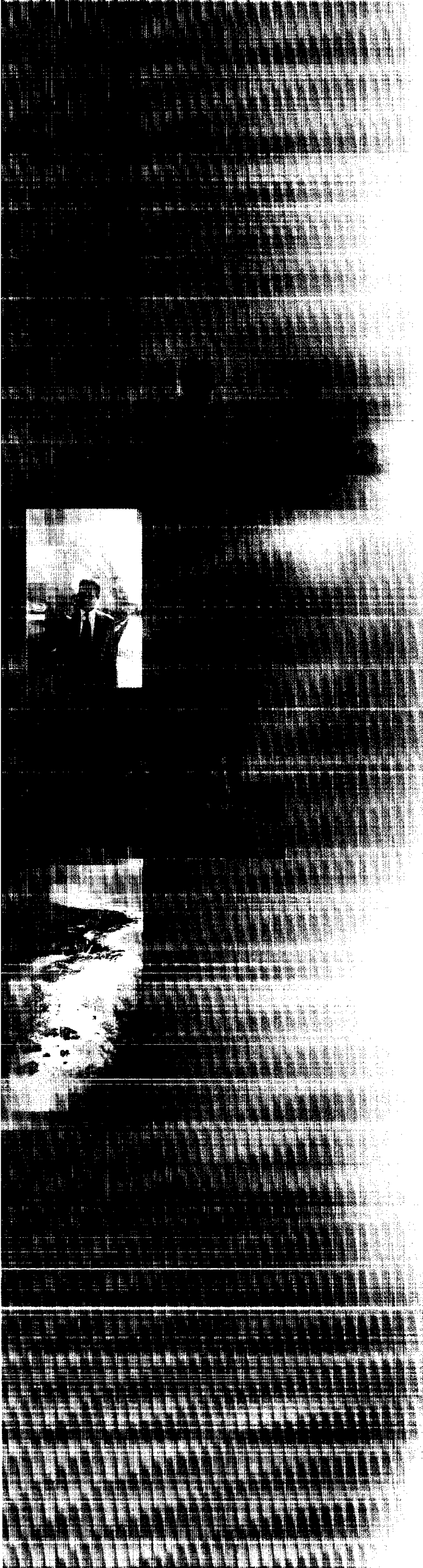
A 100% franked dividend of $18.5 million in respect of the previous period, as disclosed in the 30 June 1999 Directors' Report, was paid on 17 September 1999.

An interim 100% franked dividend of $18.7 million was paid on 7 April 2000.

Coupon interest totalling $21.3 million relating to convertible and converting notes issued, which are classified as equity, has been treated as a distribution out of retained earnings.

The directors declared a 100% franked final dividend of $9.4 million representing 2.0 cents per share which was paid to all shareholders on 6 October 2000.

Additional information is disclosed in the full financial statements.



REVIEW OF OPERATIONS

Premium revenue earned was $2 862.5 million for the year to 30 June 2000 compared to $3 136.8 million for the eighteen months to 30 June 1999. Operating profit after income tax for the year was $18.4 million as compared to the operating loss after tax amount of $21.2 million for the eighteen month period to 30 June 1999.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

CHANGE OF FINANCIAL YEAR END

The consolidated entity changed its financial year end from 31 December to 30 June as at 30 June 1999. These financial statements have been prepared to provide financial information and statements for the year to 30 June 2000, with comparatives stated for the eighteen month period to 30 June 1999.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 13 September 2000 a joint venture agreement was signed between certain controlled entities and Allianz Australia Insurance Limited (a wholly-owned subsidiary of Allianz AG). The joint venture business will comprise Allianz and those controlled entity's private motor; householders; CTP (New South Wales and Queensland); and rural and commercial business sourced through all distribution channels with the exception of international brokers.

The terms of the joint venture provide Allianz with 51% equity and the consolidated entity with 49%, effectively reducing the consolidated entity's retail annual premium by around $300 million to $700 million. Under the agreement, Allianz will pay the consolidated entity $200 million upfront and have a call option to acquire the consolidated entity's joint venture interest at fair market value after 5 years (up to a maximum of $500 million with a minimum of $125 million). The consolidated entity has a put option, exercisable at the minimum valuation at any time.

Other than the abovementioned, the directors of the parent entity have not become aware of any matter or circumstance that has arisen since the end of the financial year, which is not otherwise dealt with in the consolidated financial statements, that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

The directors expect the consolidated entity's future operating results to be affected by the joint venture with Allianz Australia Insurance Limited as noted above.

There are no other likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years except for those the disclosure of which would, in the opinion of the directors, prejudice the interests of the consolidated entity.

SHARE OPTIONS

Details of options granted to directors or relevant officers as part of their remuneration are set out in the section of this report headed Directors' and Officers' Remuneration. Details of shares and interests under option, or issued during or since the end of the financial year due to the exercise of an option, are set out in Note 28 of the full financial statements.

DIRECTORS' AND OFFICERS' REMUNERATION

Remuneration of directors and senior executives of the Company is established by the Human Resources Committee. Remuneration is determined as part of an annual performance review, having regard to market factors, a performance evaluation process and independent remuneration advice.

For executive directors and officers, remuneration packages generally comprise salary, a performance-based bonus and superannuation. Executives are also provided with longer-term incentives through the employee share ownership and option schemes, which act to align the executives' actions with the interest of the shareholders.

Non-executive directors are not entitled to performance based bonuses.

The non-executive directors are responsible for evaluating the performance of the Chief Executive, who in turn evaluates the performance of all other senior executives. These evaluations are based on specific criteria, including the Company business performance, whether long-term strategic objectives are being achieved and the achievement of individual performance objectives.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year, a controlled entity paid an insurance premium to insure directors and officers of the parent entity and its controlled entities against liability. The directors of the parent entity covered by the insurance contract are those listed on page 12. The contract also covers all executive officers, and directors and secretaries of wholly-owned controlled entities.

Disclosure of the amount of insurance premium payable under, and a summary of the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

ROUNDING OF AMOUNTS

The parent entity is of a kind referred to in the Australian Securities and Investments Commission class order 98/0100 relating to the rounding of amounts in the consolidated financial statements and Directors' Report to the nearest tenth of a million dollars, or in certain cases, to the nearest thousand dollars.

LODGEMENT OF FINANCIAL STATEMENTS

The parent entity has been granted approval by the Australian Securities and Investment Commission to lodge the financial report of the consolidated entity by 31 October 2000. Approval has also been granted to send the financial report to the members of the parent entity by 30 November 2000.

Signed in accordance with a resolution of the directors.

G A Cohen AM Director

R R Williams AM Director

Sydney, 16th October 2000

SIZE AND COMPOSITION OF THE BOARD

[illegible] seven directors on the Board. This is eight less than the maximum number provided for under the Company's Constitution. Details of the directors' experience and other positions held are set out on page 13 of this Report. The Chairman is one of five Non-Executive Directors. The two Executive Directors are the Chief Executive and the Chief Executive, Asia.

Since the end of the reporting period there were several changes to the HIH Board to improve Board efficiency. These changes included:

- *T K Cassidy resigned effective 12 October 2000. However, he maintains his executive role.*
- *D Fodera resigned effective 12 October 2000 and has been appointed Chief Operating Officer.*
- *M W Payne and G O Sturesteps resigned effective 12 September 2000.*
- *R R Williams AM will be retiring from the position of Chief Executive and will step down on the appointment of his replacement.*

CRITERIA FOR BOARD MEMBERSHIP

The Board remains comprised of directors with a wide range of experience necessary for the complex, international business HIH now represents. Drawing on a diverse range of professionals, HIH's Board of Directors include high level experience in insurance, financial management, legal, accounting and investment areas. Most of HIH's directors have senior Board appointments in other companies, and many have been at [illegible] Chief Executive or Senior Partner level.

TERMS OF APPOINTMENT

In accordance with the Company's Articles of Association, Board appointments have been made subject to election by shareholders at the Annual General Meeting and re-election. Directors (other than the Chief Executive) retire from office after a three year term. Under the Articles of Association, the office of an Executive Director may become vacant in certain circumstances including the incumbent ceasing to be an Executive of the Company for any reason.

MEETINGS AND AGENDAS

During the reporting period, the Board met on 6 occasions and directors also attended a number of meetings of Board committees (see Page 14 of this Report). Agendas for Board meetings are determined by the Chairman and the Chief Executive. Each committee chairman determines the agendas for committee meetings in consultation with senior management. In addition to formal Board meetings, there is also regular consultation between the Board and senior management. Furthermore, the Board conducts an annual review of operations in conjunction with senior management.

BOARD COMMITTEES

The four main committees and their functions are:

- *Audit: considers any significant matters relating to the financial affairs for the Company, including audit issues, accounting policies and performance standards in relation to financial systems and management, as well as environmental and Code of Ethics issues.*
- *Human Resources: reviews total remuneration for senior executives, organisation structure, succession and development plans for senior managers and issues relating to the constitution of the Board.*
- *Reinsurance: reviews the scope and nature of Group reinsurance programmes including gross capacities and retention levels for specific business classes and provides a forum for examining relationships with reinsurers.*
- *Investment: considers and formulates Group asset allocation ranges, set investment guidelines on currency and property dealings, and reviews the performance of internal and external fund managers against approved benchmarks.*

BOARD POLICIES

Beyond any requirements under the Corporations Law and the Constitution, the Board has in place specific policies on:

- *Directors' and Officers' share dealings*
- *Ethics and code of conduct*

VOTING RIGHTS

Ordinary shares

Subject to the Constitution of the Company, a member entitled to vote may vote in person or by proxy or by attorney or by representative at meetings of members.

On a show of hands every person present who is a member or proxy, attorney or representative of a member has one vote; and on a poll every person present who is a member or proxy, attorney or representative of a member has one vote for each share held by the member.

Convertible notes/Converting notes

Noteholders do not have any right to vote at general meetings of the Company.

STOCK EXCHANGE

The shares of HIH Insurance Limited are listed, and traded under the code HIH, with the Australian Stock Exchange Limited. The convertible notes are traded under the code HIHG, and the converting notes under the code HNZG. The Company is a participant in the Clearing House Electronic Subregister System (CHESS).

REGISTERED OFFICE

The registered office is located at:
Level 42, 50 Bridge Street
Sydney NSW 2000.
Telephone: (02) 9650 2000
Facsimile: (02) 9650 2083

SHARE/CONVERTING NOTE REGISTRY

The share and converting note registers are maintained at:
Registries Limited,
Level 2, 28 Margaret Street
Sydney NSW 2000.
Telephone: (02) 9279 0677
Facsimile: (02) 9279 0664

CONVERTIBLE NOTE REGISTRY

The convertible note register is maintained at:
Nedra Nominees Pty. Ltd.
C/- Houston & Hanna Secretarial Services, Suite 15,
George Turner Offices
11 McKay Gardens
Turner, ACT 2612
Telephone: (02) 6249 8515
Facsimile: (02) 6249 6792

DIVIDENDS

Two dividend payments were made in the year ended 30 June 2000:

- *1999 final dividend of 4 cents per share was paid on 17 September 1999;*
- *2000 interim dividend of 4 cents per share was paid on 7 April 2000*

A final dividend of 2 cents per share was paid on 6 October 2000.

A dividend reinvestment plan is in place which enables the shareholders to apply dividends paid or declared in subscribing for ordinary shares at a 5% discount from the weighted average market price of the Company's ordinary shares.

Shareholders may participate in respect of all their holdings or a specified number of shares, and may vary the level of participation or withdraw from the plan at any time. Shareholders who wish to take part in the plan should contact the share registry for an explanatory booklet and an application form.

2000/2001 FINANCIAL CALENDAR

13 SEPTEMBER 2000
2000 preliminary profit announcement and final dividend declaration.

22 SEPTEMBER 2000
Books close for final dividend.

6 OCTOBER 2000
Payment of final dividend.

15 DECEMBER 2000
Annual general meeting.

MARCH 2001
Half-yearly profit announcement and interim dividend declaration. Books close for interim dividend.

APRIL 2001
Payment of interim dividend.

SEPTEMBER 2001
2001 preliminary profit announcement and final dividend declaration.

OCTOBER 2001
Payment of final dividend

TWENTY LARGEST SHAREHOLDERS • FULLY PAID

AS AT 16 OCTOBER 2000

		NUMBER OF ORDINARY SHARES	% OF TOTAL
1:	*Chase Manhattan Nominees Limited*	28 129 580	5.90
2:	*National Nominees Limited*	26 938 265	5.65
3:	*Winterthur Holdings Australia Limited*	22 885 142	4.80
4:	*Mercantile Mutual Life Insurance Company Limited*	16 433 993	3.44
5:	*ANZ Nominees Limited*	15 042 167	3.15
6:	*MLC Limited*	10 727 398	2.25
7:	*Perpetual Trustees Nominees Limited*	9 075 209	1.90
8:	*Westpac Custodian Nominees Limited*	5 908 753	1.24
9:	*HSBC Custody Nominees (Australia) Limited*	5 776 244	1.21
10:	*Commonwealth Custodial Services Limited*	5 768 784	1.21
11:	*Citicorp Nominees Pty Limited*	5 648 503	1.18
12:	*Perpetual Trustees Australia Limited*	4 627 856	0.97
13:	*Ariahpark Pty Limited*	4 311 496	0.90
14:	*Huzoor Pty Limited*	3 438 699	0.72
15:	*Australian Foundation Investment Company Limited*	2 970 643	0.62
16:	*AMP Life Limited*	2 920 064	0.61
17:	*GO & [illegible] Sturesteps*	2 635 337	0.55
18:	*Mr Raymond Reginald Williams AM*	2 360 820	0.50
19:	*TK & [illegible] Cassidy Pty Ltd*	2 213 545	0.46
20:	*AMP Nominees Pty Limited*	2 164 898	0.45
	TOTAL	**179 977 396**	**37.71**

TWENTY LARGEST 1996 CONVERTIBLE NOTEHOLDERS • UNSECURED AT 8%

HIH INSURANCE LIMITED

AS AT 16 OCTOBER 2000

		NUMBER OF CONVERTIBLE NOTES	% OF TOTAL
1:	*Winterthur Holdings Australia Limited*	13 069 356	53.93
2:	*Perpetual Nominees Limited*	1 570 330	6.48
3:	*National Nominees Limited*	1 032 381	4.26
4:	*[illegible] Custodial Services Pty Ltd*	894 254	3.69
5:	*Challenger Life Limited*	868 190	3.58
6:	*Chase Manhattan Nominees Limited*	698 964	2.88
7:	*Perpetual Trustees Australia Limited*	394 335	1.63
8:	*[illegible] Trustees Limited*	334 863	1.38
9:	*[illegible]tual Trustees Nominees Limited*	330 506	1.36
10:	*Invia Custodian Pty Limited*	246 541	1.02
11:	*Commonwealth Custodial Limited*	229 318	0.95
12:	*Weresyd Proprietary Limited*	150 000	0.62
13:	*Sisters of Mercy - Melbourne Congregation*	120 000	0.50
14:	*[illegible] Custodians Limited*	118 006	0.49
15:	*[illegible] Lifetime Company Limited*	117 765	0.49
16:	*[illegible]ker Custodian Corporation Limited*	100 000	0.42
17:	*Legal and General Life of Australia Limited*	97 936	0.40
18:	*Matine Limited*	95 000	0.39
19:	*Health Super Pty Ltd*	61 633	0.25
20:	*Greystanes Enterprises Pty Ltd*	58 000	0.24
	TOTAL	**20 587 378**	**84.96**

TWENTY LARGEST 1998 CONVERTING NOTEHOLDERS • UNSECURED AT 7.535%

AS AT 16 OCTOBER 2000

		NUMBER OF CONVERTING NOTES	% OF TOTAL
1:	*SG Australia Limited*	*10 186 854*	*23.90*
2:	*AMP Life Limited*	*10 000 000*	*23.46*
3:	*National Nominees Limited*	*7 777 591*	*18.25*
4:	*The National Mutual Life Association of Australia Limited*	*2 006 564*	*4.71*
5:	*Legal & General Life of Australia Limited*	*1 500 000*	*3.52*
6:	*Elise Nominees Pty Limited*	*1 308 643*	*3.07*
7:	*Citicorp Nominees Pty Limited*	*1 295 592*	*3.04*
8:	*South Australian Asset Management Corporation*	*1 000 000*	*2.35*
9:	*Permanent Trustee Company Limited*	*634 420*	*1.49*
10:	*MLC Lifetime Company Limited*	*378 426*	*0.89*
11:	*Arton No. 001 Pty Ltd*	*308 000*	*0.72*
12:	*Questor Financial Services Limited*	*279 000*	*0.65*
13:	*Challenger Life Limited*	*221 019*	*0.52*
14:	*Westpac Custodian Nominees Limited*	*220 000*	*0.52*
15:	*Allind Pty Limited*	*210 958*	*0.49*
16:	*CSFB Second Nominees Pty Ltd*	*200 305*	*0.47*
17:	*Perpetual Trustees Nominees Limited*	*200 000*	*0.47*
18:	*LM Nominees Pty Ltd*	*200 000*	*0.47*
19:	*Tower Trust Limited*	*194 000*	*0.46*
20:	*Nordia Pty Ltd*	*140 000*	*0.33*
	TOTAL	***38 261 872***	***89.78***

SUBSTANTIAL SHAREHOLDERS

AS AT 16 OCTOBER 2000

	DATE OF NOTICE	NUMBER OF SHARES
Mercantile Mutual Holdings Limited	*27.3.00*	*25 765 063*
Maple - Brown Abbott Limited	*19.5.00*	*38 579 045*

This information is as disclosed by notices received by the company (up to 16 October 2000) under Part 6.7 of the Corporations Law.

DISTRIBUTION OF SECURITIES

AS AT 16 OCTOBER 2000

SIZE OF HOLDING	ORDINARY SHARES NUMBER OF SHAREHOLDERS	1996 CONVERTIBLE NOTES NUMBER OF NOTEHOLDERS	1998 CONVERTING NOTES NUMBER OF NOTEHOLDERS
1 - 1000	*4 528*	*616*	*307*
1 001 - 5 000	*13 521*	*537*	*688*
5 001 - 10 000	*6 248*	*116*	*94*
10 001 - 100 000	*5 400*	*61*	*47*
100 001 and over	*276*	*15*	*23*
Total number of holders	*29 973*	*1 345*	*1 159*
Number of holders with less than a marketable parcel	*5 305*	*154*	*8*

REMOVAL FROM ANNUAL REPORT MAILING LIST

Shareholders who do not wish to receive the Annual Report, or who are presently receiving more than one copy and wish to receive one copy only, should advise the share registry in writing.

WEBSITE

HIH's web address is www.hih.com.au. Visit us for company and financial information as well as the latest HIH news.

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FOR THE YEAR ENDED 30 Ju

Contents

The 2000 Concise Report has been derived from the 2000 Annual Report of HIH Insurance Limited.
The financial statements included in the Concise Report can not be expected to provide as full an understanding of the economic entity's performance, financial position and financing and investing activities, as provided by the 2000 Annual Report.

2000 ANNUAL REPORT

A copy of the HIH Insurance Limited 2000 Annual Report, together with the Independent Audit Report, is available to all shareholders, and will be sent to shareholders without charge upon request.

This discussion and analysis is provided to assist readers in understanding the Concise Financial Report. The Concise Report has been derived from the full 2000 financial statements of HIH Insurance Limited.

BUSINESS DESCRIPTION

The HIH Insurance Limited consolidated entity consists of HIH Insurance Limited and its controlled entities. The principal activities of the HIH Insurance Limited consolidated entity during the financial year primarily comprised general insurance underwriting and associated insurance underwriting agency, investment funds management, and workers compensation fund management.

OPERATING PERFORMANCE

The consolidated profit of HIH Insurance Limited for the year ended 30 June 2000 was $18.4 million after abnormal item, income tax expense and outside equity interests.

Other financial highlights for the year ended 30 June 2000 were :

- *Gross written premium $2 867.6 million*
- *Gross earned premium $2 862.5 million*
- *Net earned premium $1 995.4 million*
- *Operating profit before abnormal item and income tax $61.9 million*
- *Abnormal item before income tax (provision for Goods and Services Tax) $6.0 million*
- *Abnormal tax expense (restatement of deferred tax balances due to income tax rate changes) $18.8 million*
- *Group combined ratio (claims and expenses to net earned premium) 105.2%*
- *Final dividend of 2 cents per share, paid 6 October 2000, 100% franked*

A sound and improving Australian result (representing two-thirds of HIH's business) was the highlight of a year adversely affected by the results from international operations; a deterioration in the run-off of discontinued FAI long-tail business; and market generated investment write-downs.

BALANCE SHEET

Total assets increased by $276.0 million or 3% with a corresponding increase of $283.3 million or 4% in total liabilities predominantly due to the increase in provisions for outstanding claims and goodwill related to the acquisition of the FAI group of companies.

The magnitude of discontinued FAI business run-off issues was not indicated or anticipated from the external actuarial review completed for the interim results announcement in March 2000. The extent of this development was not quantified until recently when a further exhaustive review was completed. It is now believed that all of the FAI run-off adverse claims development has been accounted for.

The Allianz transaction, as disclosed in the Directors' Report, means that the substantial value in the on-going FAI business has materially assisted to ensure that the large goodwill figure will be replaced by cash and receivables.

The equity attributable to shareholders decreased by $7.6 million or 0.8% mainly as a net result of increase in share capital and reserves due to shares issued pursuant to the Dividend Reinvestment Plan and dividends paid of 6 cents for the financial year.

STATEMENT OF CASH FLOWS

Net cash outflows from operating activities were $678.3 million, reflecting the incidence of major loss events and increased reinsurance coverage.

The $543.8 million cash inflows from investing activities mainly reflect the proceeds from sales of investments during the year.

Further details are provided in the full financial statements.

PROFIT AND LOSS STATEMENT

for the year ended 30 June 2000

	CONSOLIDATED 1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
Operating profit before abnormal item and income tax	**61.9**	102.0
Abnormal item before income tax	**(6.0)**	(50.0)
Operating profit before income tax	**55.9**	52.0
Income tax attributable to operating profit	**(17.9)**	(14.7)
Abnormal tax expense	**(18.8)**	-
Operating profit after income tax	**19.2**	37.3
Loss on extraordinary items	**-**	(50.1)
Income tax attributable to loss on extraordinary items	**-**	-
Loss on extraordinary items after income tax	**-**	(50.1)
Outside equity interest in operating profit	**(0.8)**	(8.4)
Operating profit/(loss) after extraordinary items and income tax attributable to members of the parent entity	**18.4**	(21.2)
(Accumulated losses)/retained profits at the beginning of the period	**(26.5)**	89.9
Total available for appropriation	**(8.1)**	68.7
Dividends and other distributions provided for or paid	**(49.4)**	(95.2)
Accumulated losses at the end of the period	**(57.5)**	(26.5)

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

at 30 June 2000	NOTE	CONSOLIDATED 30.6.00 $m	30.6.99 $m
Current Assets			
Cash		**461.6**	*638.7*
Receivables		**1 603.6**	*1 400.7*
Investments		**624.4**	*803.5*
Reinsurance recoveries receivable	8	**431.6**	*415.5*
Deferred acquisition costs		**304.3**	*278.3*
Other		**25.0**	*33.8*
Total Current Assets		**3 450.5**	*3 570.5*
Non-Current Assets			
Receivables		**0.6**	*35.0*
Investments		**1 753.1**	*1 908.8*
Plant and equipment		**164.6**	*147.8*
Reinsurance recoveries receivable	8	**1 388.3**	*986.7*
Intangibles		**494.4**	*346.5*
Other		**244.4**	*191.7*
Total Non-Current Assets		**4 045.4**	*3 616.5*
New South Wales Workers Compensation Statutory Funds		**831.2**	*864.1*
Total Assets		**8 327.1**	*8 051.1*
Current Liabilities			
Accounts payable		**381.0**	*563.7*
Borrowings		**19.6**	*164.5*
Provisions		**83.7**	*46.3*
Outstanding claims		**1 423.4**	*1 415.5*
Unearned premiums		**1 069.4**	*1 038.9*
Other		**49.2**	*33.9*
Total Current Liabilities		**3 026.3**	*3 262.8*
Non-Current Liabilities			
Accounts payable		**14.5**	-
Borrowings		**504.4**	*335.8*
Provisions		**4.1**	*6.0*
Outstanding claims		**3 007.5**	*2 636.0*
Total Non-Current Liabilities		**3 530.5**	*2 977.8*
New South Wales Workers Compensation Statutory Funds		**831.2**	*864.1*
Total Liabilities		**7 388.0**	*7 104.7*
Net Assets		**939.1**	*946.4*
Shareholders' Equity			
Share capital		**697.9**	*684.2*
Convertible notes		**65.3**	*65.3*
Converting notes		**213.1**	*213.1*
Reserves		**8.7**	*(1.0)*
Accumulated losses		**(57.5)**	*(26.5)*
Total Shareholders' Equity *attributable to members of the parent entity*		**927.5**	*935.1*
Outside equity interests in controlled entities		**11.6**	*11.3*
Total Shareholders' Equity		**939.1**	*946.4*

The accompanying notes form an integral part of this balance sheet

STATEMENT OF CASH FLOWS

for the year ended 30 June 2000

	CONSOLIDATED 1.7.99 to 30.6.00 $m	1.1.98 to 30.6.99 $m
Cash flows from operating activities		
Premiums and fees received	**2 829.8**	3 315.8
Claims paid	**(1 784.2)**	(2 501.6)
Payments to reinsurers, suppliers and employees	**(1 818.3)**	(1 357.4)
Dividends received	**23.1**	36.8
Interest received	**107.5**	179.7
Rent received	**17.0**	20.1
Interest paid	**(46.7)**	(26.6)
Income taxes paid	**(6.5)**	(8.2)
Net cash used in operating activities	**(678.3)**	(341.4)
Cash flows from investing activities		
Payments for plant and equipment	**(51.5)**	(71.6)
Proceeds from sale of plant and equipment	**3.2**	4.9
Proceeds from sale of controlled entities, net of cash disposed	**54.6**	3.6
Payments for purchase of controlled entities, net of cash acquired	**(3.8)**	91.6
Proceeds, net of payments, for investments	**541.3**	502.9
Net cash provided by investing activities	**543.8**	531.4
Cash flows from financing activities		
Proceeds from convertible and converting note issues	**-**	275.1
Payments relating to convertible and converting note issues	**-**	(4.4)
Proceeds from borrowings	**165.8**	46.5
Repayment of borrowings	**(169.5)**	-
Dividends paid	**(23.7)**	(40.3)
Coupon interest on convertible and converting note issues	**(21.3)**	(20.4)
Proceeds from issues of shares and options	**-**	1.1
Borrowing costs	**(2.1)**	-
Net cash provided by/(used in) financing activities	**(50.8)**	257.6
Net (decrease)/increase in cash held	**(185.3)**	447.6
Cash at the beginning of the period	**638.7**	203.7
Effect of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the financial period	**8.2**	(12.6)
Cash at the end of the period	**461.6**	638.7

Notes TO AND FORMING PART OF THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES

The Concise Financial Report has been derived from the full 2000 financial statements as presented in the HIH Insurance Limited Annual Report, which comply with the Corporations Law, applicable Accounting Standards and Urgent Issues Group Consensus Views. This Concise Financial Report has been prepared in accordance with accounting standard AASB 1039, Concise Financial Reports and the relevant provisions of the Corporations Law. A full description of the accounting policies adopted by HIH Insurance Limited is provided in the full 2000 financial statements. The accounting policies are consistent with those of the previous financial period except where otherwise disclosed.

(a) Comparatives

The economic entity changed its financial year end from 31 December to 30 June as at 30 June 1999. These financial statements have been prepared to provide financial information and statements for the year to 30 June 2000 with comparatives stated for the eighteen month period to 30 June 1999.

Prior period comparatives have been reclassified, where applicable, to conform with the presentation of the current financial period and changes in accounting policy.

(b) Amounts payable to/due from reinsurers, other insurers and statutory bodies

A designated committee of the Board of HIH Insurance Limited oversees the entire reinsurance program for the Group, including ensuring that the vast majority of the individual reinsurance protections are with A rated companies or better.

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 are 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.

Following the acquisition of FAI Insurances Limited, the Board's reinsurance committee also approved the purchase of whole of account reinsurance contracts with AAA and AA rated companies. These contracts are long-term and are aimed at reducing the volatility of the profit and loss account. The premiums expense in the future years for these long-term reinsurance contracts will be recognised in accordance with the pattern of reinsurance services received. The reciprocal of the long-term benefit of these contracts is that commutation before the end of their term may have a material adverse impact on financial results and/or solvency. The Board has no intention to commute these contracts.

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 consolidated entity operates.

RESULTS OF INSURANCE ACTIVITIES

	CONSOLIDATED	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
Gross written premium	**2 867.6**	*3 347.2*
Gross premium earned	**2 862.5**	*3 136.8*
Outward reinsurance expense	**(867.1)**	*(812.2)*
Net premium earned	**1 995.4**	*2 324.6*
Claims expense		
Direct	**(2 608.4)**	*(2 634.7)*
Inward reinsurance	**(107.3)**	*(263.5)*
Claims handling costs	**(63.0)**	*(45.5)*
Total claims expense	**(2 778.7)**	*(2 943.7)*
Reinsurance recoveries	**1 286.6**	*1 123.5*
Net claims incurred	**(1 492.1)**	*(1 820.2)*
Underwriting expenses	**(308.7)**	*(328.2)*
Fire brigade charges	**(39.1)**	*(52.4)*
Net acquisition costs	**(259.0)**	*(297.5)*
Total underwriting expenses	**(606.8)**	*(678.1)*
Underwriting loss	**(103.5)**	*(173.7)*
Investment return on policyholders' funds	**175.0**	*229.0*
Net discount rate adjustment	**-**	*(1.3)*
Other business activities (net)	**1.3**	*4.5*
Insurance result	**72.8**	*58.5*
Goodwill amortisation	**(35.3)**	*(20.8)*
Investment return on shareholders' funds	**60.4**	*91.3*
Interest expense		
Convertible notes	**(4.5)**	*(6.8)*
Other	**(31.5)**	*(20.2)*
Operating profit before abnormal item and income tax	**61.9**	*102.0*

OPERATING REVENUE

	CONSOLIDATED	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
Gross premium earned		
Direct	**2 754.5**	2 816.7
Inward reinsurance	**108.0**	320.1
	2 862.5	3 136.8
Reinsurance recoveries revenue	**1 286.6**	1 123.5
Investment revenue		
Dividends from		
- associated entities	**0.7**	-
- non-related entities	**23.0**	14.9
Interest from		
- non-related entities	**109.5**	194.2
Rentals	**17.0**	15.4
	150.2	224.5
Changes in net market value of investments		
- realised	**53.6**	97.9
- unrealised	**31.6**	(2.1)
	85.2	95.8
Revenue from other business activities	**88.6**	103.1
Proceeds from sale of non-current assets	**3.2**	4.9
Total revenue	**4 476.3**	4 688.6

EXTRAORDINARY ITEMS

	CONSOLIDATED 1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
Loss on sale of interest in controlled entity	-	(50.1)
Applicable income tax	-	-
	-	(50.1)

EARNINGS PER SHARE

	cents	cents
Basic earnings per share	**(0.6)**	4.0
Diluted earnings per share	**1.9**	5.6

DIVIDENDS

	ON ORDINARY SHARES $m	DIVIDEND PER ORDINARY SHARE $
The following dividends of the consolidated entity have been paid, declared or recommended since the end of the proceeding financial period.		
Final dividend for 30 June 1999 fully franked, paid 17 September 1999	**18.5**	0.04
Interim dividend for 30 June 2000 fully franked, paid 7 April 2000	**18.7**	0.04
Final dividend for 30 June 2000 fully franked, paid 6 October 2000	**9.4**	0.02

DIVIDEND FRANKING

All dividends paid or provided for as reported in the profit and loss statement were or will be franked at the rates noted above at the current tax rate of 36%.

SEGMENT INFORMATION

Contributions to consolidated revenue, operating profit before income tax and total assets held during the period were:

	REVENUE	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
By Activity		
- Underwriting	**4 476.3**	4 688.6
By Geographical Area		
- Australia	**2 441.1**	2 908.0
- U.S.A.	**488.8**	736.4
- New Zealand	**286.0**	187.7
- Asia	**197.8**	150.3
- United Kingdom	**1 016.9**	664.2
- Argentina	**45.7**	42.0
	4 476.3	4 688.6

	OPERATING PROFIT BEFORE INCOME TAX	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
By Activity		
- Underwriting	**55.9**	52.0
By Geographical Area		
- Australia	**152.5**	78.4
- U.S.A.	**(45.4)**	(20.5)
- New Zealand	**7.2**	17.4
- Asia	**(11.9)**	(5.4)
- United Kingdom	**(48.7)**	(21.7)
- Argentina	**2.2**	3.8
	55.9	52.0

	TOTAL ASSETS	
	30.6.00 $m	30.6.99 $m
By Activity		
- Underwriting	**8 327.1**	8 051.1
By Geographical Area		
- Australia	**6 008.3**	6 360.5
- U.S.A.	**762.5**	733.9
- New Zealand	**310.3**	205.6
- Asia	**246.8**	92.2
- United Kingdom	**949.0**	625.0
- Argentina	**50.2**	33.9
	8 327.1	8 051.1

REINSURANCE RECOVERIES RECEIVABLE

	CONSOLIDATED	
	30.6.00 $m	30.6.99 $m
Expected future recoveries on outstanding claims (undiscounted)	***1 991.6***	*1 550.9*
Discount to present value	***(171.7)***	*(148.7)*
Reinsurance recoveries receivable	***1 819.9***	*1 402.2*
Current	***431.6***	*415.5*
Non-current	***1 388.3***	*986.7*
	1 819.9	*1 402.2*

Consistent with industry practice, the consolidated entity has entered into whole of account reinsurance contracts to protect its underwriting portfolio. In the current year, the consolidated entity has entered into a further whole of account contract for a period of five years. Included in reinsurance recoveries receivable above is $220 million of discounted recoveries relating to this contract. Of this amount, the recovery of $120 million is dependent upon the performance of the contract, in line with expectations over the life of the contract. The principal factors influencing performance include:

1. *Investment performance of the underlying experience account*
2. *Claims payments patterns*
3. *Continuity of the contract*

These events are inherently uncertain and the ultimate performance of the contract and the realisation of the benefits of the contract may differ from expectations. The net financial benefit of this contract for the current year was $84 million after taxes.

On 13 September 2000 a joint venture agreement was signed between certain controlled entities and Allianz Australia Insurance Limited (a wholly-owned subsidiary of Allianz AG). The joint venture business will comprise Allianz and those controlled entity's private motor; householders; CTP (New South Wales and Queensland); and rural and commercial business sourced through all distribution channels with the exception of international brokers.

The terms of the joint venture provide Allianz with 51% equity and the consolidated entity with 49%, effectively reducing the consolidated entity's retail annual premium by around $300 million to $700 million. Under the agreement, Allianz will pay the consolidated entity $200 million upfront and have a call option to acquire the consolidated entity's joint venture interest at fair market value after 5 years (up to a maximum of $500 million with a minimum of $125 million). The consolidated entity has a put option, exercisable at the minimum valuation at any time.

The joint venture is due to commence on 1 January 2001, subject to certain conditions precedent, including regulatory approvals and the maintenance of an appropriate claims paying rating.

ADJUSTMENT TO PRELIMINARY FINAL STATEMENT

The consolidated balance sheet of the consolidated entity for the year ended 30 June 2000 differed from those announced in the Unaudited Preliminary Final Statement made to the Australian Stock Exchange, as follows:

	CONSOLIDATED FINANCIAL STATEMENT		PRELIMINARY FINAL STATEMENT	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Non-Current Assets				
Reinsurance recoveries receivable	**1 388.3**	986.7	**1 388.3**	634.7
Total Non-Current Assets	**4 045.4**	3 616.5	**4 045.4**	3 264.5
Total Assets	**8 327.1**	8 051.1	**8 327.1**	7 725.4
Non-Current Liabilities				
Accounts payable	**14.5**	-	**2.4**	-
Borrowings	**504.4**	335.8	**516.5**	335.8
Outstanding claims	**3 007.5**	2 636.0	**3 007.5**	2 284.0
Total Non-Current Liabilities	**3 530.5**	2 977.8	**3 530.5**	2 625.8
Total Liabilities	**7 388.0**	7 104.7	**7 388.0**	6 779.0

The changes in the above balance sheet items arose from:

1. *Reclassification of certain accruals between Borrowings and Accounts Payable*
2. *Amendment to prior period comparatives reflecting the change in accounting policy on whole of account reinsurance contract recoveries*

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 2000 and performance of the company and consolidated entity for the year 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;

(ii) the financial statements and notes are in accordance with the Corporations Law; and

(iii) at the date of this declaration, there are reasonable grounds to believe that the parent entity and the subsidiaries party to the deed described in Note 37 of the full financial statements will be able to meet any obligation or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee.

Made in accordance with a resolution of the directors.

G A Cohen AM Director

R R Williams AM Director

Sydney, 16th October 2000

To the Members of HIH Insurance Limited

Scope

We have audited the concise financial report of HIH Insurance Limited for the financial year ended 30 June 2000 as set out on pages 23 to 36, in order to express an opinion on it to the members of the company. The company's directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial statements of HIH Insurance Limited for the year ended 30 June 2000. Our audit report on the full financial statements was signed on 16th October 2000 and was subject to an emphasis of matter.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial statements. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB1039 "Concise Financial Reports".

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

Audit Opinion

In our opinion, the concise financial report of HIH Insurance Limited complies with Accounting Standard AASB1039 "Concise Financial Reports".

Whole of Account Reinsurance

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1(b) to the financial statements, the consolidated entity enters into whole of account reinsurance contracts to protect its underwriting portfolio. The realisation of benefits arising from a contract entered into during the financial year are dependent on factors described in Note 8 to the financial statements.

Arthur Andersen

Arthur Andersen
Chartered Accountants

John Buttle
Partner

Sydney, 16th October 2000

Corporate di

SECRETARY

Frederick Lo

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HIHG - Convertible Notes
HNZG - Converting Notes

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Notes

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INSURANCE

The year in review was a tough one for the company. I am also the first to acknowledge it was an even tougher year for our shareholders, given the substantial erosion of value of holding that took place in the share price.

What went wrong? In short, the strong performance from our Australian and New Zealand operations was not sufficient to offset the market difficulties encountered in both the United Kingdom and the United States as well as substantial losses that emerged from the acquisition of FAI Insurances Limited.

How did it happen? Like many insurers, over time, we have sought to balance our business and spread our risks (by product and geographic market). In our case, this spread of operations beyond our Australian-base actually exacerbated the problems because of the coincidence of the high frequency of catastrophes faced in the London market and the continuing poor market conditions for California workers compensation. Moreover, while we streamlined and improved the operations of FAI post-acquisition, we suffered badly from adverse claims development from business acquired through the acquisition of FAI. While some deterioration had been anticipated from this area, the extent that we faced was not expected, nor could it have been anticipated.

The end result is that the events of the year inflicted material damage on both our profitability and our capital base.

What are we doing about it? Well, we now must live within the limits of our current capital and resources. This means we have had to review all of our business to ensure that we continue to pursue only those areas that are sustainable in the short to medium term.

As well as reviewing the whole business, we've made Board and management changes. Ray Williams will be retiring from the position of Chief Executive and will step down on the appointment of his replacement. On behalf of the Board, I would like to place on record our thanks to Ray Williams for his contribution to HIH. He founded this company and over 30 years of dedication and tireless effort he turned a start-up business into a global corporation with turnover of $3 billion and total assets of $8 billion – a remarkable achievement. Ray has inspired all around him with his selfless passion for the company and his work ethic. We all wish him well.

More changes will no doubt follow on the appointment of a new Chief Executive, an appointment currently expected to be made before this calendar year end. The key objectives for HIH going forward are to protect and nurture our core business areas and to ensure that the company has a sound financial base.

This report contains more details on all of these areas.

Before concluding, I would like to thank my fellow Directors and all of the management and staff for their efforts through what has obviously been a testing period for the company and its shareholders. Everyone has shown exceptional commitment to the company and its future.

Geoffrey Cohen

Geoffrey A Cohen AM
Chairman

- *Continuing improvement in the HIH Australian book (two-thirds of the company's business).*
- *Strong results, yet again, in New Zealand.*

- *Further adverse experience from FAI run-off business.*
- *Losses flowing from the depressed stage of the United Kingdom rate cycle.*
- *A volatile and problematic market environment for our California-based United States workers compensation business.*
- *Continuing challenges in establishing a supportable critical mass for our Asian operations.*
- *A regulatory reform process that will make Australia one of the world's most capital intensive insurance jurisdictions.*
- *A post results announcement Standard & Poor's ratings downgrade from A- strong financial strength to BBB+ good.*

- *Initiating, early in 2000, a global business review.*
- *Arising out of that review, post-balance date, by :*
  - *forming a new retail insurance venture with Allianz Australia Limited designed to provide steady earnings and a capital base tailored to meet Australia's proposed new regulatory regime*
  - *introducing changes to Board structure and management aimed at substantially improving corporate governance and Board efficiency*
  - *ceasing to underwrite new workers compensation business in the United States and selling the renewal rights to California workers compensation business*
  - *accelerating the financial restructuring of our Asia operations.*

- *With corporate insurance market leadership in Australia and New Zealand.*
- *With a 5 year 49% interest in one of Australia's leading retail general insurance franchises.*
- *With a significant presence at Lloyd's of London.*
- *On a strengthened capital base and a clear focus on our core businesses.*

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UNITED KINGDOM

- [illegible] ce [illegible] ant [illegible] rate [illegible] rs combi[illegible] ed [illegible] st trading [illegible]
- [illegible] year, the HI[illegible] ranch [illegible] were placed [illegible] off [illegible] ping business now [illegible] within the Group's [illegible] syndicates at Lloyd's
- [illegible] now represents [illegible] 's capacity and is [illegible] represent 85% of [illegible] billion capacity for the 2001 year. HIH, through [illegible]oteswor th, provides around [illegible] of this total capacity. Recent [illegible] mean that another [illegible] insurer, the QBE [illegible] Group, is now the largest [illegible] of capital at Lloyd's
- *Results for the year from both the UK Branch run-off and the Cotesworth syndicates were generally poor, although it is worth noting that the historical financial performance of the principal Cotesworth syndicates has been favourable compared with the Lloyd's market overall.*
- *Lloyd's results are produced on the basis of 3 year accounting. This means that the 1998, 1999 and 2000 underwriting years have not yet closed*
- *According to international rating agency, Standard & Poor's, 'Poor results are expected for the 1998 and 1999 years of account. Results will improve in 2000, but will remain significantly negative. Pricing conditions and results will be substantially stronger in 2001' (September 2000). Standard & Poor's has affirmed its A+ 'strong' rating on the Lloyd's insurance market, 'reflecting the fact of Lloyd's attractiveness as a market place, the robustness of its capital base and the strong oversight provided by regulatory management'*
- *The experience of HIH's Cotesworth syndicates matches that of the Lloyd's market overall – strong, but volatile, earnings over the course of insurance cycles. With the market now moving into the upward phase of the rate cycle, there are grounds for optimism. In addition, HIH's strategic application of whole of account reinsurance protection is assisting to reduce earnings volatility going forward*

ASIA

- HIH has been in Asia for more than 15 years and this year wrote $101.8 million of gross earned premium in the region.
- Beyond the group's Hong Kong base, HIH also has operational interest in Thailand, the Philippines, Indonesia, Malaysia, South Korea, Mainland China and Papua New Guinea.
- The combined operating ratio for Asia operations this year was 112.5%. This outcome was primarily due to a high business expense base (which itself was compounded by the level of unearned premium generated from recent growth).
- The HIH Asia business base is sound and the management team in place is excellent. The prospects for the medium-term, in particular, are good.
- Our 2000 global business review identified that a substantial increase in the volume of business written in Asia is required to properly develop the business and to optimise earnings. The timing for such expansion is favourable now, with Asia insurance markets quickly maturing and with macro-economic indicators showing generally positive signs.
- HIH has different priorities for its capital, however. Consequently, in the interests of shareholders, the preferred course is to sell the Asia business to another party with a stronger Asia focus.
- This means that the Asia operations are under active review for capital restructuring.

UNITED STATES

- United States business represented 10% of HIH's total gross earned premium in 1999/2000, but the financial performance of the United States portfolio has been problematic.
- All of the portfolio is comprised of workers compensation insurance (a key competency of HIH), of which two-thirds is California business.
- The situation in California has shown greater volatility than any other United States property/casualty segment.
- HIH has thus far survived the oppressive California environment. However, conditions in California are not improving at a sufficient pace to meet our earnings imperatives.
- Consequently, on 31 October 2000 the company announced the sale of renewal rights to the California business and that it had ceased underwriting workers compensation business in the United States. The California operations will be transformed into a managing agency in order to generate externally-sourced fee income while retaining claims management expertise and managing the HIH run-off in an orderly and efficient manner.

AUSTRALIA

- Australian operations contributed $1,633.2 million, or 57%, of the year's gross earned premium and $1,294.5 million, or 65%, of net earned premium.
- As predicted, the Australian financial performance continued to improve with a combined operating ratio of 102.0% recorded for the year. Strong performance was recorded in retail insurance and the expected rate improvements moved the corporate book substantially back towards profit.
- The Australian premium rate environment is now favourable for most classes of business.
- In Australia, we believe that we cannot independently achieve the scale necessary to maintain and further develop a large-scale retail distribution market franchise. Even the largest players in that arena have recently reported on the significant costs associated with such a market.
- Consequently, we have joined forces with Allianz, one of the world's largest insurers, to facilitate further generation of the scale economies required for retail business.
- In the medium to longer-term, we have decided to concentrate our operations and capital on the corporate classes of business in Australia. These business classes have been profitable historically and are where premium rates are now recording strong increases. They also constitute the original and core business base of HIH.
- The Allianz venture provides a 5 year timeframe to migrate to Australia's proposed new regulatory framework

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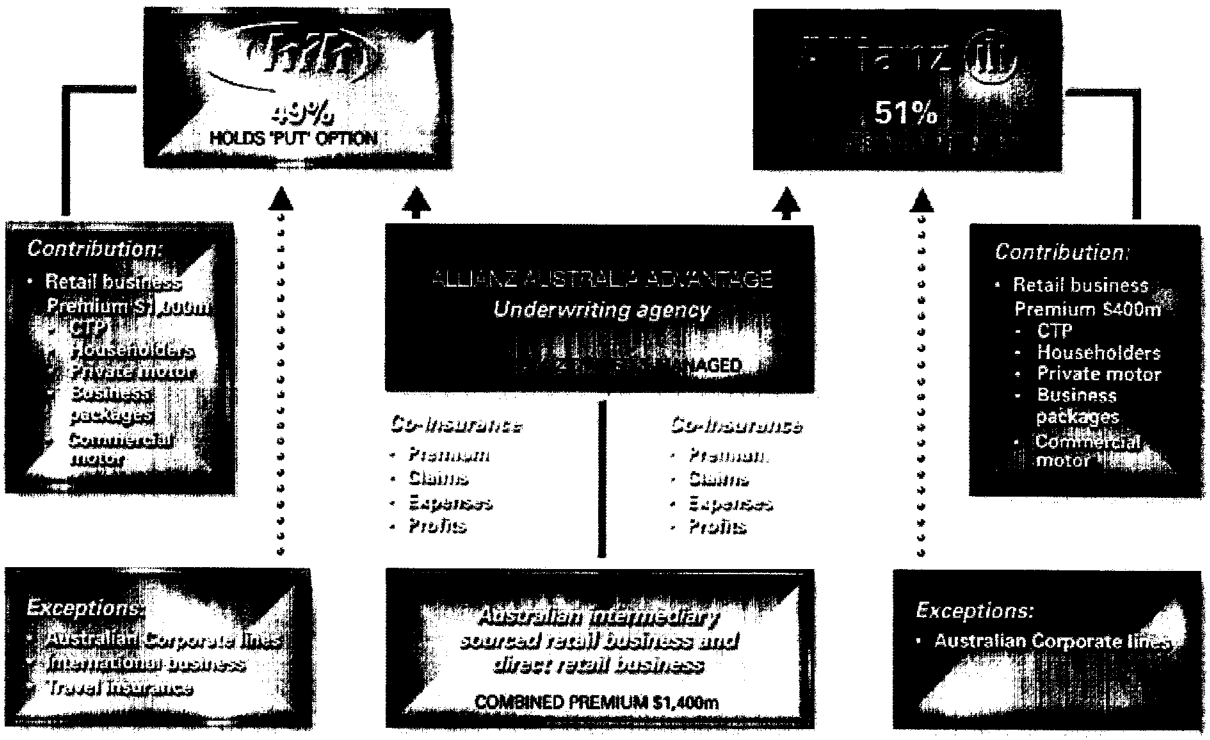
BACKGROUND

- *Wednesday 13 September marked yet another important chapter of development for HIH.*
- *The announcement of a major new initiative – the HIH / Allianz underwriting agency – was the culmination of a lengthy process aimed at ensuring that HIH is a financially strong and strategically well-positioned company, especially in view of substantial changes proposed for the Australian insurance regulatory framework.*
- *HIH Insurance Limited ("HIH") and Allianz Australia Limited agreed to market their retail general insurance business through a 100% owned Allianz company – a new market force second only to NRMA but with a superior geographic spread.*
- *The agency business will comprise Allianz and HIH retail insurance business sourced through all distribution channels with the primary exception of corporate brokers.*
- *The terms of the venture provide Allianz with 51% interest and HIH with 49% in the venture.*
- *Importantly, this transaction marks a managed shift in strategic direction for HIH. It is a staged, orderly and profitable exit from the retail insurance area.*
- *Our review has confirmed that a retail strategy is attractive but requires a level of scale that is not within our own means to support and grow if we are also to properly support our historically profitable and Australian market-leading corporate business base.*
- *An overwhelming positive is that we have formed a strong link and common interest with one of the world's largest and most highly respected insurance groups.*

ALLIANZ VENTURE - UNDERWRITING AGENCY: TRANSACTION



DETAILS

The venture with Allianz is designed to provide HIH with 5 years of continuing proportionate exposure to Australian retail insurance business.

In broad terms, this means 5 years more of premium, claims, expenses and profits from what is currently a business segment generating consistent earnings returns overall.

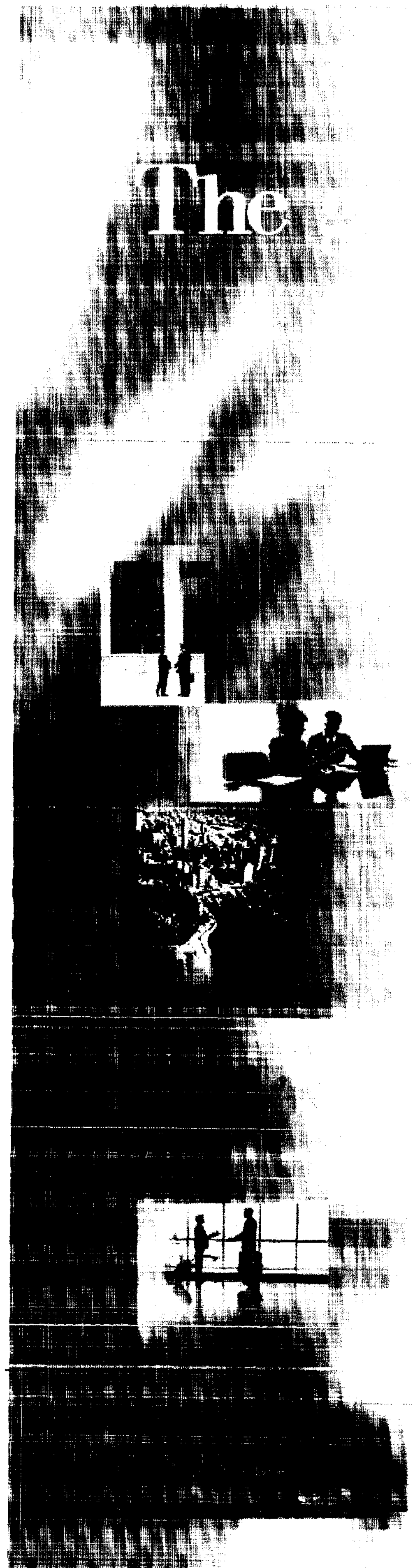
The move is consistent with the company's view that retail insurance requires large scale in order to underpin market share, competitive strength and expense economies.

HIH is contributing approximately $1,000 million in premium to the venture and Allianz premium of approximately $400 million. In order to equalise the equity position, Allianz is paying HIH $200 million to acquire a 51% interest in the venture. Completion of the transaction is the date on which the new venture commences – 1 January 2001.

The venture parties each have options in relation to their interests. HIH has a put option that may be exercised at any time for $125 million. Allianz has a call option exercisable 5 years from commencement (or earlier in certain defined circumstances) for an exercise price representing HIH's 49% interest based on a fair market valuation subject to a minimum of $125 million and a maximum of $500 million.

These arrangements thus provide HIH with $200 million in January 2001, with an additional $125 - $500 million payable early in 2006, subject to specific exercise events and the fair market valuation (to be undertaken by an independent accountant).

The Australian general insurance industry's migration to a new set of prudential and regulatory standards, including new capital adequacy requirements, is currently not expected to be completed until 2007.



- *Operating profit after income tax for the year ended 30 June 2000 was $18.4 million compared with a loss of $39.8 million the previous year. The 2000 result included pre-tax abnormal items $(18.8) million (for the impact on the Group's tax balance of changes in the corporate tax range from 36% down to 30%) and $(6.0) million (reflecting the Queensland State Government's decision not to allow Compulsory Third Party insurers to charge Goods and Services Tax on the unearned premium as at 30 June 2000).*
- *Gross written premium grew by 18.7% to $2 867.6 million, mainly due to the first full year of the FAI acquisition being brought to account.*
- *The combined operating ratio improved from 108.8% to 105.2%, with most of the improvement attributable to the Australian operations. Significant factors contributing to the Australian performance were the impact of predicted rate increases and cost savings delivered through the FAI acquisition.*
- *Whole of account reinsurance, entered into with AAA and AA reinsurers consistent with industry practice, significantly protected the Group's underwriting portfolio. These contracts are long-term and are aimed at reducing the volatility of the profit and loss account.*
- *Cash flow from operating activities was negative $678 million, more than half of this number reflecting reinsurance payments on the whole of account protection programme. The settlement of large FAI run-off claims constituted the bulk of the balance. The whole of account reinsurance protection has led to a substantial increase in non-current reinsurance recoveries at 30 June 2000.*
- *Net investment income was $235.4 million, representing a return for the year of 9.8%. The Group's effective exposure to equities marginally reduced over the year (from 18.9% to 17.9%), with the asset allocation remaining heavily weighted (59.1%) towards fixed interest / cash.*

PROFIT AND LOSS FOR THE YEAR ENDED 30 JUNE

	1999 $m	**2000** $m
Gross written premium	2 415.0	**2 867.6**
Gross earned premium	2 318.4	**2 862.5**
Net earned premium	1 662.1	**1 995.4**
Net incurred claims	(1 299.8)	**(1 492.1)**
Net acquisition costs	(210.8)	**(259.0)**
Fire brigade charges/taxes	(36.6)	**(39.1)**
Underwriting expenses	(261.2)	**(308.7)**
Core underwriting profit/(loss)	(146.3)	**(103.5)**
Other business activities (net)	4.4	**1.3**
Investment income on policyholders funds	174.8	**175.0**
Net discount rate adjustment	9.9	-
Insurance result	**42.8**	72.8
Goodwill amortisation	(17.2)	**(35.3)**
Interest expenses	(17.9)	**(31.5)**
Coupon interest on convertible notes	(4.5)	**(4.5)**
Investment income on shareholders funds	71.1	**60.4**
Operating profit before income tax, abnormal and extraordinary items	74.3	**61.9**
CTP QLD Goods and Services Tax	(50.0)	**(6.0)**
Corporate tax rate change	-	**(18.8)**
Ocal coal mine	(50.1)	-
Operating profit/(loss) after abnormal and extraordinary items	(25.8)	**37.1**
Income tax expense	(5.8)	**(17.9)**
Operating profit/(loss) after income tax	(31.6)	**19.2**
Outside equity interest	(8.2)	**(0.8)**
Operating profit/(loss) after income tax, attributable to shareholders	(39.8)	**18.4**

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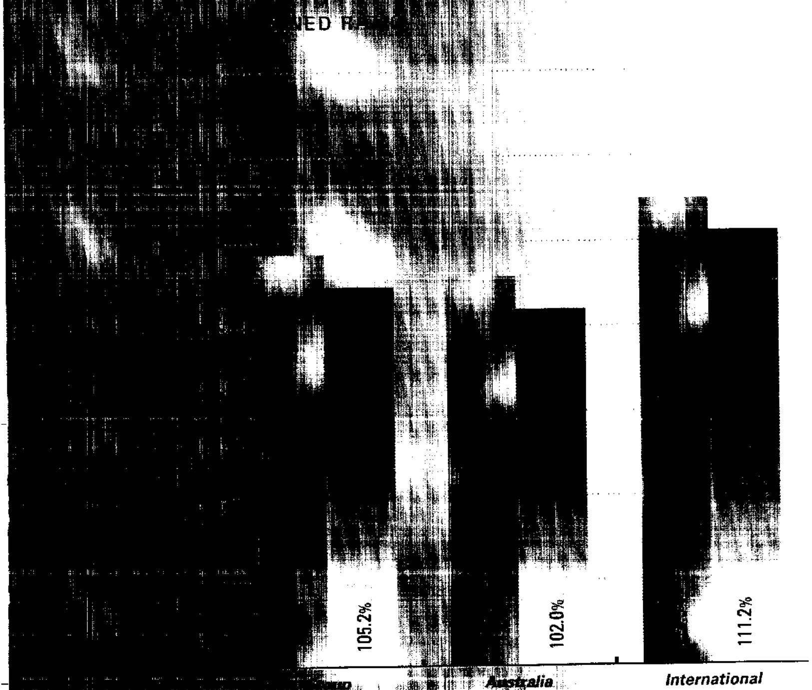
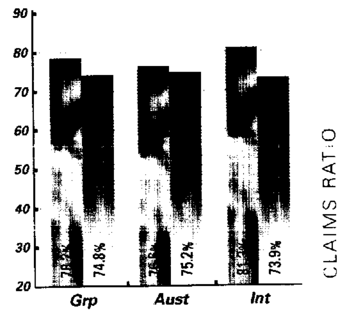
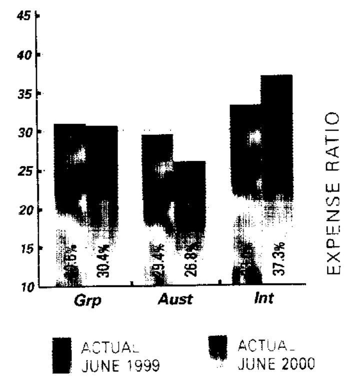


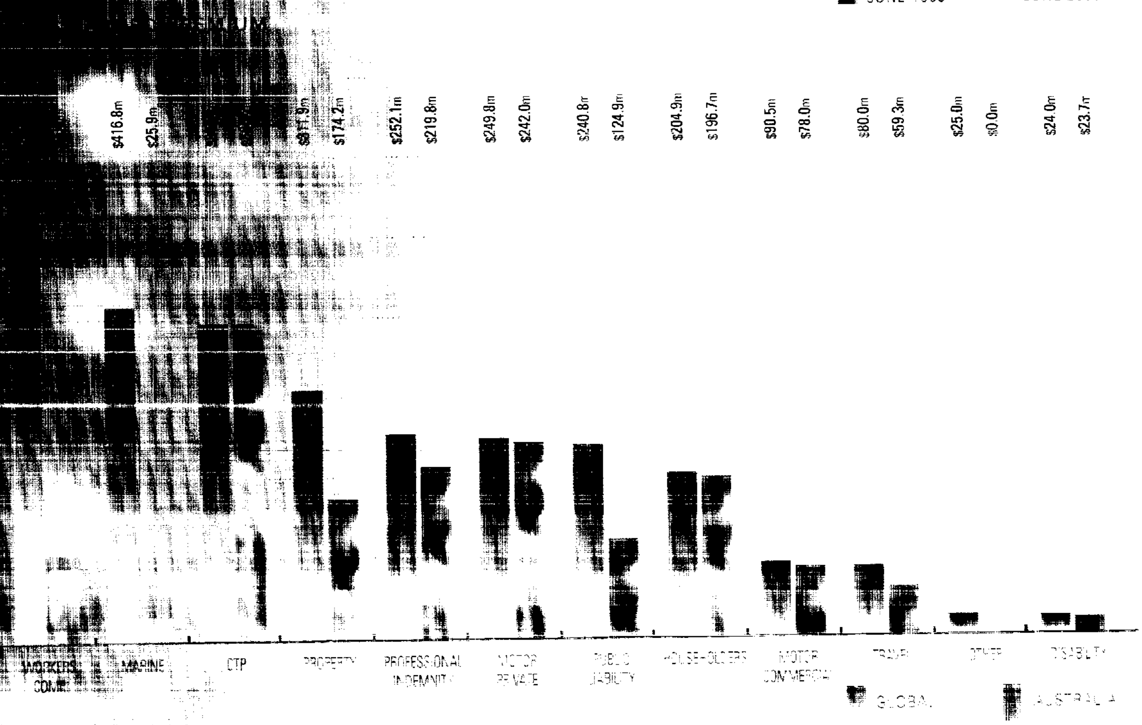
105.2%
102.0%
111.2%
Australia
International



CLAIMS RATIO
74.8%
75.2%
73.9%
Grp
Aust
Int



EXPENSE RATIO
30.4%
26.8%
37.3%
Grp
Aust
Int
ACTUAL JUNE 1999
ACTUAL JUNE 2000



$416.8m
$25.9m
$174.2m
$252.1m
$219.8m
$249.8m
$242.0m
$240.8m
$124.9m
$204.9m
$196.7m
$90.5m
$78.0m
$80.0m
$59.3m
$25.0m
$0.0m
$24.0m
$23.7m
MARINE
CTP

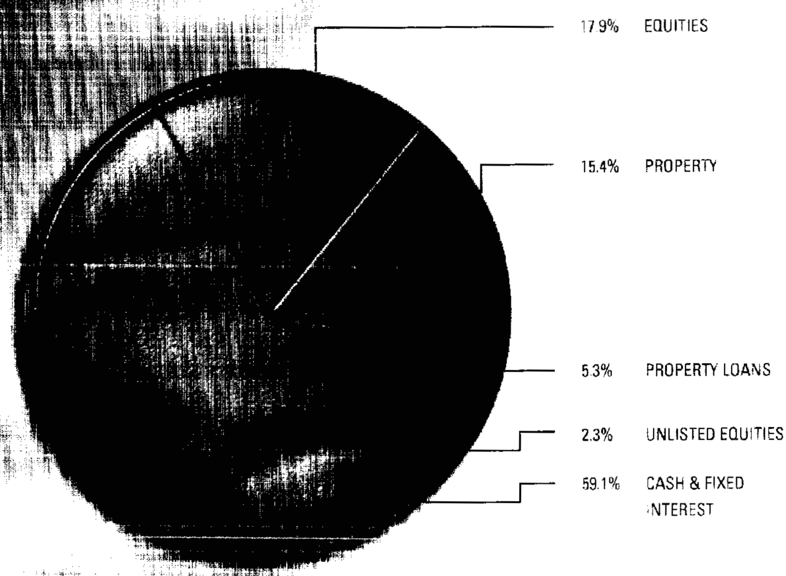
FINANCIAL PERFORMANCE

	12 months June 1996	12 months June 1997	12 months June 1998	12 months June 1999	**12 months June 2000**
	$m	$m	$m	$m	$m
Premium revenue earned - gross (excl VWA)	1 135.8	1 343.0	1 641.3	2 318.4	**2862.5**
Premium revenue earned - net	888.5	1 067.0	1 300.5	1 662.2	**1 995.4**
Claims incurred and expenses	905.4	1 094.5	1 344.8	1 808.4	**2 098.9**
Combined ratio	101.9%	102.6%	103.4%	108.8%	**105.2%**
Underwriting profit/(loss)	(16.9)	(27.5)	(44.3)	(146.3)	**(103.5)**
Investment return on policyholders' funds	88.7	105.6	109.6	174.8	**175.0**
Net discount rate adjustment	2.9	(42.9)	(27.8)	9.9	**-**
Other business activities (net)	(3.7)	(1.7)	0.6	4.4	**1.3**
INSURANCE RESULT	71.0	33.5	38.1	42.8	**72.8**
Goodwill amortisation	(4.7)	(5.2)	(7.3)	(17.2)	**(35.3)**
Interest expense	(1.8)	(4.8)	(4.7)	(17.9)	**(31.5)**
Coupon interest on convertible notes	-	(5.4)	(2.3)	(4.5)	**(4.5)**
Investment return on shareholders' funds	26.1	95.8	31.4	71.1	**60.4**
Operating profit before income tax, abnormal & extraordinary items	**90.6**	**113.9**	**55.2**	**74.3**	**61.9**
Abnormal - provision for Goods and Services Tax	-	-	-	(50.0)	**(6.0)**
Extraordinary item	-	-	-	(50.1)	**-**
Corporate tax rate change	-	-	-	-	**(18.8)**
Income tax expense	(31.4)	(36.1)	(17.6)	(5.8)	**(17.9)**
Operating loss after income tax, abnormal & extraordinary items	**59.2**	**77.8**	**37.6**	**(31.6)**	**19.2**
Outside Equity Interest	-	0.5	(0.1)	(8.2)	**(0.8)**
Operating profit/(loss) after income tax, attributable to shareholders	**59.2**	**78.3**	**37.5**	**(39.8)**	**18.4**
Dividend per share (cents)	13.0	15.0	16.0	12.0	**6.0**
Earnings per share (cents)	20.5	25.6	9.9	(0.4)	**(0.6)**
Net tangible asset backing per share - diluted *	1.23	1.38	1.66	1.02	**0.67**
Return on equity	15.4%	16.3%	6.5%	-5.0%	**2.0%**

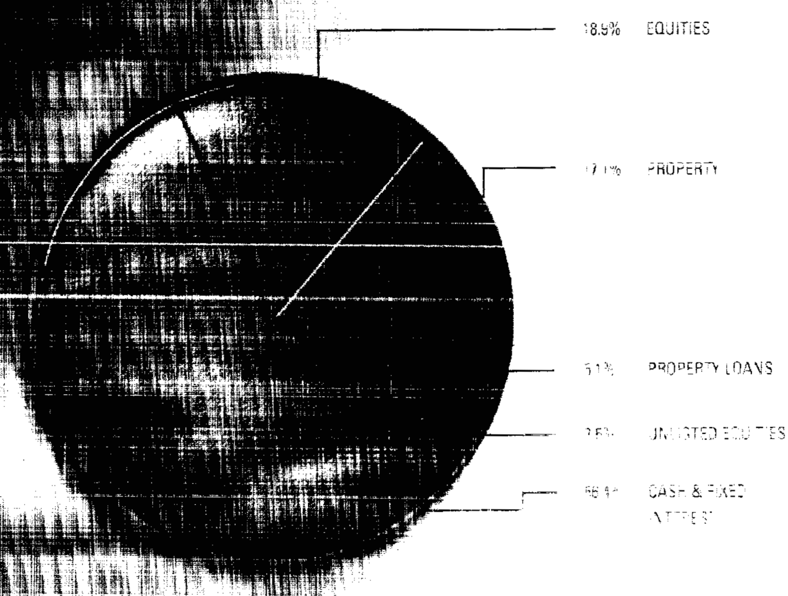
* Adjusted for full effect of Convertible and Converting Note Issues, where applicable

In

... 2000 ACTUAL - TOTAL $2.8 billion



... TOTAL $3.2 billion

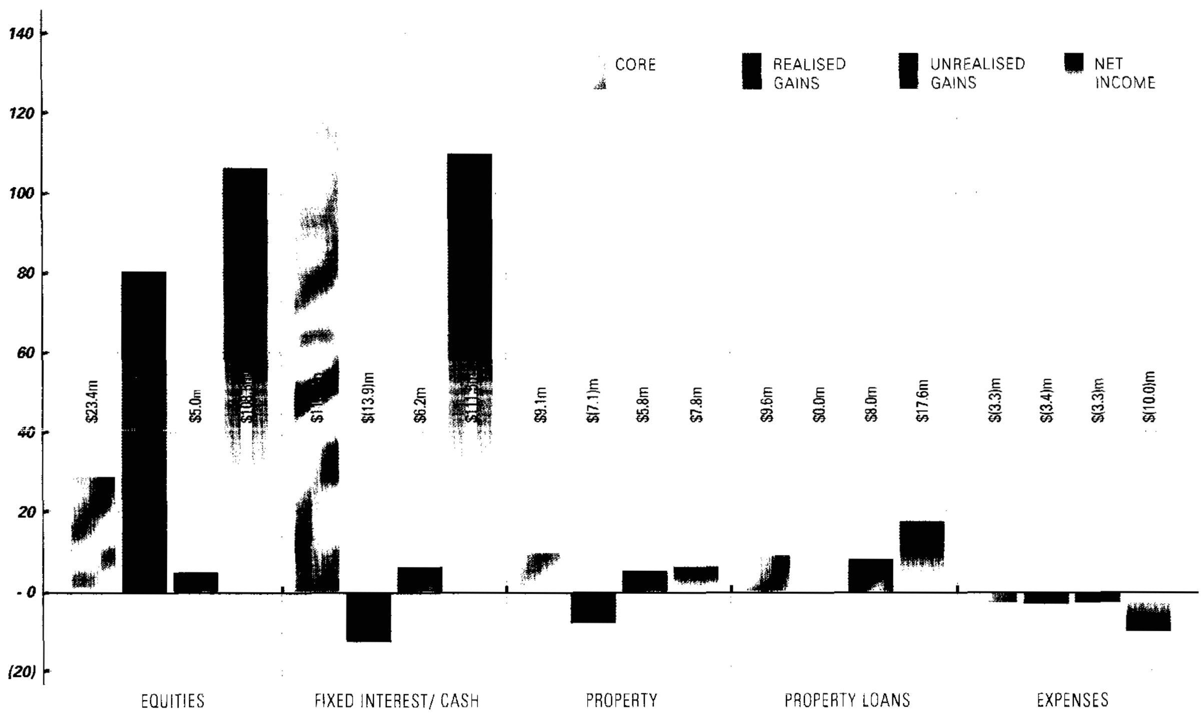


The Group's investment asset weightings changed marginally during the year, reflecting a slight reduction in exposure to equities and further progress in the property asset sale programme (undertaken following the company's acquisition of FAI).

The only large non-core FAI assets remaining with HIH are the St Moritz hotel in New York and the Emu Brewery site in Western Australia. HIH has now completed the first stage of the disposal of St Moritz and has received $125 million. The Emu Brewery asset will be realised in an orderly manner through on-going development.

The overall reduction of Group investment assets during the year was a function of the impact of claims payments relating to run-off portfolios and long-term whole of account reinsurance entered into during the period.

INVESTMENTS INCOME



Net investment income for 1999/2000 of $235.4 million was a solid performance.

The investment portfolio returned 9.8% for the year, in excess of the benchmark return set by the Group's Investment Committee. Equity stock selection by the internal and external equity fund managers substantially contributed to this out-performance.

HIH's non-core holding in One-Tel Limited contributed significantly to realised and unrealised gains in the first half. However, the market-to-market requirement meant that, by year end, virtually all of the unrealised gains had been reversed.

By the date of this report, HIH was no longer a substantial shareholder in One-Tel and the remaining holding is not material to HIH's investment fund. This position is consistent with the Group's investment policies and guidelines and does not reflect any particular investment view taken as to One-Tel.

The directors have pleasure in submitting the financial statements of the parent entity, and the consolidated financial statements of the consolidated entity, constituted by the parent entity and its controlled entities, for the year ended 30 June 2000

DIRECTORS

The names and details of the directors in office during or since the end of the financial year are:

G A Cohen AM (CHAIRMAN)

R R Williams AM
(DEPUTY CHAIRMAN and CHIEF EXECUTIVE)

C P Abbott

R S Adler AM

T K Cassidy (RESIGNED 12 OCTOBER 2000)

D Fodera (RESIGNED 12 OCTOBER 2000)

J H Gardener

A W Gorrie (RESIGNED 19 NOVEMBER 1999)

N R Head (RESIGNED 5 AUGUST 1999)

M W Payne (RESIGNED 12 SEPTEMBER 2000)

R R Stitt Q.C

G O Sturesteps
(RESIGNED 12 SEPTEMBER 2000)

H F R Wein

Details of the qualifications experience and special responsibilities of the directors as at the date of this report, are as follows

GEOFFREY ARTHUR COHEN AM

NON-EXECUTIVE CHAIRMAN (Aged 66)

Chairman of Audit, Human Resources, and Investment Committees. Mr Cohen has an extensive background in corporate financial management and was formerly a senior partner of Arthur Andersen. Mr Cohen's directorships include Foster's Brewing Group Limited and Diversified United Investment Limited.

RAYMOND REGINALD WILLIAMS AM

DEPUTY CHAIRMAN & CHIEF EXECUTIVE (Aged 64)

In 1968 Mr Williams, together with Mr Michael Payne, founded the Company that ultimately became HIH Insurance in Australia. He has held senior executive positions in the insurance industry for 40 years and is currently a Board Member of the Insurance Council of Australia Limited.

CHARLES PERCY ABBOTT

NON-EXECUTIVE DIRECTOR (Aged 61)

Member of Audit Committee. Mr Abbott, a former partner and now a consultant to the major law firm Blake Dawson Waldron, is also a director of a number of other companies including Flinders Capital Limited and Bass Capital Limited.

RODNEY STEPHEN ADLER AM

NON-EXECUTIVE DIRECTOR (Aged 41)

Member of Investment Committee. Mr Adler is Chairman and Chief Executive of Adler Corporation Pty. Limited. He has a Bachelor of Commerce degree from the University of New South Wales, a Master of Economics degree from Macquarie University and is a Fellow of the Institute of Chartered Accountants in Australia. Mr Adler is a Governor of The Sydney Institute, an Adjunct Professor in the Faculty of Business at the University of Technology, Sydney, and is a director of other companies including Anaconda Nickel Limited and One-Tel Limited. He is chairman of Medicine Quantale Limited and Home Security International, and joint chairman of Juvenile Diabetes Australia.

JUSTIN HERBERT GARDENER

NON-EXECUTIVE DIRECTOR (Aged 64)

Member of Audit and Human Resources Committees. Mr Gardener had been a partner in Arthur Andersen since 1972 and ultimately was a Managing Practice Director with responsibility for the Asia Pacific Region over which he has developed a high level of expertise. He is chairman of Ashton Mining Limited and his other directorships include Austar United Communications Limited, Combined Communications Network Limited, Hillgrove Gold NL and Hutchinson Telecommunications (Australia) Limited

ROBERT REGINALD STITT Q.C.

NON-EXECUTIVE DIRECTOR (Aged 59)

Member of Audit and Human Resources Committees. Mr Stitt has practised as a barrister extensively since 1968 and was appointed a Queen's Counsel in 1983. Mr Stitt has been a legal adviser to the Company since it commenced business in Australia.

HERMANN FRANZ RANDOLPH WEIN

CHIEF EXECUTIVE, ASIA (Aged 47)

Member of Reinsurance Committee. Mr Wein is an attorney-at-law and has had 20 years operational experience in the insurance industry, a substantial part of which is in the Asia Pacific area. Before joining the Company, he had been a senior executive of Winterthur Swiss Insurance Company for 8 years, with the last 4 as its Regional Chief Executive, Asia Pacific.

Unless indicated otherwise, all directors held their position as a director throughout the entire year and up to the date of this report.

DIRECTORS' MEETINGS

During the financial year the attendances of the directors at meetings of the Board and of its Committees were:

	BOARD MEETINGS	COMMITTEE MEETINGS			
		AUDIT	REINSURANCE	INVESTMENT	SHARE TRANSFER
Number of meetings held:	6	3	4	4	15
Number of meetings attended:					
G A Cohen AM	6	3		4	
R R Williams AM	6				15
C P Abbott	4	2			
R S Adler AM	5			4	
T K Cassidy	4		4	4	15
D Fodera	6		4	4	
J H Gardener	5	3			
A W Gorrie (1)	3				
N R Head (2)	1				
M W Payne	4		4		
R R Stitt Q.C.	5	3			
G O Sturesteps	4		4		
H F R Wein	4		3		

(1) Mr Gorrie was eligible to attend 4 Board Meetings prior to resigning from office

(2) Mr Head was eligible to attend 2 Board Meetings prior to resigning from office

Due to the change in the financial year in 1999 from 31 December to 30 June, the Human Resources Committee did not meet during the period of 1 July 1999 to 30 June 2000, as its meetings were scheduled either before or after these dates. This Committee meets at least once every calendar year.

DIRECTORS' INTERESTS

[illegible] date of this report, the relevant interest of the directors [illegible] options and convertible notes of the Company are:

	ORDINARY SHARES	OPTIONS	1998 NOTES
G A Cohen AM	61 566	-	4 260
R R Williams AM	12 222 715	500 000	19 200
C P Abbott	209 832	-	-
R S Adler AM	5 753 670	-	-
J H Gardener	112 713	-	
R R Stitt Q.C	140 260	-	1 129
H F R Wein	4 233	-	-

Details of remuneration provided to Executive and Non-Executive Directors and the five most highly remunerated officers for the year to 30 June 2000 are as follows:

	BASE SALARY/FEE	COMMITTEE FEES	INCENTIVES	RETIREMENT BENEFITS	OTHER	TOTAL
NON-EXECUTIVE DIRECTORS	$	$	$	$	$	$
G A Cohen AM	150 000	18 000	-	48 090	-	216 090
C P Abbott	46 468	4 000	-	35 932	-	86 400
R S Adler AM	46 533	3 000	-	3 467	-	53 000
J H Gardener	-	7 000	-	50 000	-	57 000
A W Gorrie	17 451	3 000	-	11 856	-	32 307
N R Head	5 576	-	-	1 220	-	6 796
M W Payne	133 317	-	-	-	-	133 317
R R Stitt Q.C.	50 000	7 000	-	11 514	-	68 514
EXECUTIVE DIRECTORS						
R R Williams AM	1 140 625	-	-	7 067	-	1 147 692
T K Cassidy	664 833	-	-	7 067	-	671 900
D Fodera	646 602	-	-	30 526	-	677 128
G O Sturesteps	700 219	-	-	7 067	-	707 286
H F R Wein	529 410	-	118 918	-	-	648 328
OFFICERS						
G Davies	549 311	-	556 234	133 046	-	1 238 591
G Brown	632 145	-	88 012	34 917	-	755 074
H Simons	621 011	-	-	78 307	-	699 318
B Devereese	526 021	-	69 080	95 033	-	690 134
N Britten	496 754	-	67 157	101 368	-	665 279

No options were granted during the year

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year in Australia and internationally were general insurance underwriting, the operation of insurance underwriting agencies, investment funds management, financial services and property. The consolidated entity also managed workers' compensation schemes in New South Wales, Victoria and South Australia

GROUP RESULTS

Consolidated profit of the entity for the year ended 30 June 2000 was $18.4 million after extraordinary items, income tax expense and outside equity interests.

DIVIDENDS

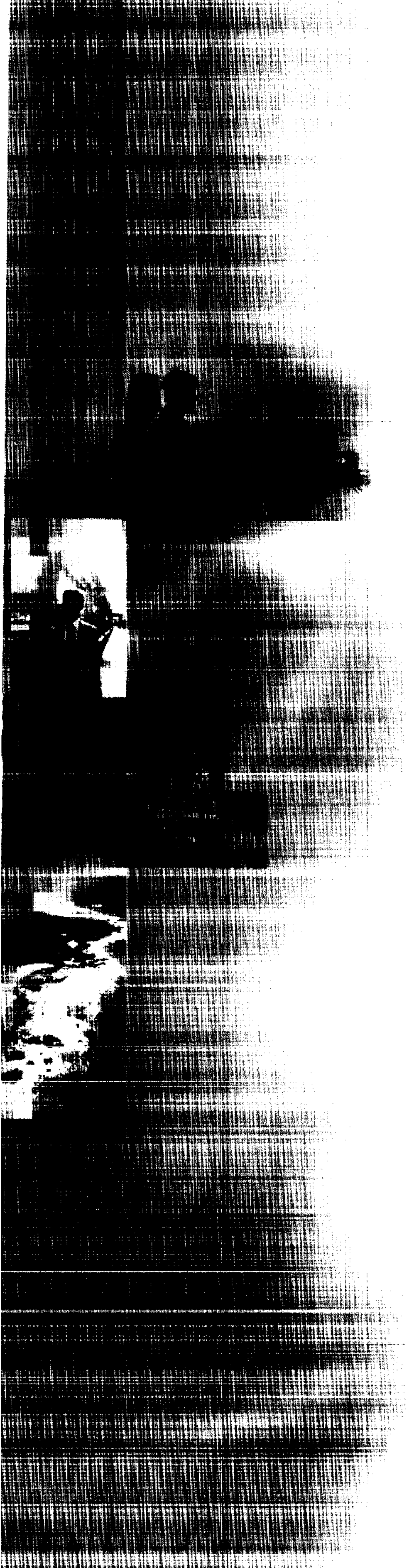
A 100% franked dividend of $18.5 million in respect of the previous period, as disclosed in the 30 June 1999 Directors' Report, was paid on 17 September 1999.

An interim 100% franked dividend of $18.7 million was paid on 7 April 2000.

Coupon interest totalling $21.3 million relating to convertible and converting notes issued, which are classified as equity, has been treated as a distribution out of retained earnings.

The directors declared a 100% franked final dividend of $9.4 million representing 2.0 cents per share which was paid to all shareholders on 6 October 2000.

Additional information is disclosed in the consolidated financial statements.



REVIEW OF OPERATIONS

Premium revenue earned was $2 862.5 million for the year to 30 June 2000 compared to $3 136.8 million for the eighteen months to 30 June 1999. Operating profit after income tax for the year was $18.4 million as compared to the operating loss after tax amount of $21.2 million for the eighteen month period to 30 June 1999.

Additional information is disclosed in the consolidated financial statements.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

CHANGE OF FINANCIAL YEAR END

The consolidated entity changed its financial year end from 31 December to 30 June as at 30 June 1999. These financial statements have been prepared to provide financial information and statements for the year to 30 June 2000, with comparatives stated for the eighteen month period to 30 June 1999.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 13 September 2000 a joint venture agreement was signed between certain controlled entities and Allianz Australia Insurance Limited (a wholly-owned subsidiary of Allianz AG). The joint venture business will comprise Allianz and those controlled entity's private motor, householders, CTP (New South Wales and Queensland) and rural and commercial business sourced through all distribution channels with the exception of international brokers.

The terms of the joint venture provide Allianz with 51% equity and the consolidated entity with 49%, effectively reducing the consolidated entity's retail annual premium by around $300 million to $700 million. Under the agreement, Allianz will pay the consolidated entity $200 million upfront and have a call option to acquire the consolidated entity's joint venture interest at fair market value after 5 years (up to a maximum of $500 million with a minimum of $125 million). The consolidated entity has a put option, exercisable at the minimum valuation at any time.

Other than the abovementioned, the directors of the parent entity have not become aware of any matter or circumstance that has arisen since the end of the financial year, which is not otherwise dealt with in the consolidated financial statements. that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

The directors expect the consolidated entity's future operating results to be affected by the joint venture with Allianz Australia Insurance Limited as noted above.

There are no other likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years except for those the disclosure of which would, in the opinion of the directors, prejudice the interests of the consolidated entity.

SHARE OPTIONS

Details of options granted to directors or relevant officers as part of their remuneration are set out in the section of this report headed Directors' and Officers' Remuneration. Details of shares and interests under option, or issued during or since the end of the financial year due to the exercise of an option, are set out in Note 28 of the financial statements and form part of this report.

DIRECTORS' AND OFFICERS' REMUNERATION

Remuneration of directors and senior executives of the Company is established by the Human Resources Committee. Remuneration is determined as part of an annual performance review, having regard to market factors, a performance evaluation process and independent remuneration advice.

For executive directors and officers, remuneration packages generally comprise salary, a performance-based bonus and superannuation. Executives are also provided with longer-term incentives through the employee share ownership and option schemes, which act to align the executives' actions with the interest of the shareholders.

Non-executive directors are not entitled to performance based bonuses.

The non-executive directors are responsible for evaluating the performance of the Chief Executive, who in turn evaluates the performance of all other senior executives. These evaluations are based on specific criteria, including the Company business performance, whether long-term strategic objectives are being achieved and the achievement of individual performance objectives.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year, a controlled entity paid an insurance premium to insure directors and officers of the parent entity and its controlled entities against liability. The directors of the parent entity covered by the insurance contract are those listed on page 12. The contract also covers all executive officers, and directors and secretaries of wholly-owned controlled entities.

Disclosure of the amount of insurance premium payable under, and a summary of the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

ROUNDING OF AMOUNTS

The parent entity is of a kind referred to in the Australian Securities and Investments Commission class order 98/0100 relating to the rounding of amounts in the consolidated financial statements and Directors' Report to the nearest tenth of a million dollars, or in certain cases, to the nearest thousand dollars.

LODGEMENT OF FINANCIAL STATEMENTS

The parent entity has been granted approval by the Australian Securities and Investment Commission to lodge the financial report of the consolidated entity by 31 October 2000. Approval has also been granted to send the financial report to the members of the parent entity by 30 November 2000.

Signed in accordance with a resolution of the directors.

G A Cohen AM *Director*

R R Williams AM *Director*

Sydney, 16th October 2000

[illegible]TION OF [illegible]

[illegible] seven directors on [illegible] less than the [illegible] for under [illegible] Details of the directors' experience and other positions held are set out on page 13 of this Report. The Chairman is one of five Non-Executive Directors. The two Executive Directors are the Chief Executive and the Chief Executive, Asia.

Since the end of the reporting period there were several changes to the HIH Board to improve Board efficiency. These changes included:

- *[illegible] Cassidy resigned effective [illegible] 2000. However, he maintains his executive role.*
- *[illegible] effective 12 [illegible] has been appointed Chief Operating Officer.*
- *M W [illegible] and G O Sturesteps resigned effective 12 September 2000*
- *R R Williams AM will be retiring from the position of Chief Executive and will step down on the appointment of his replacement.*

CRITERIA FOR BOARD MEMBERSHIP

[illegible] Board remains comprised of [illegible] with a wide range of experience necessary for the complex, international business HIH now represents. Drawing on a diverse range of professionals, HIH's Board of Directors include high level experience in insurance, financial management, legal, accounting and investment areas. Most of HIH's directors have senior Board appointments in other companies, and many have operated at Chief Executive or Senior Partner level.

TERMS OF APPOINTMENT

In accordance with the Company's Articles of Association, Board appointments have been made subject to election by shareholders at the Annual General Meeting and re-election. Directors (other than the Chief Executive) retire from office after a three year term. Under the Articles of Association, the office of an Executive Director may become vacant in certain circumstances including the incumbent ceasing to be an Executive of the Company for any reason.

MEETINGS AND AGENDAS

During the reporting period, the Board met on 6 occasions and directors also attended a number of meetings of Board committees (see Page 14 of this Report). Agendas for Board meetings are determined by the Chairman and the Chief Executive. Each committee chairman determines the agendas for committee meetings in consultation with senior management. In addition to formal Board meetings, there is also regular consultation between the Board and senior management. Furthermore, the Board conducts an annual review of operations in conjunction with senior management.

BOARD COMMITTEES

The four main committees and their functions are:

- *Audit: considers any significant matters relating to the financial affairs for the Company, including audit issues, accounting policies and performance standards in relation to financial systems and management, as well as environmental and Code of Ethics issues.*
- *Human Resources: reviews total remuneration for senior executives, organisation structure, succession and development plans for senior managers and issues relating to the constitution of the Board.*
- *Reinsurance: reviews the scope and nature of Group reinsurance programmes including gross capacities and retention levels for specific business classes and provides a forum for examining relationships with reinsurers*
- *Investment: considers and formulates Group asset allocation ranges, set investment guidelines on currency and property dealings, and reviews the performance of internal and external fund managers against approved benchmarks*

BOARD POLICIES

Beyond any requirements under the Corporations Law and the Constitution, the Board has in place specific policies on:

- *Directors' and Officers' share dealings*
- *Ethics and code of conduct*

VOTING RIGHTS

Ordinary shares

Subject to the Constitution of the Company, a member entitled to vote may vote in person or by proxy or by attorney or by representative at meetings of members.

On a show of hands every person present who is a member or proxy, attorney or representative of a member has one vote; and on a poll every person present who is a member or proxy, attorney or representative of a member has one vote for each share held by the member.

Convertible notes/Converting notes

Noteholders do not have any right to vote at general meetings of the Company.

STOCK EXCHANGE

The shares of HIH Insurance Limited are listed, and traded under the code HIH, with the Australian Stock Exchange Limited. The convertible notes are traded under the code HIHG, and the converting notes under the code HNZG. The Company is a participant in the Clearing House Electronic Subregister System (CHESS).

REGISTERED OFFICE

The registered office is located at:
Level 42, 50 Bridge Street
Sydney NSW 2000.
Telephone: (02) 9650 2000
Facsimile: (02) 9650 2083

SHARE/CONVERTING NOTE REGISTRY

The share and converting note registers are maintained at:
Registries Limited,
Level 2, 28 Margaret Street
Sydney NSW 2000.
Telephone: (02) 9279 0677
Facsimile: (02) 9279 0664

CONVERTIBLE NOTE REGISTRY

The convertible note register is maintained at:
Nedra Nominees Pty. Ltd.
C/- Houston & Hanna Secretarial Services, Suite 15,
George Turner Offices
11 McKay Gardens
Turner, ACT 2612
Telephone: (02) 6249 8515
Facsimile: (02) 6249 6792

DIVIDENDS

Two dividend payments were made in the year ended 30 June 2000:

- *1999 final dividend of 4 cents per share was paid on 17 September 1999;*
- *2000 interim dividend of 4 cents per share was paid on 7 April 2000*

A final dividend of 2 cents per share was paid on 6 October 2000.

A dividend reinvestment plan is in place which enables the shareholders to apply dividends paid or declared in subscribing for ordinary shares at a 5% discount from the weighted average market price of the Company's ordinary shares.

Shareholders may participate in respect of all their holdings or a specified number of shares, and may vary the level of participation or withdraw from the plan at any time. Shareholders who wish to take part in the plan should contact the share registry for an explanatory booklet and an application form.

2000/2001 FINANCIAL CALENDAR

13 SEPTEMBER 2000
2000 preliminary profit announcement and final dividend declaration.

22 SEPTEMBER 2000
Books close for final dividend.

6 OCTOBER 2000
Payment of final dividend.

15 DECEMBER 2000
Annual general meeting.

MARCH 2001
Half-yearly profit announcement and interim dividend declaration.
Books close for interim dividend.

APRIL 2001
Payment of interim dividend.

SEPTEMBER 2001
2001 preliminary profit announcement and final dividend declaration.

OCTOBER 2001
Payment of final dividend.

TWENTY LARGEST SHAREHOLDERS • FULLY PAID

HIH INSURANCE LIMITED

AS AT 16 OCTOBER 2000

		NUMBER OF ORDINARY SHARES	% OF TOTAL
1:	Chase Manhattan Nominees Limited	28 129 580	5.90
2:	National Nominees Limited	26 938 265	5.65
3:	Winterthur Holdings Australia Limited	22 885 142	4.80
4:	Mercantile Mutual Life Insurance Company Limited	16 433 993	3.44
5:	ANZ Nominees Limited	15 042 167	3.15
6:	MLC Limited	10 727 398	2.25
7:	Perpetual Trustees Nominees Limited	9 075 209	1.90
8:	Westpac Custodian Nominees Limited	5 908 753	1.24
9:	HSBC Custody Nominees (Australia) Limited	5 776 244	1.21
10:	Commonwealth Custodial Services Limited	5 768 784	1.21
11:	Citicorp Nominees Pty Limited	5 648 503	1.18
12:	Perpetual Trustees Australia Limited	4 627 856	0.97
13:	Ariahpark Pty Limited	4 311 496	0.90
14:	Huzoor Pty Limited	3 438 699	0.72
15:	Australian Foundation Investment Company Limited	2 970 643	0.62
16:	AMP Life Limited	2 920 064	0.61
17:	GO & [illegible] Sturesteps	2 635 337	0.55
18:	Mr Raymond Reginald Williams AM	2 360 820	0.50
19:	TK & [illegible] Cassidy Pty Ltd	2 213 545	0.46
20:	AMP Nominees Pty Limited	2 164 898	0.45
	TOTAL	**179 977 396**	**37.71**

TWENTY LARGEST 1996 CONVERTIBLE NOTEHOLDERS • UNSECURED AT 8%

HIH INSURANCE LIMITED

AS AT 16 OCTOBER 2000

		NUMBER OF CONVERTIBLE NOTES	% OF TOTAL
1:	Winterthur Holdings Australia Limited	13 069 356	53.93
2:	Perpetual Nominees Limited	1 570 330	6.48
3:	National Nominees Limited	1 032 381	4.26
4:	BT Custodial Services Pty Ltd	894 254	3.69
5:	Challenger Life Limited	868 190	3.58
6:	Chase Manhattan Nominees Limited	698 964	2.88
7:	Perpetual Trustees Australia Limited	394 335	1.63
8:	[illegible] Trustees Limited	334 863	1.38
9:	[illegible] Trustees Nominees Limited	330 506	1.36
10:	Invia Custodian Pty Limited	246 541	1.02
11:	Commonwealth Custodial Limited	229 318	0.95
12:	Weresyd Proprietary Limited	150 000	0.62
13:	Sisters of Mercy - Melbourne Congregation	120 000	0.50
14:	[illegible] Street Custodians Limited	118 006	0.49
15:	[illegible] Lifetime Company Limited	117 765	0.49
16:	Baker Custodian Corporation Limited	100 000	0.42
17:	Legal and General Life of Australia Limited	97 936	0.40
18:	Matine Limited	95 000	0.39
19:	Health Super Pty Ltd	61 633	0.25
20:	Greystanes Enterprises Pty Ltd	58 000	0.24
	TOTAL	**20 587 378**	**84.96**

TWENTY LARGEST 1998 CONVERTING NOTEHOLDERS • UNSECURED AT 7.535% HIH HOLDINGS (NZ) LIMITED

AS AT 16 OCTOBER 2000

		NUMBER OF CONVERTING NOTES	% OF TOTAL
1	*SG Australia Limited*	*10 186 854*	*23.90*
2	*AMP Life Limited*	*10 000 000*	*23.46*
3	*National Nominees Limited*	*7 777 591*	*18.25*
4	*The National Mutual Life Association of Australia Limited*	*2 006 564*	*4.71*
5	*Legal & General Life of Australia Limited*	*1 500 000*	*3.52*
6	*Elise Nominees Pty Limited*	*1 308 643*	*3.07*
7	*Citicorp Nominees Pty Limited*	*1 295 592*	*3.04*
8	*South Australian Asset Management Corporation*	*1 000 000*	*2.35*
9	*Permanent Trustee Company Limited*	*634 420*	*1.49*
10	*MLC Lifetime Company Limited*	*378 426*	*0.89*
11	*Arton No 001 Pty Ltd*	*308 000*	*0.72*
12	*Questor Financial Services Limited*	*279 000*	*0.65*
13	*Challenger Life Limited*	*221 019*	*0.52*
14	*Westpac Custodian Nominees Limited*	*220 000*	*0.52*
15	*Allind Pty Limited*	*210 958*	*0.49*
16	*CSFB Second Nominees Pty Ltd*	*200 805*	*0.47*
17	*Perpetual Trustees Nominees Limited*	*200 000*	*0.47*
18	*LM Nominees Pty Ltd*	*200 000*	*0.47*
19	*Tower Trust Limited*	*194 000*	*0.46*
20	*Nordia Pty Ltd*	*140 000*	*0.33*
	TOTAL	***38 261 872***	***89.78***

SUBSTANTIAL SHAREHOLDERS

AS AT 16 OCTOBER 2000

	DATE OF NOTICE	NUMBER OF SHARES
Mercantile Mutual Holdings Limited	*27.3.00*	*25 765 063*
Maple - Brown Abbott Limited	*19.5.00*	*38 579 045*

This information is as disclosed by notices received by the company (up to 16 October 2000) under Part 6.7 of the Corporations Law.

DISTRIBUTION OF SECURITIES

AS AT 16 OCTOBER 2000

	ORDINARY SHARES	1996 CONVERTIBLE NOTES	1998 CONVERTING NOTES
[illegible]	NUMBER OF SHAREHOLDERS	NUMBER OF NOTEHOLDERS	NUMBER OF NOTEHOLDERS
1 - 1000	*4 528*	*616*	*307*
1 001 - 5 000	*13 521*	*537*	*688*
5 001 - 10 000	*6 248*	*116*	*94*
10 001 - 100 000	*5 400*	*61*	*47*
100 001 and over	*276*	*15*	*23*
Total number of holders	*29 973*	*1 345*	*1 159*
Number of holders with less than a marketable parcel	*5 305*	*154*	*8*

REMOVAL FROM ANNUAL REPORT MAILING LIST

Shareholders who do not wish to receive the Annual Report, or who are presently receiving more than one copy and wish to receive one copy only, should advise the share registry in writing.

WEBSITE

HIH's web address is www.hih.com.au Visit us for company and financial information as well as the latest HIH news

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FOR THE YEAR ENDED 30

Contents

for the year ended 30 June 2000	NOTE	PARENT ENTITY 1.7.99 TO 30.6.00 $m	PARENT ENTITY 1.1.98 TO 30.6.99 $m	CONSOLIDATED 1.7.99 TO 30.6.00 $m	CONSOLIDATED 1.1.98 TO 30.6.99 $m
Operating profit before abnormal item and income tax	2,5	**54.1**	104.6	**61.9**	102.0
Abnormal item before income tax	6	**-**	-	**(6.0)**	(50.0)
Operating profit before income tax		**54.1**	104.6	**55.9**	52.0
Income tax attributable to operating profit	9	**(4.0)**	(2.2)	**(17.9)**	(14.7)
Abnormal tax expense	6 9	**-**	-	**(18.8)**	-
Operating profit after income tax		**50.1**	102.4	**19.2**	37.3
Loss on extraordinary items	7	**-**	-	**-**	(50.1)
Income tax attributable to loss on extraordinary items	9	**-**	-	**-**	-
Loss on extraordinary items after income tax	7	**-**	-	**-**	(50.1)
Outside equity interest in operating profit	33	**-**	-	**(0.8)**	(8.4)
Operating profit/(loss) after extraordinary items and income tax attributable to members of the parent entity		**50.1**	102.4	**18.4**	(21.2)
Retained profits/(Accumulated losses) at the beginning of the period		**19.3**	3.1	**(26.5)**	89.9
Total available for appropriation		**69.4**	105.5	**(8.1)**	68.7
Dividends and other distributions provided for or paid	32	**(33.3)**	(86.2)	**(49.4)**	(95.2)
Retained profits/(Accumulated losses) at the end of the period		**36.1**	19.3	**(57.5)**	(26.5)

The accompanying notes form an integral part of these profit and loss statements

BALANCE SHEETS

at 30 June 2000	NOTE	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
Current Assets					
Cash		**1.2**	5.3	**461.6**	638.7
Receivables	11	**4.7**	4.7	**1 603.6**	1 400.7
Investments	12	**-**	-	**624.4**	803.5
Reinsurance recoveries receivable	13	**-**	-	**431.6**	415.5
Deferred acquisition costs		**-**	-	**304.3**	278.3
Other	14	**-**	-	**25.0**	33.8
Total Current Assets		**5.9**	10.0	**3 450.5**	3 570.5
Non-Current Assets					
Receivables	15	**286.4**	269.4	**0.6**	35.0
Investments	16	**731.8**	685.7	**1 753.1**	1 908.8
Plant and equipment	17	**-**	-	**164.6**	147.8
Reinsurance recoveries receivable	13	**-**	-	**1 388.3**	986.7
Intangibles	18	**-**	-	**494.4**	346.5
Other	19	**-**	-	**244.4**	191.7
Total Non-Current Assets		**1 018.2**	955.1	**4 045.4**	3 616.5
New South Wales Workers Compensation Statutory Funds	43	**-**	-	**831.2**	864.1
Total Assets		**1 024.1**	965.1	**8 327.1**	8 051.1
Current Liabilities					
Accounts payable	20	**-**	-	**381.0**	563.7
Borrowings	21	**-**	-	**19.6**	164.5
Provisions	22	**14.4**	18.5	**83.7**	46.3
Outstanding claims	23	**-**	-	**1 423.4**	1 415.5
Unearned premiums		**-**	-	**1 069.4**	1 038.9
Other	24	**0.2**	2.1	**49.2**	33.9
Total Current Liabilities		**14.6**	20.6	**3 026.3**	3 262.8
Non-Current Liabilities					
Accounts payable	25	**-**	-	**14.5**	-
Borrowings	26	**55.8**	56.1	**504.4**	335.8
Provisions	27	**0.9**	-	**4.1**	6.0
Outstanding claims	23	**-**	-	**3 007.5**	2 636.0
Total Non-Current Liabilities		**56.7**	56.1	**3 530.5**	2 977.8
New South Wales Workers Compensation Statutory Funds	43	**-**	-	**831.2**	864.1
Total Liabilities		**71.3**	76.7	**7 388.0**	7 104.7
Net Assets		**952.8**	888.4	**939.1**	946.4
Shareholders' Equity					
Share capital	28	**697.9**	684.2	**697.9**	684.2
Convertible notes	29	**65.3**	65.3	**65.3**	65.3
Converting notes	30	**-**	-	**213.1**	213.1
Reserves	31	**153.5**	119.6	**8.7**	(1.0)
Retained profits/(Accumulated losses)		**36.1**	19.3	**(57.5)**	(26.5)
Total Shareholders' Equity *attributable to members of the parent entity*		**952.8**	888.4	**927.5**	935.1
Outside equity interests in controlled entities	33	**-**	-	**11.6**	11.3
Total Shareholders' Equity		**952.8**	888.4	**939.1**	946.4

The accompanying notes form an integral part of these balance sheets

for the year ended 30 June 2000	NOTE	PARENT ENTITY 1.7.99 TO 30.6.00 $m	PARENT ENTITY 1.1.98 TO 30.6.99 $m	CONSOLIDATED 1.7.99 TO 30.6.00 $m	CONSOLIDATED 1.1.98 TO 30.6.99 $m
Cash flows from operating activities					
Premiums and fees received		**-**	-	**2 829.8**	3 315.8
Claims paid		**-**	-	**(1 784.2)**	(2 501.6)
Payments to reinsurers, suppliers and employees		**-**	-	**(1 818.3)**	(1 357.4)
Dividends received		**27.8**	40.3	**23.1**	36.8
Interest received		**9.6**	7.4	**107.5**	179.7
Rent received		**-**	-	**17.0**	20.1
Interest paid		**(3.8)**	(7.2)	**(46.7)**	(26.6)
Income taxes paid		**-**	-	**(6.5)**	(8.2)
Net cash provided by/(used in) operating activities	3(e)	**33.6**	40.5	**(678.3)**	(341.4)
Cash flows from investing activities					
Payments for plant and equipment		**-**	-	**(51.5)**	(71.6)
Proceeds from sale of plant and equipment		**-**	-	**3.2**	4.9
Proceeds from sale of controlled entities, net of cash disposed	3(c)	**-**	-	**54.6**	3.6
Payments for purchase of controlled entities, net of cash acquired	3(b)	**-**	-	**(3.8)**	91.6
Proceeds, net of payments, for investments		**-**	(40.5)	**541.3**	502.9
Net cash provided by/(used in) investing activities		**-**	(40.5)	**543.8**	531.4
Cash flows from financing activities					
Proceeds from convertible and converting note issues		**-**	-	**-**	275.1
Payments relating to convertible and converting note issues		**-**	-	**-**	(4.4)
Proceeds from borrowings		**-**	-	**165.8**	46.5
Repayment of borrowings		**-**	-	**(169.5)**	
Loan from/(to) related body corporate		**(8.8)**	43.1	**-**	-
Dividends paid		**(23.7)**	(40.3)	**(23.7)**	(40.3)
Coupon interest on convertible and converting note issues		**(5.2)**	(7.8)	**(21.3)**	(20.4)
Proceeds from issues of shares and options		**-**	1.1	**-**	1.1
Borrowing costs		**-**	-	**(2.1)**	-
Net cash provided by/(used in) financing activities		**(37.7)**	(3.9)	**(50.8)**	257.6
Net increase/(decrease) in cash held		**(4.1)**	(3.9)	**(185.3)**	447.6
Cash at the beginning of the period		**5.3**	9.2	**638.7**	203.7
Effect of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the financial period		-		**8.2**	(12.6)
Cash at the end of the period		**1.2**	5.3	**461.6**	638.7

Notes TO AND FORMING PART OF THE FINANCIAL STATEMENTS

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the significant accounting policies adopted in the preparation of the financial statements for the year ended 30 June 2000 by the consolidated entity, comprising HIH Insurance Limited, the parent entity, and all its controlled entities Unless otherwise stated, these accounting policies are consistent with those adopted in the previous financial period.

(a) Basis of Accounting

The financial statements have been prepared as a general purpose financial report in accordance with applicable Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), and the Corporations Law.

All amounts are in Australian dollars.

(b) Principles of Consolidation

The consolidated financial statements include the results, and the assets and liabilities, of the parent entity and all its controlled entities as listed in Note 38.

All material transactions and indebtedness between entities in the consolidated entity are eliminated on consolidation

Where a controlled entity is acquired during the year its results are included in the consolidated profit and loss statement from the date control is assumed.

(c) Comparatives

The economic entity changed its financial year end from 31 December to 30 June as at 30 June 1999. These financial statements have been prepared to provide financial information and statements for the year to 30 June 2000 with comparatives stated for the eighteen month period to 30 June 1999.

Prior period comparatives have been reclassified, where applicable, to conform with the presentation of the current financial year and changes in accounting policy.

(d) Insurance Result

Whilst the financial statements have been prepared in accordance with applicable Accounting Standards, the consolidated 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 Group's insurance and other activities, styled insurance result, is set out in detail in Note 2 to these financial statements.

Policyholders' funds are those investments which are held to fund the insurance liabilities of the consolidated 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 has previously been disclosed as "net discount rate adjustment". This adjustment now forms part of gross claims incurred. 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 Group's insurance activities.

(e) Premium Revenue

Where the risk commenced on or prior to balance date, the consolidated entity accrues for the total premiums due on policies 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 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.

Fire service levies received or receivable are included in premiums.

(f) Outward Reinsurance

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

(g) Acquisition Costs

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

(h) 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.

(i) 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 at 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 unnotified 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.

(j) 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 the net market values at the previous balance date, or the date of acquisition if later, are recognised in the profit and loss statement.

For investments traded on prescribed stock exchanges, market values 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.

Investment debtors are outstanding investment trading transactions at balance date, which are settled within a three day period.

(k) Borrowing Costs

Borrowing costs are expensed as incurred except where they relate to the financing of projects under construction where they are capitalised up to the date of sale.

(l) Income Tax

The consolidated entity follows the policy of tax effect accounting. The income tax expense per the profit and loss statement represents the tax on the reported profit 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 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 the differences reverse.

The benefit arising from estimated carried forward tax losses has been recorded in the future income tax benefit account, only 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 parent entity and its controlled entities 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.

The financial statements of those controlled overseas entities which are self-sustaining foreign operations have been translated into Australian dollars using the current rate method, whereby:

- *(i) assets and liabilities are translated at the exchange rate current at balance date;*
- *(ii) owner's equity is translated at the exchange rate current at the date of investment;*
- *(iii) distributions from retained profits (that is, dividends paid or proposed, or their equivalent) are translated at the exchange rates current at the dates when the distributions were proposed;*
- *(iv) revenue and expense items are translated at the average exchange rate for the financial year; and*
- *(v) exchange gains or losses arising from translation are credited or debited to the foreign currency translation reserve*

(n) Associated Entities

If material, the consolidated entity's interests in associated entities which are not integral to the general insurance activities are accounted for in accordance with AASB 1016 - Accounting for Investments in Associates. Disclosures of the consolidated entity's interest in associated entities are provided in Note 16. However, it is considered there are no material interests in those associated entities.

(o) Recoverable Amounts Of Non-Current Assets

All non-current assets are reviewed at least annually to determine whether their carrying amounts require write down to their recoverable amount (excluding non-current assets integral to the insurance operations). Recoverable amount is determined using expected net cash flows.

(p) Property, Plant and Equipment

Land and buildings are carried at cost or valuation. Revaluations are made in accordance with a regular policy whereby independent valuations are obtained every three years and carrying amounts adjusted accordingly. The potential capital gains tax is not taken into account in determining the revalued amounts.

Property, plant and equipment, excluding freehold land, are depreciated over their useful economic lives as follows:

	LIFE	METHOD
• *Leasehold improvements*	*10 years*	*Straight Line*
• *Owned plant and equipment*	*5 years*	*Straight Line*

(q) Goodwill

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

(r) Other Intangible Assets

The cost of other intangible assets is based on its fair value at the date of acquisition and is amortised over the period of expected benefits. The unamortised balance is reviewed each balance date and charged to profit and loss to the extent that future benefits are no longer probable.

(s) Employee entitlements

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

Provisions for employee entitlements which are not expected to be settled within the year are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the provision for employee entitlements, consideration has been given to future increases in wage and salary rates, and the consolidated entity's experience with staff departures.

HIH Insurance Limited granted options to certain executives under an executive share option plan. Further information is set out in Note 28 to the financial statements. Other than the costs incurred in administering the schemes, which are expensed as incurred, the scheme does not result in any expense to the consolidated entity.

The parent entity and its controlled entities contribute to several defined benefit and defined contribution superannuation plans. Contributions are charged against income as they are made. Further information is set out in Note 34.

(t) Amounts Payable to/Due from Reinsurers Other Insurers and Statutory Bodies

A designated committee of the Board of HIH Insurance Limited oversees the entire reinsurance program for the Group, including ensuring that the vast majority of the individual reinsurance protections are with A rated companies or better.

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 are 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.

Following the acquisition of FAI Insurances Limited, the Board's reinsurance committee also approved the purchase of whole of account reinsurance contracts with AAA and AA rated companies. These contracts are long-term and are aimed at reducing the volatility of the profit and loss account. The premiums expense in the future years for these long-term reinsurance contracts will be recognised in accordance with the pattern of reinsurance services received. The reciprocal of the long-term benefit of these contracts is that commutation before the end of their term may have a material adverse impact on financial results and/or solvency. The Board has no intention to commute these contracts.

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 consolidated entity operates.

(u) Bank Loans

Bank loans are carried on the balance sheet at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in "Other Liabilities".

(v) Convertible Notes

Under the provisions of accounting standard AASB 1033 - Presentation and Disclosure of Financial Instruments, convertible notes are recorded on initial recognition as liabilities or equity. Coupon interest attaching to convertible notes that are recorded as equity is treated as a distribution out of retained earnings. Coupon interest relating to convertible notes recorded as a liability is expensed to the profit and loss.

(w) Converting Notes

Under the provisions of accounting standard AASB 1033 - Presentation and Disclosure of Financial Instruments, converting notes are recorded on initial recognition as equity. Coupon interest is treated as a distribution out of retained earnings.

(x) New South Wales Workers Compensation Statutory Funds

Two controlled entities, HIH Workers Compensation (NSW) Pty. Limited and FAI Workers Compensation (NSW) Limited, are licensed insurers under the New South Wales Workers Compensation Act 1987 (the Act). In accordance with the requirements of the Act, the controlled entities have established and maintained statutory funds in respect of the issue and renewal of policies of insurance. The application of the statutory funds is restricted to the payment of claims, related expenses and other payments authorised under the Act. The WorkCover Authority advises that the licensed insurers have no liability under the Act in the event of a deficiency in the statutory funds. For these reasons, the statutory funds are of a separate and distinct nature and therefore it is not appropriate to include the assets and liabilities of these funds with the other assets and liabilities of the consolidated entity. Accordingly, the income and expenses of the statutory funds have been excluded from the consolidated profit and loss account and the assets and liabilities of the funds have been disclosed in total only in the consolidated balance sheet.

Note 43 provides further details.

(y) Lloyd's Syndicates

The consolidated entity controls and participates in various Lloyd's syndicates. The beneficial interest in the total assets and liabilities of the syndicates are recorded in the consolidated entity's balance sheet with the underwriting results being reflected through the insurance result.

(z) Earnings Per Share

Basic earnings per share are calculated by dividing operating profit after income tax by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account any reduction in earnings per share that would arise from the exercise of converting notes outstanding at the balance date.

(aa) Derivatives

The consolidated entity is exposed to changes in interest rates and foreign exchange rates from its activities. The consolidated entity uses the following derivative financial instruments to hedge these risks: interest rate swaps, forward rate agreements and forward foreign exchange contracts. Derivative financial instruments are not held for speculative purposes

All non-specific hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at balance date are valued at the rates ruling on that date and any gains or losses are brought to account in the profit and loss statement. Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

Where hedge transactions are designated as a hedge of the purchase or sale of goods or services or an anticipated interest transaction, gains and losses arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the transaction. Any gains or losses on the hedge transaction after that date are included in the profit and loss statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur, the deferred gains and losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur, deferred gains and losses that arose on the hedge prior to its termination are included in the profit and loss statement for the year

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur. Where the original anticipated transaction is no longer expected to occur, any gains or losses relating to the hedge instrument are included in the profit and loss for the year.

Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur. If the forecasted transaction is no longer expected to occur, the gains and losses are recognised immediately in the profit and loss statement.

Interest payments and receipts under interest rate swap contracts and realised gains and losses on forward rate agreements are recognised on an accruals basis in the profit and loss statement as an adjustment to interest expense during the year.

(ab) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis.

	NOTE	CONSOLIDATED 1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
Gross written premium		**2 867.6**	3 347.2
Gross premium earned		**2 862.5**	3 136.8
Outward reinsurance expense		**(867.1)**	(812.2)
Net premium earned		**1 995.4**	2 324.6
Claims expense			
Direct		**(2 608.4)**	(2 634.7)
Inward reinsurance		**(107.3)**	(263.5)
Claims handling costs		**(63.0)**	(45.5)
Total claims expense		**(2 778.7)**	(2 943.7)
Reinsurance recoveries		**1 286.6**	1 123.5
Net claims incurred	23 (ii)	**(1 492.1)**	(1 820.2)
Underwriting expenses		**(308.7)**	(328.2)
Fire brigade charges		**(39.1)**	(52.4)
Net acquisition costs		**(259.0)**	(297.5)
Total underwriting expenses		**(606.8)**	(678.1)
Underwriting loss		**(103.5)**	(173.7)
Investment return on policyholders' funds	4	**175.0**	229.0
Net discount rate adjustment	23 (ii)	**-**	(1.3)
Other business activities (net)		**1.3**	4.5
Insurance result	1 (d)	**72.8**	58.5
Goodwill amortisation		**(35.3)**	(20.8)
Investment return on shareholders' funds	4	**60.4**	91.3
Interest expense			
- convertible notes	29	**(4.5)**	(6.8)
- other		**(31.5)**	(20.2)
Operating profit before abnormal item and income tax	5	**61.9**	102.0

(a) RECONCILIATION OF CASH

For the purposes of the statements 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 year as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows:

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Cash/Deposits at call	**1.2**	5.3	**461.6**	638.7
Total	**1.2**	5.3	**461.6**	638.7

(b) BUSINESS ACQUIRED OR ESTABLISHED

During the period the consolidated entity acquired or established the following wholly controlled entities:

2000.

- *FAI Finance Corporation Pty Limited and its controlled entities*
- *World Marine and General Insurance Pty Limited*
- *Hannan and Company Pty Limited*
- *HIH Systems International Limited*
- *Cotesworth Insurance Services Limited*

1999.

- *Cotesworth Group Limited and its controlled entities*
- *FAI Insurances Limited and its controlled entities*
- *HIH America Compensation & Liability Insurance Company of Illinois*
- *HIH Insurance (Asia) Limited*
- *HIH Marine Holdings (US) Inc (Washington)*
- *HIH Marine Insurance Services AB*
- *HIH Maritime Services Inc.*
- *HIH Russia Limited*
- *HIH WorkAble Limited*
- *Solarr Aseguradora de Riesgos del Trabajo S.A*

(b) BUSINESS ACQUIRED OR ESTABLISHED (continued)

Details of the acquisitions of controlled entities are as follows:

	CONSOLIDATED 30.6.00 $m	30.6.99 $m
Consideration:		
Cash paid	**23.3**	263.4
Other	**12.2**	167.1
Total consideration	**35.5**	430.5
Fair value of net assets acquired:		
Cash	**19.5**	355.0
Receivables	**28.9**	253.1
Investments	**57.6**	2 038.0
Plant and equipment	**2.1**	229.1
Intangibles	**19.3**	-
Other assets	**3.9**	654.1
Creditors and borrowings	**(94.7)**	(571.8)
Provisions	**(1.1)**	(2 723.6)
Outside equity interest	**-**	(115.9)
	35.5	118.0
Goodwill on acquisition	**-**	312.5
	35.5	430.5
Cash paid on the purchase of controlled entities, net of cash acquired:		
Cash paid	**(23.3)**	(263.4)
Less cash received	**19.5**	355.0
(Outflow)/Inflow of cash	**(3.8)**	91.6

(c) BUSINESS DISPOSED

During the financial period, the consolidated entity sold no interests in controlled entities (1999: FAI Life Limited and Oceanic Coal Australia Limited). Details of disposals are as follows:

	CONSOLIDATED	
	30.6.00 $m	30.6.99 $m
Consideration:		
*Cash proceeds**	**54.6**	144.4
Other	**(54.6)**	75.0
Proceeds on disposal:	-	219.4
Fair value of net assets disposed:		
Cash	-	140.8
Receivables	-	24.4
Investments	-	760.7
Plant and equipment	-	170.4
Inventories	-	17.2
Other assets	-	66.8
Creditors	-	(81.5)
Provisions	-	(700.2)
Outside equity interest	-	(115.1)
Convertible note	-	(40.0)
Net assets of entities sold	-	243.5
Loss on disposal	-	(24.1)
Inflow of cash on disposal of entities, net of cash disposed:		
Cash proceeds	**54.6**	144.4
Cash balance disposed	-	(140.8)
Inflow of cash	**54.6**	3.6

** Cash proceeds received during the current year related to businesses disposed of in the prior period*

(d) NON-CASH FINANCING ACTIVITIES

During the year the following non-cash financing activities were carried out:

(i) 9 966 279 ordinary shares were issued under the Dividend Reinvestment Plan increasing share capital by the value of $13 394 791, and

(ii) 47 179 convertible notes were converted into 96 680 ordinary shares increasing share capital by the value of $235 839

(e) RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO OPERATING PROFIT AFTER INCOME TAX

	PARENT ENTITY		CONSOLIDATED	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
Operating profit after income tax	**50.1**	102.4	**19.2**	37.3
Depreciation and amortisation	**-**	-	**71.6**	65.3
Bad and doubtful debts	**-**	-	**0.9**	9.3
Net profit/(loss) from sale of plant and equipment	**-**	-	**0.5**	(1.3)
Transfer to provision for employee entitlements	**-**	-	**2.1**	1.4
Changes in net market value of investments				
- realised	**-**	-	**(51.7)**	(97.9)
- unrealised	**-**	-	**(31.6)**	2.1
Profit on sale of associate entities	**-**	-	**(1.9)**	(7.6)
Pre-acquisition losses included in goodwill	**-**	-	**(93.2)**	-
Abnormal loss on provision for Goods and Services Tax	**-**	-	**6.0**	50.0
Changes in assets and liabilities				
Decrease/(Increase)				
- Debtors	**(20.5)**	(61.9)	**(180.7)**	(419.1)
- Reinsurance recoveries receivable	**-**	-	**(734.9)**	(407.7)
- Other operating assets	**-**	-	**(23.1)**	29.9
Increase/(Decrease)				
- Creditors	**-**	-	**(283.4)**	204.4
- Outstanding claims	**-**	-	**602.1**	123.9
- Income and deferred tax provisions	**4.0**	-	**-**	(51.9)
- Other liabilities	**-**	-	**19.8**	120.5
	33.6	40.5	**(678.3)**	(341.4)

OPERATING REVENUE

	PARENT ENTITY		CONSOLIDATED	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
Gross premium earned				
Direct	-	-	**2 754.5**	2 816.7
Inward reinsurance	-	-	**108.0**	320.1
	-	-	**2 862.5**	3 136.8
Reinsurance recoveries revenue	-	-	**1 286.6**	1 123.5
Investment revenue				
Dividends from				
- controlled entities	**39.9**	90.7	-	-
- associated entities	-	-	**0.7**	-
- non-related entities	-		**23.0**	14.9
Interest from				
- controlled entities	**9.6**	14.9	-	-
- non-related entities	-	0.3	**109.5**	194.2
Rentals	-	-	**17.0**	15.4
	49.5	105.9	**150.2**	224.5
Changes in net market value of investments				
- realised	-	-	**53.6**	97.9
- unrealised	-	-	**31.6**	(2.1)
	-	-	**85.2**	95.8
Revenue from other business activities	**8.4**	-	**88.6**	103.1
Proceeds from sale of non-current assets	-	-	**3.2**	4.9
Total revenue	**57.9**	105.9	**4 476.3**	4 688.6

OPERATING PROFIT

	PARENT ENTITY		CONSOLIDATED	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
Operating profit before income tax after charging/(crediting) the following expenses				
Interest paid or payable to				
- non-related entities	**3.8**	6.8	**36.0**	27.1
Operating lease rentals	**-**	-	**26.9**	33.5
Net profit/(loss) from sale of non-current assets	**-**	-	**0.5**	(1.3)
Depreciation of plant and equipment	**-**	-	**36.3**	40.7
Amortisation of				
- management rights	**-**	-	**0.2**	-
- goodwill	**-**	-	**35.1**	20.8
- leased assets	**-**	-	**-**	3.8
Profit on sale of associate entity	**-**	-	**(1.9)**	(7.6)
Provision for doubtful debts	**-**	-	**(6.8)**	5.6
Provision for employee entitlements	**-**	-	**2.1**	1.4
Bad debts written off	**-**	-	**7.7**	3.7

ABNORMAL ITEM

Provision for Goods and Services Tax	**-**	-	**(6.0)**	(50.0)
Applicable income tax	**-**	-	**2.2**	18.0
	-	-	**(3.8)**	(32.0)
Restatement of deferred tax balances due to income tax rate changes	**-**	-	**(18.8)**	-
	-	-	**(22.6)**	(32.0)

EXTRAORDINARY ITEMS

Loss on sale of interest in controlled entity	**-**	-	**-**	(50.1)
Applicable income tax (Note 9)	**-**	-	**-**	-
	-	-	**-**	(50.1)

EARNINGS PER SHARE

	CONSOLIDATED	
	1.7.99 TO 30.6.00 *cents*	1.1.98 TO 30.6.99 *cents*
Basic earnings per share	**(0.6)**	*4.0*
Diluted earnings per share	**1.9**	*5.6*

	number	*number*
(a) Number of ordinary shares		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	***466.3m***	*369.9m*

(b) Potential ordinary shares considered dilutive

Converting notes on issue, as disclosed in Note 30, are considered to be potential ordinary shares and therefore have been included in the determination of diluted earnings per share.

INCOME TAX

	PARENT ENTITY		CONSOLIDATED	
	1.7.99 TO 30.6.00 *$m*	1.1.98 TO 30.6.99 *$m*	1.7.99 TO 30.6.00 *$m*	1.1.98 TO 30.6.99 *$m*
The difference between income tax expense provided in the accounts and the prima facie income tax expense is reconciled as follows:				
Operating profit	**54.1**	*104.6*	**55.9**	*52.0*
Prima facie tax thereon	**19.5**	*37.7*	**20.1**	*18.7*
Tax effect of permanent and other differences				
- rebate on dividend income	**(14.4)**	*(32.7)*	**-**	*(3.0)*
- effect of difference between Australian tax rate and tax rate applicable to the income of controlled overseas entities	**-**	*-*	**(1.9)**	*10.6*
- non-deductible net of non-assessable items	**(2.0)**	*(2.8)*	**8.5**	*(4.3)*
Restatement of deferred tax balances due to income tax rate changes	**-**	*-*	**18.8**	*-*
Amounts (over)/under provided in prior periods	**0.9**	*-*	**(8.8)**	*(7.3)*
Total income tax attributable to operating profit	**4.0**	*2.2*	**36.7**	*14.7*
Extraordinary item (Note 7)	**-**	*-*	**-**	*(50.1)*
Prima facie tax thereon	**-**	*-*	**-**	*18.0*
Tax effect of permanent differences	**-**	*-*	**-**	*(18.0)*
Total income tax attributable to extraordinary item	**-**		**-**	

SEGMENT INFORMATION

Contributions to consolidated revenue, operating profit before income tax and total assets held during the period were:

	REVENUE	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
By Activity		
- Underwriting	**4 476.3**	4 688.6
By Geographical Area		
- Australia	**2 441.1**	2 908.0
- U.S.A.	**488.8**	736.4
- New Zealand	**286.0**	187.7
- Asia	**197.8**	150.3
- United Kingdom	**1 016.9**	664.2
- Argentina	**45.7**	42.0
	4 476.3	4 688.6

	OPERATING PROFIT BEFORE INCOME TAX	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
By Activity		
- Underwriting	**55.9**	52.0
By Geographical Area		
- Australia	**152.5**	78.4
- U.S.A.	**(45.4)**	(20.5)
- New Zealand	**7.2**	17.4
- Asia	**(11.9)**	(5.4)
- United Kingdom	**(48.7)**	(21.7)
- Argentina	**2.2**	3.8
	55.9	52.0

	TOTAL ASSETS	
	30.6.00 $m	30.6.99 $m
By Activity		
- Underwriting	**8.327.1**	8 051.1
By Geographical Area		
- Australia	**6 008.3**	6 360.5
- U.S.A	**762.5**	733.9
- New Zealand	**310.3**	205.6
- Asia	**246.8**	92.2
- United Kingdom	**949.0**	625.0
- Argentina	**50.2**	33.9
	8 327.1	8 051.1

RECEIVABLES

CURRENT

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Trade debtors	**-**	-	***613.1***	*497.5*
Less provision for doubtful debts	**-**	-	***(8.8)***	*(19.8)*
Trade debtors, net	**-**	-	***604.3***	*477.7*
Amounts due from reinsurers, other insurers and statutory bodies	**-**	-	***377.8***	*360.7*
Accrued premiums	**-**	-	***526.4***	*470.0*
Accrued interest, commission and other income	***4.7***	*4.7*	***8.4***	*5.9*
Other debtors	**-**	-	***86.7***	*86.4*
Total current receivables	***4.7***	*4.7*	***1 603.6***	*1 400.7*

INVESTMENTS

CURRENT

	PARENT ENTITY 30.6.00	PARENT ENTITY 30.6.99	CONSOLIDATED 30.6.00	CONSOLIDATED 30.6.99
At Directors' valuation				
Corporate bonds - unlisted	-	-	***47.0***	*105.7*
Loans - unsecured	**-**	-	***46.3***	*38.1*
	-	-	***93.3***	*143.8*
At net market value				
Shares in non-related entities - listed *	**-**	-	***517.0***	*612.1*
Government and semi-government stocks and bonds	**-**	-	***15.6***	*48.9*
	-	-	***532.6***	*661.0*
Total current investments			***625.9***	*804.8*
Less provision for selling costs	**-**	-	***(1.5)***	*(1.3)*
Net market value	**-**	-	***624.4***	*803.5*

* *Due to the use of derivatives, the effective exposure of the above physical shares amounted to $509.8m (1999: $469.3m)*

REINSURANCE RECOVERIES RECEIVABLE

	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
Expected future recoveries on outstanding claims (undiscounted)	-	-	**1 991.6**	1 550.9
Discount to present value	-	-	**(171.7)**	(148.7)
Reinsurance recoveries receivable	-	-	**1 819.9**	1 402.2
Current	-	-	**431.6**	415.5
Non-current	-	-	**1 388.3**	986.7
	-	-	**1 819.9**	1 402.2

Consistent with industry practice, the consolidated entity has entered into whole of account reinsurance contracts to protect its underwriting portfolio. In the current year, the consolidated entity has entered into a further whole of account contract for a period of five years. Included in reinsurance recoveries receivable above is $220 million of discounted recoveries relating to this contract. Of this amount, the recovery of $120 million is dependent upon the performance of the contract, in line with expectations over the life of the contract The principal factors influencing performance include:

1. *Investment performance of the underlying experience account*
2. *Claims payments patterns*
3. *Continuity of the contract*

These events are inherently uncertain and the ultimate performance of the contract and the realisation of the benefits of the contract may differ from expectations. The net financial benefit of this contract for the current year was $84 million after taxes

OTHER ASSETS

CURRENT	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
Prepayments and deferred expenses	-	-	**25.0**	33.8
Total current other assets	-	-	**25.0**	33.8

RECEIVABLES

NON - CURRENT	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
Trade debtors	-	-	**0.6**	-
Amounts owing by controlled entities	**286.4**	269.4	-	-
Promissory note	-	-	-	35.0
Total non-current receivables	**286.4**	269.4	**0.6**	35.0

INVESTMENTS

NON - CURRENT

	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
At Directors' valuation				
Corporate bonds - unlisted	-	-	**238.0**	221.8
Shares in controlled entities - unlisted	**731.8**	685.7	-	-
Shares in non-related entities - unlisted	-	-	**27.9**	29.9
Loans - secured	-	-	**219.8**	216.8
Convertible notes	-	-	**44.0**	40.0
*Investments in associates ***	-	-	**71.3**	118.7
Other	-	-	**8.3**	9.4
	731.8	685.7	**609.3**	636.6
At net market value				
Government and semi-government stocks and bonds	-	-	**508.1**	719.8
Infrastructure trust	-	-	**27.1**	-
	-	-	**535.2**	719.8
*At Directors' valuation as at 30 June 2000**				
Investment properties	-	-	**613.2**	556.4
Total non-current investments	**731.8**	685.7	**1 757.7**	1 912.8
Less provision for selling costs	-	-	**(4.6)**	(4.0)
Net market value	**731.8**	685.7	**1 753.1**	1 908.8

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

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

Mr F L Julier AVLE and Mr J T Rae AVLE of Rushton Group

Mr R T G Meridith AAIV of Robert T G Meridith

Mr K Ashcroft FVLE of Rushton Group

Mr R Stafford FVLE of Landmark White

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

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

Mr I Muir FVLE (Val. and Econ.) Registered Valuer, of JLW Advisory Corporate Property Pty. Limited

Mr J Oliver AVLE of John Oliver and Associates

Mr P Phippen AVLE of Peter Phippen and Associates

Mr M F Newton AVLE of Brothers & Newton Pty Ltd

Mr B Turner BBS(Mgmt) VPU ANZIV MPLEINZ of International Valuation Consultants Pty Ltd

**Investments in associated entities include:

NAME OF ASSOCIATED ENTITY	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST 30.6.00	OWNERSHIP INTEREST 30.6.99	BALANCE DATE
Business Thinking Systems Pty Limited	*Consulting*	**50%**	50%	*30 June*
Laniex No.107 Pty Limited	*Dormant*	**50%**	50%	*30 June*
Home Security International Inc	*Security Systems*	**47%**	42%	*30 June*
Sydney & London Properties Limited	*Property Investment*	**50%**	50%	*31 March*
Worldwide Weather Underwriting Agencies (Australia) Pty Limited	*Insurance Services*	**50%**	50%	*31 December*
Worldwide Weather Underwriting Agencies London (Partnership)	*Insurance Services*	**50%**	50%	*31 December*
Nam Seng Insurance Public Company Limited	*Insurance Services*	**24%**	24%	*31 December*
Asia Pacific Risk Management Centre Sdn Bhd	*Insurance Services*	**29%**	29%	*31 August*
Australia China Holdings Pty Limited	*Insurance Services*	**42%**	44%	*31 December*
Riskcorp (China) Limited	*Insurance Services*	**40%**	40%	*31 December*
Worldwide Weather Underwriting Agencies (Asia) Ltd	*Insurance Services*	**50%**	50%	*31 December*
Pacific Mentor Pty Limited	*Venture Capital*	**40%**	30%	*30 June*
Lunar Pty Limited	*Hotel Management*	**50%**	50%	*30 June*
[illegible] Limousines and Coaches Pty Ltd	*Car & Bus Hire*	**40%**		*30 June*
Financial Services Partners Pty Limited	*Investment Services*	**14%**		*30 June*
The Deves Insurance Public Company Limited	*Insurance Services*	**4%**		*31 December*

NVESTMENTS

FINANCIAL SUMMARY OF MATERIAL ASSOCIATES (NON-CURRENT CONTINUED)	TOTAL ASSETS 30.6.00 $m	TOTAL LIABILITIES 30.6.00 $m	NET PROFIT/(LOSS) 30.6.00 $m
Sydney and London Properties Limited	*306.4*	*238.0*	*(1.9)*
The Deves Insurance Public Company Limited	*103.5*	*44.2*	*8.6*
Home Security International Inc.	*51.6*	*22.3*	*(0.3)*
Nam Seng Insurance Public Company Limited	*66.9*	*32.8*	*1.0*
All others in aggregate	*7.4*	*3.1*	*(0.9)*
Total associates	***535.8***	***340.4***	***6.5***

PLANT AND EQUIPMENT

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Leasehold improvements, at cost	-	-	***48.6***	*46.9*
Less accumulated amortisation	-	-	***(23.0)***	*(22.1)*
	-	-	***25.6***	*24.8*
Plant and equipment, at cost	-	-	***294.7***	*255.1*
Less accumulated depreciation	-	-	***(155.7)***	*(132.1)*
	-	-	***139.0***	*123.0*
Total plant and equipment	-	-	***164.6***	*147.8*

INTANGIBLES

NON - CURRENT				
Goodwill, at cost	-	-	***555.9***	*392.1*
Less accumulated amortisation	-	-	***(80.6)***	*(45.6)*
Management rights, at cost	-	-	***19.3***	-
Less accumulated amortisation	-	-	***(0.2)***	-
Total intangibles	-	-	***494.4***	*346.5*

OTHER ASSETS

NON - CURRENT				
Future income tax benefit				
- timing differences	-	-	***91.2***	*145.2*
- tax losses	-	-	***137.2***	*27.2*
Prepayments and deferred expenses	-	-	***15.1***	*18.9*
Other receivables	-	-	***0.9***	*0.4*
Total non-current other assets	-	-	***244.4***	*191.7*

The directors have forecast that the future income tax benefit in relation to tax losses will be recovered over a period of up to five years

ACCOUNTS PAYABLE

CURRENT

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Trade creditors	-		**12.3**	34.3
Amounts payable to or on behalf of reinsurers, other insurers and statutory bodies	-	-	**303.3**	417.8
Sundry creditors	-	-	**65.4**	111.6
Total current accounts payable	-	-	**381.0**	563.7

BORROWINGS

CURRENT

	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
Bond issue	-	-	-	151.1
Bank loans	-	-	**11.3**	12.9
Other loans - secured	-	-	**8.3**	-
Other loans - unsecured	-	-	-	0.5
Total current borrowings	-	-	**19.6**	164.5

FINANCING ARRANGEMENTS

	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
Medium term note issues	-		**666.2**	604.3
Bank loans	-		**53.3**	38.2
Other loans	-		**36.5**	30.3
Standby letters of credit	-	-	**408.7**	350.1
	-	-	**1 164.7**	1 022.9
Facilities utilised at balance date:				
Medium term note issues	-	-	**226.5**	213.0
Bank loans	-	-	**34.6**	34.1
Other loans	-	-	**30.9**	30.3
Standby letters of credit	-	-	**392.1**	338.3
	-	-	**684.1**	615.7
Facilities not utilised at balance date:				
Medium term note issues	-		**439.7**	391.3
Bank loans	-		**18.7**	4
Other loans			**5.6**	
Standby letters of credit	-	-	**16.6**	11.8
	-		**480.6**	407.2

PROVISIONS

CURRENT

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Dividends	**9.4**	18.5	**9.4**	18.5
Income tax	**5.0**	-	**-**	-
Goods and Services Tax	**-**	-	**41.0**	-
Employee entitlements	**-**	-	**24.5**	21.8
Other	**-**	-	**8.8**	6.0
Total current provisions	**14.4**	18.5	**83.7**	46.3

OUTSTANDING CLAIMS

(i) OUTSTANDING CLAIMS DETAILS

	PARENT ENTITY		CONSOLIDATED	
Expected future claim payments (undiscounted)	**-**	-	**4 922.9**	4 598.7
Discount to present value	**-**	-	**(492.0)**	(547.2)
Liability for outstanding claims	**-**	-	**4 430.9**	4 051.5
Current	**-**	-	**1 423.4**	1 415.5
Non-current	**-**	-	**3 007.5**	2 636.0
	-	-	**4 430.9**	4 051.5

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 2.2 years (1999: 2.6 years).

(b) The following weighted average inflation rates and discount rates were used in measuring the consolidated outstanding claims liability for the succeeding and subsequent years:

	CONSOLIDATED	
	30.6.00 %	30.6.99 %
Inflation rate	**3.8**	5.0
Discount rate	**6.4**	6.1

(iii) NET CLAIMS INCURRED

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

	30.6.00			30.6.99		
	CURRENT YEARS $m	PRIOR YEARS $m	TOTAL $m	CURRENT PERIOD $m	PRIOR PERIODS $m	TOTAL $m
Direct						
Gross claims incurred - undiscounted	2 380.2	250.0	**2 630.2**	2 697.9	53.7	2 751.6
Reinsurance recoveries - undiscounted	(1 136.2)	(130.0)	**(1 266.2)**	(1 027.8)	(15.0)	(1 042.8)
Net claims incurred - undiscounted	1 244.0	120.0	**1 364.0**	1 670.1	38.7	1 708.8
Discount - gross claims incurred	37.3	3.9	**41.2**	(82.6)	(1.9)	(84.5)
Discount - reinsurance recoveries	1.7	0.2	**1.9**	(13.3)	(0.3)	(13.6)
Net discount rate adjustment	-	-	**-**	-	1.3	1.3
Net discount movement	39.0	4.1	**43.1**	(95.9)	(0.9)	(96.8)
Total net direct claims incurred	1 283.0	124.1	**1 407.1**	1 574.2	37.8	1 612.0

	30.6.00 $m	30.6.99 $m
Total		
Direct	**1 407.1**	1 612.0
Inwards reinsurance	**85.0**	209.5
	1 492.1	1 821.5
Net claims incurred is reconciled to Note 2 as:		
Direct	**1 407.1**	1 610.7
Inwards reinsurance	**85.0**	209.5
	1 492.1	1 820.2
Net discount rate adjustment	**-**	1.3
Total net claims incurred	**1 492.1**	1 821.5

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 year 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

OTHER LIABILITIES

CURRENT	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
Other creditors and accruals	***0.2***	*2.1*	***49.2***	*33.9*
Total current other liabilities	***0.2***	*2.1*	***49.2***	*33.9*

ACCOUNTS PAYABLE

NON-CURRENT	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
Trade creditors	-	-	***2.4***	-
Accruals	-	-	***12.1***	-
Total non-current accounts payable	-	-	***14.5***	-

BORROWINGS

NON - CURRENT	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
Convertible notes - unsecured (refer Note 29)	***55.8***	*56.1*	***55.8***	*56.1*
Medium term note issues	-	-	***226.5***	*213.0*
Bank loans - unsecured	-	-	***23.3***	*21.2*
Subordinated borrowings	-	-	***159.6***	-
Other loans - unsecured	-	-	***3.0***	*9.4*
Other loans - secured	-	-	***19.6***	*20.4*
Bond issue	-	-	***16.6***	*15.7*
Total non-current borrowings	***55.8***	*56.1*	***504.4***	*335.8*

PROVISIONS

NON - CURRENT	PARENT ENTITY 30.6.00 $m	PARENT ENTITY 30.6.99 $m	CONSOLIDATED 30.6.00 $m	CONSOLIDATED 30.6.99 $m
Employee entitlements	-	-	***3.8***	*5.6*
Other	***0.9***	-	***0.3***	*0.4*
Total non-current provisions	***0.9***	-	***4.1***	*6.0*

SHARE CAPITAL

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Issued capital:				
471 849 820 (30 June 1999: 461 786 861)				
ordinary shares, fully paid	***697.9***	*684.2*	***697.9***	*684.2*
Total issued capital attributable to members of the parent entity	***697.9***	*684.2*	***697.9***	*684.2*

	FULLY PAID UP VALUE		ORDINARY SHARES	
Movements in issued capital during the period:	30.6.00 $m	30.6.99 $m	30.6.00 number	30.6.99 number
Opening balance at beginning of period	***684.2***	*80.8*	***461 786 861***	*323 277 221*
Shares issued under Dividend Reinvestment Plan	***13.4***	*29.7*	***9 966 279***	*21 534 598*
Shares issued under Executive Option Plan	-	*0.2*	-	*899 200*
Shares issued under Convertible Notes conversion	***0.3***	*1.8*	***96 680***	*750 978*
Shares issued under Converting Notes conversion	-	*87.0*	-	*45 312 500*
Shares issued on acquisition of FAI Insurances Group	-	*142.1*	-	*70 012 364*
Transfer from Share Premium Reserve	-	*342.6*	-	-
Closing balance at end of period	***697.9***	*684.2*	***471 849 820***	*461 786 861*

Employee options over ordinary shares in HIH Insurance Limited	30.6.00			
	EMPLOYEES			DIRECTORS
DATE OF ISSUE	30 June 1998 number	6 May 1997 number	6 May 1996 number	10 May 1996 number
On issue at beginning of the period	**2 325 000**	**1 030 000**	**8 975 400**	**1 596 000**
Expired/forfeited during the period	**(420 000)**	**(40 000)**	**(1 003 000)**	-
Outstanding at end of period	**1 905 000**	**990 000**	**7 972 400**	**1 596 000**
Expired subsequent to end of period	-	-	-	-
Outstanding at date of Directors' Report	**1 905 000**	**990 000**	**7 972 400**	**1 596 000**
Number of recipients	*40*	*29*	*142*	*4*
Exercise price	*$2.82*	*$2.72*	*$2.17*	*$2.17*
Exercise period	*30 June 1999 to 30 June 2003*	*6 May 1998 to 6 May 2002*	*6 May 1997 to 6 May 2001*	*10 May 1997 to 10 May 2001*
Expiration date	*30 June 2003*	*6 May 2002*	*6 May 2001*	*10 May 2001*

The Executive Option Plan was approved by shareholders at the Company's Annual General Meeting held on 20 May 1994. The shareholders at the Company's Annual General Meeting held on 15 April 1998 approved the HIH Employee Share Plan which replaced the old Employee Share Ownership Plan to take advantage of tax concessions introduced during the period.

(a) Under the Employee Share Plan the Company contributes up to 2.5% of annual profits after tax for the acquisition or issue of shares in the Company to qualifying employees (those who are full-time employees with 3 years continuous service). Each qualifying employee is issued an equal number of shares. The employee may not deal with the shares for another 3 years; however all benefits such as dividends and bonus issues arising from the shareholding during those 3 years accrue to the employee.

(b) A pool of options become available each year to be shared among a group of invited executives under the Executive Option Plan. The price of each option is 1 cent unless the Board determines otherwise. The exercise price is the weighted average sale price of the shares sold on the Stock Exchange over the 5 trading days preceding the date on which the relevant executive is invited to apply for the options. Options granted must be exercised, if at all, within 5 years.

	ORDINARY SHARES		OPTIONS	
	30.6.00	**30.6.99**	**30.6.00**	**30.6.99**
Total number of shares/options outstanding at beginning of period ('000)	**- ***	- *	***13 926***	*13 878*
Total number allocated/issued to employees during the period ('000)	**-**	*486*	**-**	*2 350*
Entitlements forfeited/exercised during the period ('000)	**-**	-	***(1 463)***	*(2 302)*
Total number allocated/issued to employees at end of period ('000)	**-**	*486*	***12 463***	*13 926*
Entitlements relating to options not taken up are forfeited; accordingly no options remain available at balance date				

** Shares not allocated at balance date are not reallocated to qualifying employees in the subsequent period.*

Total number of employees eligible to participate in the Plans	***1 256***	*1 296*	***215***	*202*
Total market value of shares/options allocated during the period ($000)	**-**	*1 375*	**-**	*139*
Proceeds received and receivable from allocation/issues during the period ($000)	**-**	-	**-**	*24*

CONVERTIBLE NOTES

	30.6.00		30.6.99	
	Number	Face value $m	Number	Face value $m
TOTAL CONVERTIBLE NOTES HELD:				
Opening balance	***24 280 438***	***121.4***	*24 646 920*	*123.2*
Conversion to Ordinary Shares	***(47 179)***	***(0.3)***	*(366 482)*	*(1.8)*
Closing balance	***24 233 259***	***121.1***	*24 280 438*	*121.4*
CONVERTIBLE NOTES CLASSIFICATION:				
Liability	***11 163 903***	***55.8***	*11 211 082*	*56.1*
Equity	***13 069 356***	***65.3***	*13 069 356*	*65.3*
Closing balance	***24 233 259***	***121.1***	*24 280 438*	*121.4*

On 6 November 1996, the consolidated entity announced a 1 for 12 pro rata renounceable rights issue of Convertible Notes to raise approximately $127.4 million, being 25.5 million 8% Notes at their face value of $5.00 each. The issue closed on 23 December 1996 and Notes were allotted on 17 January 1997. The Notes rank ahead of the parent entity's Ordinary Shares for payment of dividends or on a winding up but behind commercial debt. The Notes carry no voting rights at general meetings.

Notes may be converted on regular set dates, namely 31 March, 30 June, 30 September and 31 December in each year. Under the terms of the issue, additional rights of conversion are available in certain circumstances. The final date when Noteholders can convert is 2 November 2001. The rate of conversion to Ordinary Shares is calculated by dividing the face value of the total number of Notes held by 92.5% of the weighted average market price of an Ordinary Share for the 10 business days prior to the date of conversion. This conversion price is subject to a maximum of $5.00 per Ordinary Share and a minimum of $2.44. The Notes earn a coupon rate on their face value.

In accordance with AASB 1033 - Presentation and Disclosure of Financial Instruments, Convertible Notes are to be classified on initial recognition as a liability or as equity.

As a result the consolidated entity has classified 53.9% of the Convertible Note issue as equity based on an undertaking from Winterthur Swiss Insurance Company ("WSIC") (a former related party of the consolidated entity) to convert its holding of 13 069 356 Notes by 2 November 2001. The remaining Convertible Notes held by others have been classified as a liability (refer Note 26).

Under the provisions of AASB 1033, Convertible Notes held by WSIC through its Australian subsidiary Winterthur Holdings Australia Limited has been classified to be of an equity nature and therefore the coupon interest relating to these notes held has been treated as a distribution out of retained earnings. Coupon interest relating to Notes held by others has been expensed to profit and loss.

CONVERTING NOTES

	30.6.00 Number	30.6.00 Face value $m	30.6.99 Number	30.6.99 Face value $m
TOTAL CONVERTING NOTES HELD				
Opening balance	**42 620 000**	**213.1**	-	-
Proceeds from issue	-	-	*60 020 000*	*300.1*
Conversion to Ordinary Shares	-	-	*(17 400 000)*	*(87.0)*
Closing balance	**42 620 000**	**213.1**	*42 620 000*	*213.1*
CONVERTING NOTES CLASSIFICATION:				
Equity	**42 620 000**	**213.1**	*42 620 000*	*213.1*
Closing balance	**42 620 000**	**213.1**	*42 620 000*	*213.1*

On 20 March 1998, the consolidated entity announced a fully paid, non-cumulative unsecured issue of Converting Notes to raise $125.0 million, being 25 million 7.535% Notes at a face value of $5.00 each. Notes were allotted on 12 June 1998. The Notes rank ahead of the parent entity's Ordinary Shares for payment of dividends or on a winding up and will rank equally with other unsecured obligations of the consolidated entity but behind commercial debt. The Notes carry no voting rights at general meetings.

On announcement of a further Converting Notes issue on 26 October 1998, a right of conversion was available to existing Noteholders under the terms of the issue. Consequently, 17.4 million Notes at their face value of $5.00 each amounting to $87.0 million, were converted. On 24 December 1998, 45 312 500 Ordinary Shares were allotted to converting Noteholders.

This further issue raised $175.1 million, being 35 020 000 Notes at a face value of $5.00 each, which were allotted on 27 January 2000.

All Notes may be converted into Ordinary Shares on 12 June 2001. Thereafter, Notes may be converted on a quarterly basis from the date of allotment of the Notes. Under the terms of the issue, additional rights of conversion are available in certain circumstances. The final date when Noteholders must convert is 12 June 2003.

The rate of conversion to ordinary shares is calculated by dividing the face value of the total number of Notes held by 95% of the weighted average market price of an Ordinary Share for the 5 business days prior to the date of conversion. This conversion price is subject to a minimum of $0.25 per Ordinary Share. The Notes earn a coupon rate on their face value. The Notes pay a fixed rate of interest semi-annually which was set on the day of issue of the Notes

In accordance with AASB 1033 Presentation and Disclosure of Financial Instruments, Converting Notes are to be classified on initial recognition as a liability or as equity. The consolidated entity as a result has classified all of the Converting Note issue as equity due to the mandatory conversion of the Notes into Ordinary Shares by 12 June 2003. Coupon interest relating to these notes, therefore, has been treated as a distribution out of retained earnings.

RESERVES

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Asset revaluation	**153.5**	*119.6*	**-**	-
Foreign currency translation	**-**	-	**8.7**	*(1.0)*
Total reserves	**153.5**	*119.6*	**8.7**	*(1.0)*
Movements during the period:				
Share premium				
Opening balance	**-**	*322.9*	**-**	*322.9*
Premium on issue of shares	**-**	*19.7*	**-**	*19.7*
Transfer to share capital 1 July 1998	**-**	*(342.6)*	**-**	*(342.6)*
Closing balance	**-**	-	**-**	-
Asset revaluation				
Opening balance	**119.6**	*88.2*	**-**	-
Revaluation increment on investment in shares in controlled entities	**33.9**	*31.4*	**-**	-
Closing balance	**153.5**	*119.6*	**-**	-
Foreign currency translation				
Opening balance	**-**	-	**(1.0)**	*(1.0)*
Translation adjustment on consolidation	**-**	-	**9.7**	-
Closing balance	**-**	-	**8.7**	*(1.0)*

DIVIDENDS AND OTHER DISTRIBUTIONS

	PARENT ENTITY		CONSOLIDATED	
	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m	1.7.99 TO 30.6.00 $m	1.1.98 TO 30.6.99 $m
Interim dividend of 4.0 cents per share franked to 100% paid on 7 April 2000 (1999: two interim dividends of 8.0 cents per share one franked to 100% the other to 50%)	**18.7**	62.7	**18.7**	62.7
Final dividend of 2.0 cents per share fully franked paid on 6 October 2000 (1999: 4.0 cents per share franked to 100%)	**9.4**	18.5	**9.4**	18.5
Distribution provided for or paid out of retained earnings to Winterthur Holdings Australia Limited in respect of convertible notes (refer Note 29)	**5.2**	5.0	**5.2**	5.0
Distributions provided for or paid out of retained earnings in respect of converting notes (refer Note 30)	-	-	**16.1**	9.0
	33.3	86.2	**49.4**	95.2

DIVIDEND FRANKING ACCOUNT

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements, and after deducting franking credits to be used in payment of the above dividends.				
34% franking credits (1999: 36%)	**5.1**	2.1	**156.6**	179.7

On the basis of current information and projections, future franking capacity may be limited depending on the balance between Australian and offshore profits

OUTSIDE EQUITY INTEREST

	CONSOLIDATED	
	30.6.00 $m	30.6.99 $m
At balance date the outside equity interests in the consolidated entity comprised:		
Share capital	**10.6**	10.6
Accumulated losses	**-**	(0.8)
Reserves	**1.0**	1.5
	11.6	11.3
Accumulated losses		
Accumulated losses at the beginning of the period attributable to outside equity interests	**(0.8)**	(0.7)
Operating profit after tax attributable to outside equity interests	**0.8**	8.4
Outside equity interests acquired during period	**-**	(8.5)
Accumulated losses at the end of the period attributable to outside equity interests	**-**	(0.8)

SUPERANNUATION COMMITMENTS

The consolidated entity sponsors a number of superannuation funds which provide benefits for employees or their dependants on retirement, disability or death. All funds are accumulation funds with the exception of the HIH Insurance Group Staff Superannuation Fund which is a defined benefits fund and is divided between a defined benefits and an accumulation category. Contributions to the funds are based on a percentage of employees' salaries.

The consolidated entity is obliged to contribute to the funds in accordance with their governing Trust Deeds. In respect of the HIH Insurance Group Staff Superannuation Fund, contributions are determined by actuarial assessments which are carried out at least every three years.

The actuary of the fund at the end of the financial year was P Vere, BSc FIA FIAA

Actuarial assessment of the fund was carried out as of 30 June 1999. On the basis of this assessment, the fund would be able to satisfy all benefits that would have been vested in the event of

a) termination of the fund

b) voluntary termination of the employment of each employee on the initiative of the employee; or

c) compulsory termination of the employment of each employee on the initiative of the employer.

As the financial statements of the fund for the year ended 30 June 2000 are not available, the assets (net market value), accrued benefits and vested benefits of the fund have been calculated using the most recent statements as indicated below.

DEFINED BENEFIT SUPERANNUATION PLAN

HIH Insurance Group Staff Superannuation Fund

Date at which the following amounts were determined	30.6.99 $m	30.6.98 $m
Net market value of plan assets	**48.5**	46.6
Accrued benefits	**33.1**	29.0
Excess of plan assets over accrued benefits	**15.4**	17.6
Vested benefits	**29.9**	27.0

COMMITMENTS

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Operating lease expenditure contracted for is payable as follows:				
- not later than one year	-	-	**36.4**	35.5
- later than one year but not later than five years	-	-	**125.2**	121.0
- later than 5 years	-	-	**57.3**	71.0
	-	-	**218.9**	227.5
Other expenditure commitments contracted for is payable as follows:				
- not later than one year	-	-	-	0.1
- later than one year but not later than two years	-	-	-	0.1
- later than two years but not later than five years	-	-	-	-
- later than five years	-	-	-	-
	-	-	-	0.2

FINANCIAL INSTRUMENTS

(A) OBJECTIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

The consolidated entity makes use of derivative instruments as an alternative means of implementing strategic asset allocation benchmarks. In addition, the consolidated entity is exposed to the risk of adverse movements of foreign currency denominated transactions in its investment portfolio. Derivatives are therefore used to initiate hedging of foreign currency risks to ensure the compliance with the consolidated entity's foreign exchange policy.

(B) INTEREST RATE RISK

The consolidated entity seeks to reduce its exposure to interest rate risk through matching the capital movements recorded on the consolidated entity's interest bearing securities against the revaluation of the consolidated entity's liability for outstanding claims and the use of derivative financial instruments such as interest rate and cross currency swaps. The following tables summarise interest rate risk for the consolidated entity, together with effective interest rates as at balance date.

(i) Net interest bearing financial assets

30.6.00

	FLOATING INTEREST RATE $m	FIXED INTEREST MATURING IN: 1 YEAR OR LESS $m	1 to 5 YEARS $m	MORE THAN 5 YEARS $m	TOTAL $m
Assets					
Government and semi-government bonds	-	52.0	258.7	213.0	**523.7**
Corporate bonds and other	28.1	59.2	114.0	83.7	**285.0**
	28.1	111.2	372.7	296.7	**808.7**
Weighted average interest rate	6.2%	6.7%	6.7%	7.5%	**7.0%**
Liabilities					
Medium term note issues	(226.5)	-	-	-	**(226.5)**
Bank loans	(34.6)	-	-	-	**(34.6)**
Unsecured convertible notes	-	-	(55.8)	-	**(55.8)**
Bond issue	(159.6)	-	(16.6)	-	**(176.2)**
Other loans	(11.3)	-	-	(19.6)	**(30.9)**
Cross currency swaps	(12.1)	-	-	-	**(12.1)**
Interest rate swaps	83.3	-	(83.3)	-	**-**
	(360.8)	-	(155.7)	(19.6)	**(536.1)**
Weighted average interest rate	7.1%	-	6.9%	15.0%	**7.3%**
Net financial assets	**(332.7)**	**111.2**	**217.0**	**277.1**	**272.6**

30.6.99

	FLOATING INTEREST RATE $m	FIXED INTEREST MATURING IN: 1 YEAR OR LESS $m	1 to 5 YEARS $m	MORE THAN 5 YEARS $m	TOTAL $m
Assets					
Government and semi-government bonds	-	48.9	485.3	234.5	**768.7**
Corporate bonds and other	31.2	74.5	144.2	77.6	**327.5**
	31.2	123.4	629.5	312.1	**1 096.2**
Weighted average interest rate	5.0%	5.7%	6.1%	6.5%	**6.2%**
Liabilities					
Medium term note issues	-	-	(213.0)	-	**(213.0)**
Bank loans	-	(12.9)	(21.2)	-	**(34.1)**
Unsecured convertible notes	-	-	(56.1)		**(56.1)**
Bond issue	-	(151.1)	(15.7)	-	**(166.8)**
Other loans	-	-	(30.3)	-	**(30.3)**
		(164.0)	(336.3)		**(500.3)**
Weighted average interest rate		4.8%	6.3%		**5.8%**
Net financial assets	**31.2**	**(40.6)**	**293.2**	**312.1**	**595.9**

	30.6.00 $m	30.6.99 $m
(ii) Reconciliation of net financial assets to net assets		
Net financial assets		
Interest bearing	***272.6***	*595.9*
Non-interest bearing and other	***2 030.4***	*2 136.1*
Net insurance liabilities	***(2 146.1)***	*(2 464.7)*
Net non-financial assets	***782.2***	*679.1*
Net assets	***939.1***	*946.4*

	30.6.00		30.6.99	
	EQUITY $m	CASH $m	EQUITY $m	CASH $m
Physical	***517.0***	***461.6***	*612.1*	*638.7*
Derivatives - 3 months or less*	***(7.2)***	***7.2***	*(142.8)*	*142.8*
Effective exposure	***509.8***	***468.8***	*469.3*	*781.5*

(C) EQUITY MARKET RISK

The consolidated entity makes use of domestic and international equity futures in order to achieve a desired equity exposure mix.
The capital exposures as at 30 June 2000 were as follows:

* *The fair value of the open derivative positions amount to $3.5m (1999: $146.3m) with unrealised gains recorded in the amount of $10.7m (1999: $3.5m).*

(D) CREDIT RISK

The consolidated entity does not obtain collateral or other security to support financial instruments subject to credit risk, however anticipates that counterparties will be able to fully satisfy their obligations under the contracts. The consolidated entity regularly monitors the credit standing of counterparties through the use of rating agency publications. The credit risk on financial assets of the consolidated entity is the carrying amount, which is shown net of provisions for costs of disposal.

(E) FOREIGN EXCHANGE RISK

A significant aspect of the consolidated entity's insurance strategy is to diversify its insurance risk through the exposure to international insurance markets. This has resulted in the exposure to foreign exchange risks. The consolidated entity's policy requires that material net foreign exchange risks be hedged. Derivatives are used to help manage this exposure by entering into forward exchange contracts. All of these derivatives have periods of maturity of less than one year. There were no foreign exchange derivatives outstanding as at 30 June 2000. All material foreign currency denominated financial assets and liabilities were all naturally hedged with the exception of the following:

CURRENCY	POSITION	30.6.00 **$m**	30.6.99 **$m**
HK$	*short*	***(15.7)***	-
NZ$	*long*	***15.2***	*19.0*
US$	*short*	***(24.8)***	*(16.4)*
GB£	*long*	***12.4***	-

The derivative risk management process is subject to regular internal audit and close senior management scrutiny, including regular management reporting. Management reports present the asset allocation based on the effective exposure of derivative positions. All derivatives entered into are subject to authority levels provided to management and the levels of exposure are reviewed on an on-going basis by the Investment Committee of the Board. This committee is responsible for overviewing the process of derivative risk management. There is a prohibition against using derivatives for leverage and speculation.

CONTINGENT LIABILITIES

Members of the consolidated entity are engaged in normal commercial disputes and actions, which individually are not considered material but which if taken together may have a material impact on the consolidated entity. The directors supported by appropriate professional and legal advice, consider the possibility of a material consequence to the consolidated entity, arising from these disputes or actions, to be remote.

At balance date, letters of credit totalling $392 million were on issue, supporting insurance operations of the consolidated entity predominantly in the United Kingdom. Of this amount, letters of credit totalling $294 million are fully secured by fixed interest securities.

Unsecured guarantee by the parent entity against deficiency which may arise in the event of the liquidation of certain controlled entities. Estimated liability under this guarantee is nil (1999: nil).

The following were controlled entities at 30 June 2000, and have been included in the consolidated financial statements The controlled entities incorporated outside Australia carry on business in their respective places of incorporation. The financial periods of all controlled entities are the same as that of the parent entity, unless otherwise indicated. Percentage ownership of controlled entities are the same as that of the corresponding period last year, unless otherwise indicated.

NAME OF ENTITY	COUNTRY OF INCORPORATION	PERCENTAGE OF SHARES HELD
HIH Insurance Limited	Australia	100%
HIH Underwriting and Agency Services Limited	Australia	100%
HIH Holdings Pty. Limited	Australia	100%
HIH Casualty and General (Aviation) Pty. Limited	Australia	100%
HIH Underwriting Holdings Pty. Ltd	Australia	100%
HIH Investment Holdings Limited	Australia	100%
HIH Superannuation Pty. Limited	Australia	100%
HIH Superannuation No.2 Fund Pty. Limited	Australia	100%
HIH Travel (Australia) Pty Limited	Australia	100%
Industrial Rehabilitation Services Pty. Limited	Australia	100%
HIH International Pty. Limited	Australia	100%
M.W. Payne (Assessors) Pty. Limited	Australia	100%
Berzot Pty. Limited	Australia	100%
HIH Nominees (ACT) Pty. Limited	Australia	100%
HIH Casualty and General Insurance Limited	Australia	100%
Ready Plan Group Limited	Australia	100%
HIH Legal Services Pty. Limited	Australia	100%
Ready Plan Asia Pacific Pty. Limited	Australia	100%
Overseas Medical Emergency and General Assistance Pty. Ltd	Australia	100%
Ready Plan Insurances New Zealand Limited ◊	New Zealand	100%
HIH Management Pty. Limited	Australia	100%
FAI (CTP) Pty. Limited	Australia	100%
HIH Underwriting and Insurance (Australia) Pty. Limited	Australia	100%
HIH Services Pty. Limited	Australia	100%
Tenth Sward Pty. Limited	Australia	100%
HIH (Travel) Pty. Limited	Australia	100%
HIH Overseas Holdings Limited	Australia	100%
HIH (Real Estate) Pty. Limited	Australia	100%
HIH (NSW) Pty. Limited	Australia	100%
HIH (Vic) Pty. Limited	Australia	100%
HIH Underwriting (Australia) Pty. Limited	Australia	100%
HIH Premium Funding Pty. Limited	Australia	100%
Innes-Owens Pty. Limited	Australia	100%
CIC Staff Benefits Pty. Limited	Australia	100%
Rehabilitation and Preventative Services Pty. Limited	Australia	100%
CIC Insurance Limited	Australia	100%
CIC General Insurance Holdings Limited	Australia	100%
HIH (Metropolitan Insurance) Pty. Limited	Australia	100%
Marine and Aviation Management Services Limited #	Australia	100%
Utilities Insurance Underwriting Agencies Pty. Limited	Australia	100%
HIH Investments China Limited	Cayman Islands	100%
HIH Workers Compensation (Vic) Limited	Australia	100%
CIC Workers Compensation (NSW) Limited	Australia	100%
HIH Workers Compensation (SA) Limited	Australia	100%
Industrial Mutual Compensation Pty Ltd	Australia	100%

CONTROLLED ENTITIES

CONTINUED

NAME OF ENTITY	COUNTRY OF INCORPORATION	PERCENTAGE OF SHARES HELD
CIC Investments Limited	*Australia*	*100%*
HIH Workers Compensation (NSW) Pty. Limited	*Australia*	*100%*
HIH Company Limited	*Australia*	*100%*
CMG Investments Proprietary Limited	*Australia*	*100%*
HIH (Regional Insurance) Pty. Limited	*Australia*	*100%*
CIC (CTP) Pty. Limited	*Australia*	*100%*
HIH (Personal Lines) Pty. Limited	*Australia*	*100%*
HIH (Disability) Pty. Limited	*Australia*	*100%*
HIH (Liability) Pty. Limited	*Australia*	*100%*
HIH (Marine) Pty. Limited	*Australia*	*100%*
HIH (Property and Special Risks) Pty. Limited	*Australia*	*100%*
HIH (Personal Lines - Underwriting) Pty. Limited	*Australia*	*100%*
HIH (Workers Compensation) Pty. Limited	*Australia*	*100%*
HIH (Professional Indemnity) Pty. Limited	*Australia*	*100%*
HIH (Workers Compensation - Underwriting) Pty. Limited	*Australia*	*100%*
HIH Investments (No.1) Pty. Limited	*Australia*	*100%*
HIH Investments (No.2) Pty. Limited	*Australia*	*100%*
Marine Underwriting Agency (N.Z.) Limited #	*New Zealand*	*100%*
Aviation & General NZ Limited #	*New Zealand*	*100%*
HIH Holdings (Asia) Limited ◊	*Hong Kong*	*100%*
HIH New Zealand Pty. Limited ◊	*Australia*	*100%*
HIH Holdings (N.Z.) Limited ◊	*New Zealand*	*100%*
HIH Holdings (US) Inc. ◊ ^	*United States*	*100%*
HIH European Holding Company Limited ◊	*United Kingdom*	*100%*
HIH ART S.A. (formerly HIH Interamericana Aseguradora de Riesgos del Trabajo S.A.) ◊	*Argentina*	*65%*
HIH Marine Insurance Services Inc. ◊ ^	*United States*	*100%*
Riskcorp Australia Pty. Limited	*Australia*	*100%*
HIH Underwriting Services (Asia) Limited ◊	*Hong Kong*	*100%*
HIH Casualty and General Insurance (Asia) Limited ◊	*Hong Kong*	*100%*
Forex Insurance Company (Macau) Limited ◊	*Hong Kong*	*99.9%*
Asian Area Reinsurance Company Limited ◊	*Hong Kong*	*100%*
Insurance Protection and Management Limited ◊	*Hong Kong*	*99.9%*
HIH Management (Asia) Limited ◊	*Hong Kong*	*100%*
HIH Insurance (Asia) Limited ◊	*Hong Kong*	*100%*
HIH Management (M) Sdn. Bhd. ◊	*Malaysia*	*100%*
HIH Casualty and General Insurance (Labuan) Limited ◊	*Malaysia*	*100%*
HIH Investment Holdings (Labuan) Limited ◊	*Malaysia*	*100%*
HIH Insurance Holdings (N.Z.) Limited ◊	*New Zealand*	*100%*
HIH Casualty and General Insurance (NZ) Limited ◊	*New Zealand*	*100%*
CMG Insurance Company (N.Z.) Limited ◊	*New Zealand*	*100%*
HIH Limited ◊	*New Zealand*	*100%*
HIH Underwriting and Agency Services (N.Z.) Limited ◊	*New Zealand*	*100%*
Industrial Rehabilitation Service (NZ) Limited ◊	*New Zealand*	*100%*
HIH Premium Funding (N.Z.) Limited ◊	*New Zealand*	*100%*
HIH Workable Limited ◊	*New Zealand*	*100%*
HIH (Australia) Pty. Limited	*Australia*	*100%*
Riskcorp New Zealand Limited ◊	*New Zealand*	*100%*
HIH Corporate Services (US) Inc. ◊ ^	*United States*	*100%*
H.I.H. Excess and Surplus Insurance Brokers Inc. # ^	*United States*	*61.[illegible]%*
HIH America Insurance Company of Hawaii Inc. ◊ ^	*United States*	*100%*
The Injury Management Center (Hawaii) Limited ◊ ^	*United States*	*100%*
HIH Marine Services Inc. (Washington) ◊	*United States*	*100%*
HIH Marine Services Inc. (New York) ◊	*United States*	*100%*
Great States Insurance Company ◊	*United States*	*100%*

CONTINUED

NAME OF ENTITY	COUNTRY OF INCORPORATION	PERCENTAGE OF SHARES HELD
HIH America Insurance Services Inc. ◊ ^	United States	100%
HIH America Compensation & Liability Insurance Company ◊ ^	United States	100%
HIH (UK) Limited ◊ ^	United Kingdom	100%
HIH Indemnity International Limited ◊	United Kingdom	100%
HIH Contingency Limited ◊	United Kingdom	100%
HIH Marine Insurance Services AB ◊	Sweden	100%
HIH Maritime Services Inc. ◊	Greece	100%
HIH Russia Limited #	Russia	100%
Cotesworth Group Limited #	United Kingdom	100%
Cotesworth Holdings Limited #	United Kingdom	100%
Cotesworth & Co. Limited #	United Kingdom	100%
Cotesworth Capital Limited #	United Kingdom	100%
Davies Underwriting Agency Limited #	United Kingdom	100%
HIH America Holdings, Inc. (Delaware) ◊ ^	United States	100%
HIH Marine Holdings (US) Inc (Washington) ◊ ^	United States	100%
HIH America Compensation & Liability Insurance Company of Illinois ◊ ^	United States	100%
FAI Insurances Limited	Australia	100%
Argyle Lane Corporation Pty Limited	Australia	51%
Bingaton Pty Limited	Australia	100%
CBDF Management Pty Limited	Australia	100%
FAI Centre Pty Limited	Australia	100%
FAI Credit Corporation Pty Limited	Australia	100%
First Mentor Group Pty Limited	Australia	100%
FAI Films Pty Limited	Australia	100%
FAI Financial Services Limited	Australia	100%
FAI First Mortgage Pty Limited	Australia	66.6%
FAI General Insurance Company Limited	Australia	100%
FAI Holdings (NZ No 2) Limited ◊	New Zealand	100%
FAI Home Security Holdings Pty Limited	Australia	100%
FAI Leasing Finance Pty Limited	Australia	100%
FAI Overseas Holdings Pty Limited	Australia	100%
FAI Overseas Investments Pty Limited	Australia	100%
FAI Staff Productivity Superannuation Pty Limited	Australia	100%
FAI Traders Insurance Company Pty Limited	Australia	100%
FAI Home Security (Australia) Unit Trust	Australia	100%
FAI Investments Int. Pty Limited	Australia	100%
FAI Home Security Holdings New Zealand Limited	New Zealand	100%
Lanlex No 45 Pty Limited	Australia	100%
Pembroke Securities Limited	Australia	100%
Radbath Holdings Pty Ltd	Australia	100%
Victorian Bullion Securities Pty Limited	Australia	100%
FAI Home Security (New Zealand) Trust	New Zealand	100%
FAI Film Distribution Pty Limited	Australia	100%
FAI Film Productions Pty Limited	Australia	100%
FAI Car Owners Mutual Insurance Company Pty Limited	Australia	100%
FAI Investments Pty Limited	Australia	100%
FAI Pacific Pty Limited	Australia	100%
FAI Properties Pty Limited	Australia	100%
FAI Reinsurances Pty Limited	Australia	100%
FAI Workers Compensation (NSW) Limited	Australia	100%
FAI Workers Compensation (SA) Pty Limited	Australia	100%
FAI Workers Compensation (Vic) Pty Limited	Australia	100%
Gleneagles Properties Pty Limited	Australia	100%
Mowete Pty Limited	Australia	100%
Notestir Pty Limited	Australia	100%

CONTROLLED ENTITIES

CONTINUED

NAME OF ENTITY	COUNTRY OF INCORPORATION	PERCENTAGE OF SHARES HELD
United Body Works (QLD) Pty Limited	*Australia*	*100%*
FAI Finance Corporation Pty Limited	*Australia*	*100%*
FAI Finance Corporation (Europe) Limited ◊	*Republic of Ireland*	*100%*
FAI Finance Corporation (NZ) Limited ◊	*New Zealand*	*100%*
FAI Finance Corporation (UK) Limited ◊	*United Kingdom*	*100%*
FAI (NZ) General Insurance Company Limited ◊	*New Zealand*	*100%*
FAI Insurances (Fiji) Limited ◊	*Fiji*	*80%*
FAI Properties (QLD) Pty Ltd	*Australia*	*100%*
FAI Property Services Pty Limited	*Australia*	*100%*
Mariners On The Water Pty Ltd	*Australia*	*100%*
Temple Court Unit Trust	*Australia*	*100%*
422 Collins Street Pty Limited	*Australia*	*100%*
Auburn Industrial Estate Pty. Ltd	*Australia*	*75%*
Auburn Industrial Estate Joint Venture	*Australia*	*75%*
FAI Developments Pty Ltd	*Australia*	*100%*
FAI Developments Unit Trust	*Australia*	*100%*
FAI Sunshine Coast Pty Ltd	*Australia*	*100%*
Gruba Pty Limited	*Australia*	*70%*
Tangleberry Pty Limited	*Australia*	*100%*
Lake Crackenback Resort Pty Ltd	*Australia*	*85%*
Lake Crackenback Resort Management Pty Ltd	*Australia*	*85%*
Lanlex No 65 Pty Limited	*Australia*	*100%*
FAI Holding Company Inc	*United States*	*100%*
FAI SM Leasing Inc	*United States*	*100%*
FAI SM Management Inc	*United States*	*100%*
FAI Golden Share Inc	*United States*	*100%*
FAI St Moritz Inc	*United States*	*100%*
Pacific Care Limited ◊	*New Zealand*	*100%*
Pacific Corporation Limited ◊	*New Zealand*	*100%*
Southside Management Limited ◊	*New Zealand*	*100%*
Premier Securities Limited ◊	*New Zealand*	*100%*
Metlife ALA Trust	*New Zealand*	*100%*
Assisted Living Limited Partnership	*Australia*	*100%*
Australian Company Number 070 667 417 Pty. Limited	*Australia*	*100%*
Kamarasi Pty Ltd	*Australia*	*100%*
Sailport Pty Limited	*Australia*	*100%*
FAI First Pacific Insurance Company Limited ◊	*Hong Kong*	*100%*
HIH Insurance (PNG) Limited (formerly FAI Insurances (PNG) Ltd) #	*Papua New Guinea*	*100%*
FAI Underwriting Limited #	*United Kingdom*	*100%*
FAI Portfolio Management Pty Limited	*Australia*	*100%*
Rhondda Collieries (Queensland) Pty Limited	*Australia*	*100%*
FAI Investment Services Pty Limited	*Australia*	*100%*
Zytan Nominees Pty Limited	*Australia*	*100%*
Taifiat Investments Pty Ltd	*Australia*	*100%*
Vanhall Pty. Ltd	*Australia*	*100%*
World Marine & General Insurance Pty Ltd	*Australia*	*100%*
Hannan & Company Pty Ltd	*Australia*	*100%*
Insular General Insurance Company Incorporated ◊	*Philippines*	*49%*
PT Asuransi Hastin FAI Indonesia ◊	*Indonesia*	*40%*
HIH Systems International Limited	*United Kingdom*	*100%*
HIH Life Insurance (PNG) Limited	*Papua New Guinea*	*100%*
Kandep Adventures Limited	*Papua New Guinea*	*100%*
Cotesworth Insurance Services Limited	*United Kingdom*	*100%*

ACQUISITION OR ESTABLISHMENT OF CONTROLLED ENTITIES

The following controlled entities were acquired or established during the period:

NAME OF ENTITY AND DATE ACQUIRED OR ESTABLISHED	PROPORTION OF SHARES ACQUIRED %	CONSIDERATION PAID $m	FAIR VALUE OF NET TANGIBLE ASSETS AT TIME OF ACQUISITION $m
2000			
FAI Finance Corporation Pty Limited and its controlled entities (26 April 2000)	Remaining 50%	25.5	25.5
World Marine and General Insurance Pty Limited (17 December 1999)	100%	9.6	9.6
Hannan and Company Pty Limited (29 June 2000)	100%	0.4	0.4
HIH Systems International Limited (2 May 2000)	100%	-	-
Cotesworth Insurance Services Limited (19 November 1999)	100%	-	-
1999			
FAI Insurances Limited and its controlled entities (4 January 1999)	100%	300.0	25.0
HIH Marine Insurance Services AB (9 September 1999)	100%	-	-
HIH Maritime Services Inc. (29 January 1998)	100%	-	-
Cotesworth Group Limited and its controlled entities (1 July 1998)	100%	67.9	43.5
Great States Insurance Company (30 June 1998)	100%	24.1	20.0
HIH Marine Holdings (US) Inc. (Washington) (6 August 1998)	100%	-	-
HIH America Compensation & Liability Insurance Company of Illinios (1 July 1998)	100%	-	-
HIH Insurance (Asia) Limited and its controlled entities (9 March 1999)	99.97%	7.4	6.2
Solart Aseguradora de Riesgos del Trabajo S.A. (16 January 1998)	65%	13.9	6.1
HIH Workable Limited (2 February 1999)	100%	-	-
HIH Russia Limited (24 March 1999)	100%	-	-

DISPOSAL OR LIQUIDATION OF CONTROLLED ENTITIES

The following controlled entities were disposed or liquidated during the period:

NAME OF ENTITY AND DATE DISPOSED OR LIQUIDATED	PROPORTION OF SHARES DISPOSED %	CONSIDERATION RECEIVED $m	FAIR VALUE OF NET TANGIBLE ASSETS AT TIME OF DISPOSAL $m
2000			
Solart Aseguradora de Riesgos del Trabajo S.A. (3 January 2000)	65%	-	-
1999			
FAI Life Limited and its controlled entities (28 April 1999)	45.35%	94.4	68.4
Pacific Underwriting Pty Limited (2 February 1999)	100%	-*	-*
Oceanic Coal Australia Limited and its controlled entities (2 July 1999)	100%	125.0	175.1

◊ *These controlled entities are audited by other member firms of Arthur Andersen*

\# *These controlled entities are audited by a firm other than the parent entity auditors or their affiliates*

^ *The financial year of these controlled entities is 31 December*

* *Amount less than $50,000*

DIRECTORS' REMUNERATION

	PARENT ENTITY		
	1.7.99 TO 30.6.00 $000	1.1.98 TO 30.6.99 $000	1.7.98 TO 30.6.99 * $000
The aggregate remuneration received, or due and receivable, by the directors of the parent entity from the parent entity and related bodies corporate was:	***4 506***	*10 296*	*8 524*

	NUMBER	NUMBER	NUMBER
The number of directors of the parent entity whose total income falls within the following bands was:			
$ 0 - $ 9 999	***1***	*2*	-
$ 30 000 - $ 39 999	***1***	*1*	*1*
$ 50 000 - $ 59 999	***2***	-	-
$ 60 000 - $ 69 999	***1***	-	-
$ 80 000 - $ 89 999	***1***	-	*1*
$ 90 000 - $ 99 999	-	-	*1*
$ 120 000 - $ 129 999	-	*1*	*2*
$ 130 000 - $ 139 999	***1***	-	-
$ 140 000 - $ 149 999	-	*1*	-
$ 170 000 - $ 179 999	-	-	*1*
$ 200 000 - $ 209 999	-	*2*	-
$ 210 000 - $ 219 999	***1***	-	-
$ 220 000 - $ 229 999	-	-	*1*
$ 270 000 - $ 279 999	-	*1*	-
$ 320 000 - $ 329 999	-	*1*	-
$ 510 000 - $ 519 999	-	*1*	*1*
$ 570 000 - $ 579 999	-	-	*1*
$ 600 000 - $ 609 999	-	-	*1*
$ 640 000 - $ 649 999	***1***		-
$ 660 000 - $ 669 999	-	-	*1*
$ 670 000 - $ 679 999	***2***	-	-
$ 700 000 - $ 709 999	***1***		-
$ 790 000 - $ 799 999	-	*1*	-
$ 910 000 - $ 919 999	-	*1*	-
$ 980 000 - $ 989 999	-	*1*	-
$ 1 000 000 - $ 1 009 999	-		*1*
$ 1 140 000 - $ 1 149 999	***1***		-
$ 1 460 000 - $ 1 469 999	-	*1*	-
$ 4 310 000 - $ 4 319 999	-	** *1*	** *1*

The total of all remuneration received, or due and receivable, from entities in the consolidated entity and related bodies corporate by all the directors of each entity in the consolidated entity was $34 588 792 (30 June 1999: $53 668 201)

* Directors' remuneration has also been included for the year ended 30 June 1999 to provide relevant comparative information.

** Includes amounts [illegible] HIH Insurance Group.

EXECUTIVES' REMUNERATION

	PARENT ENTITY			CONSOLIDATED		
	1.7.99 TO 30.6.00 $000	1.1.98 TO 30.6.99 $000	1.7.98 TO 30.6.99* $000	1.7.99 TO 30.6.00 $000	1.1.98 TO 30.6.99 $000	1.7.98 TO 30.6.99* $000
The aggregate remuneration received, or due and receivable, by executive officers (including directors) whose income was at least $100 000:	-	-	-	**21 918**	37 062	26 978

Income of executives comprises amounts paid or payable to executive officers domiciled in Australia, directly or indirectly, by the consolidated entity or any related party in connection with the management of the affairs of the entity or consolidated entity, whether as executive officers or otherwise.

Executive officers are those employees who are responsible for strategic direction and operational management.

	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
The number of executive officers, including executive directors, whose remuneration fell within the following bands was:						
$ 110 000 - $ 119 999	-	-	-	-	1	1
$ 130 000 - $ 139 999	-	-	-	-	-	2
$ 140 000 - $ 149 999	-	-	-	**2**	-	4
$ 150 000 - $ 159 999	-	-	-	**1**	-	1
$ 160 000 - $ 169 999	-	-	-	**2**	-	1
$ 170 000 - $ 179 999	-	-	-	-	-	3
$ 180 000 - $ 189 999	-	-	-	**3**	-	6
$ 190 000 - $ 199 999	-	-	-	**1**	-	-
$ 200 000 - $ 209 999	-	-	-	**1**	-	1
$ 210 000 - $ 219 999	-	-	-	**1**	4	3
$ 220 000 - $ 229 999	-	-	-	**2**	2	1
$ 230 000 - $ 239 999	-	-	-	**2**	1	5
$ 240 000 - $ 249 999	-	-	-	**1**	-	1
$ 250 000 - $ 259 999	-	-	-	**2**	1	1
$ 260 000 - $ 269 999	-	-	-	**5**	-	1
$ 270 000 - $ 279 999	-	-	-	**1**	1	1
$ 280 000 - $ 289 999	-	-	-	**2**	2	-
$ 290 000 - $ 299 999	-	-	-	**1**	3	1
$ 300 000 - $ 309 999	-	-	-	-	2	-
$ 310 000 - $ 319 999	-	-	-	**1**	1	2
$ 320 000 - $ 329 999	-	-	-	-	2	-
$ 330 000 - $ 339 999	-	-	-	-	1	-
$ 340 000 - $ 349 999	-	-	-	-	2	-
$ 350 000 - $ 359 999	-	-	-	**1**	1	-
$ 360 000 - $ 369 999	-	-	-	-	1	-
$ 370 000 - $ 379 999	-	-	-	-	3	-
$ 380 000 - $ 389 999	-	-	-	**1**	1	1
$ 390 000 - $ 399 999	-	-	-	**1**	1	-
$ 400 000 - $ 409 999	-	-	-	**2**	-	-
$ 420 000 - $ 429 999	-	-	-	**1**	-	-
$ 430 000 - $ 439 999	-	-	-	-	-	1
$ 440 000 - $ 449 999	-	-	-	**1**	1	-
$ 450 000 - $ 459 999	-	-	-	**1**	-	-
$ 460 000 - $ 469 999	-	-	-	-	1	-
$ 480 000 - $ 489 999	-	-	-	-	1	-
$ 500 000 - $ 509 999	-	-	-	-	1	-
$ 520 000 - $ 529 999	-	-	-	-	2	-
$ 530 000 - $ 539 999	-	-	-	-	-	1
$ 570 000 - $ 579 999	-	-	-	-	-	2
$ 590 000 - $ 599 999	-	-	-	-	-	1
$ 600 000 - $ 609 999	-	-	-	-	1	1
$ 630 000 - $ 639 999	-	-	-	-	-	1
$ 640 000 - $ 649 999	-	-	-	-	1	-
$ 660 000 - $ 669 999	-	-	-	-	-	1
$ 670 000 - $ 679 999	-	-	-	**2**	-	-
$ 690 000 - $ 699 999	-	-	-	-	1	-
$ 700 000 - $ 709 999	-	-	-	**1**	-	-
$ 750 000 - $ 759 999	-	-	-	**1**	1	-
$ 790 000 - $ 799 999	-	-	-	-	1	-
$ 890 000 - $ 899 999	-	-	-	-	1	-
$ 910 000 - $ 919 999	-	-	-	-	1	-
$ 980 000 - $ 989 999	-	-	-	-	1	-
$ 1 000 000 - $ 1 009 999	-	-	-	-	-	1
$ 1 140 000 - $ 1 149 999	-	-	-	**1**	-	-
$ 1 460 000 - $ 1 469 999	-	-	-	-	1	-

* Executives' remuneration has also been included for the year ended 30 June 1999 to provide relevant comparative information.

AUDITORS' REMUNERATION

	PARENT ENTITY		CONSOLIDATED	
	1.7.99 TO 30.6.00 $000	1.1.98 TO 30.6.99 $000	1.7.99 TO 30.6.00 $000	1.1.98 TO 30.6.99 $000
Total of all remuneration received, or due and receivable, by the auditors of the parent entity in connection with:				
- auditing the financial statements	**35**	35	**1 700**	2 417
- providing other services	**30**	30	**1 631**	757

RELATED PARTY TRANSACTIONS

(a) *The names of the persons holding the position of director of the parent entity at any time during the past two financial periods are G A Cohen AM, R R Williams AM, C P Abbott, R S Adler AM, T K Cassidy, D Fodera, J H Gardener, A W Gorrie, N R Head, E W Heri, M W Payne, W E Schürpf, R R Stitt Q.C., G O Sturesteps, and H F R Wein.*

(b) *The ultimate controlling entity of the consolidated entity in Australia is HIH Insurance Limited.*

(c) *Loans to directors of entities within the consolidated entity outstanding at year end were $273 016 (1999: $257 562).*

Loans advanced during the year totalled $Nil (1999: $19 000).

Loans repaid during the period totalled $Nil (1999: $657 000).

Interest income on directors' loans was $15 454.

Loans to directors were made under the Employee Loan Scheme. Directors may borrow to a maximum amount equal to their total remuneration package and are charged normal commercial rates of interest. The terms and conditions are on the same basis as those available to employees.

(d) *Certain directors and related entities entered into the following transactions with the consolidated entity on terms and conditions that are no more favourable than those available to other employees, reinsurers, customers and/or shareholders.*

- *received dividends from the parent entity;*
- *bought and/or sold shares and/or convertible notes in the parent entity (refer to Directors' report for Directors' shareholdings);*
- *entered into general insurance contracts with certain controlled entities; and*
- *controlled entities entered into reinsurance transactions with Lloyd's of London syndicates of which those Directors were Names.*

(e) Other director transactions

Directors of the consolidated entity and directors of its related parties, or their director-related entities, conduct transactions with entities within the consolidated entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in similar circumstances. These transactions include the following and have been quantified below where the transactions are considered likely to be of interest to users of these financial statements:

- *Provision of legal services by Blake Dawson Waldron, a firm in which C P Abbott acts as a consultant for, to the value of $164 000 (1999: $352 000).*
- *Provision of services by Ashkirk Pty. Ltd, a company in which C P Abbott is a director, to a controlled entity to the value of $151 000 (1999: $96 000).*
- *A controlled entity and Adler Corporation have a joint venture relationship in Pacific Mentor Limited. Adler Corporation owns 70% of Pacific Mentor Limited and a controlled entity, the balance. R S Adler AM is a director of Adler Corporation.*
- *At balance date, the consolidated entity had invested $10 million in the Australian Equities Unit Trust. The manager and trustee of this fund is Pacific Eagle Equities Pty Limited, an entity controlled by a director, R S Adler AM. Mr Adler also had a 5% beneficial interest in the fund at balance date.*
- *Provision of services by Adler Management Pty Ltd (formerly Frinick Pty. Ltd), a company in which R S Adler AM is a director, to the value of $240 000 (1999: $80 000).*
- *Provision of services by Pacific Capital Partners Pty Ltd, a company in which R S Adler AM is a director to the value of $134 000 (1999: Nil).*
- *Provision of services by Netx Communications Pty Ltd, a company in which R S Adler AM is a director to the value of $24 000 (1999: Nil).*

(f) Transactions with other related parties

	PARENT ENTITY		CONSOLIDATED	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
The aggregate amounts brought to account in respect of the following types of transactions and each class of related party involved were:				
Loans advanced to associated companies	-	-	**10.5**	*28.6*
Loans repaid from associated companies	-	-	-	*4.5*
Interest received or receivable from associated companies	-	-	**2.7**	*1.7*
The above transactions were made on commercial terms and at market rates except where indicated.				
Aggregate amounts receivable at balance date from associated companies.				
Current	-	-	-	*2.2*
Non-current	-	-	**46.0**	*68.0*
Contribution to profit arising from the revaluation of investments in associated companies	-	-	**(13.9)**	*(14.9)*

NEW SOUTH WALES WORKERS COMPENSATION STATUTORY FUNDS

	NOTE	30.6.00 $m	30.6.99 $m
(a) Statutory funds which are not available to members of the parent entity comprise:			
Current Assets			
Premiums receivable		**27.2**	32.3
Provision for doubtful debts		**-**	(2.5)
Short term deposits		**-**	2.3
Interest and dividends receivable		**1.8**	2.1
Other debtors		**0.1**	5.0
Total Current Assets		**29.1**	39.2
Non-Current Assets			
Investments	43(b)	**802.1**	824.9
Total Non-Current Assets		**802.1**	824.9
Total Assets		**831.2**	864.1
Current Liabilities			
Trade creditors		**9.4**	4.2
Provision for unearned premiums		**40.8**	52.0
Total Current Liabilities		**50.2**	56.2
Balance of statutory funds to meet fund liabilities and statutory transfers		**781.0**	807.9
Total Liabilities and Statutory Funds		**831.2**	864.1

(b) Investments comprise:		
Investments quoted on prescribed stock exchange - at market value		
Shares	**211.4**	329.2
- Property trusts	**65.7**	34.7
	277.1	363.9
Unquoted investments - at market value		
- Government, municipal and other public securities	**525.0**	461.0
	525.0	461.0
Total investments - at market value	**802.1**	824.9

(c) Fund Accounting for Statutory Funds

Under the New South Wales Workers Compensation Act 1987 (the Act), the controlled entities, HIH Workers Compensation (NSW) Pty. Limited and FAI Workers Compensation (NSW) Limited are required to have an actuarial valuation of the financial position of each statutory fund, including a valuation of liabilities, at least once in each three year period or such other period as may be prescribed by Regulations. Accordingly, a fund method is adopted whereby the balance of the statutory fund is carried forward until the financial position of each statutory fund is determined after actuarial investigation. Following this determination, the WorkCover Authority may direct the transfer of any surpluses in accordance with the Act, including transfers to other statutory funds of the controlled entity or to the statutory funds of another licensed insurer.

Claims liabilities, in respect of both reported and unreported events, will thus be met out of the balance of statutory funds. In the event that such a balance is insufficient, no liability for the deficiency vests with the controlled entity and the controlled entity has no entitlement in the event of a surplus.

As a consequence, the controlled entities will hold open each statutory fund until a direction is received from the WorkCover Authority as to the disposition of the balance of the fund. The investments of each statutory fund are held for the paramount purpose of funding the claims liabilities which will be paid over a considerable number of years. To properly report the extent of the balance of statutory funds available to meet these claims liabilities (and any statutory transfers made at the direction of the WorkCover Authority), it is appropriate to account for investments by reference to net market values, with both realised and unrealised gains and losses being reported in the statutory funds account.

The Australian Securities and Investments Commission has by class order 98/0107 exempted the controlled entities and the economic entity from compliance with the Corporations Law to the extent that it is necessary to adopt the aforementioned method of fund accounting.

(d) Income Tax

The WorkCover Authority has been advised by the Australian Tax Office that the statutory funds are exempt from income tax as the WorkCover Authority holds a vested interest in the income of the statutory funds.

VICTORIAN WORKCOVER INSURANCE

Two controlled entities, HIH Workers Compensation (Vic) Limited and FAI Workers Compensation (Vic) Pty. Limited were licenced to underwrite workers compensation business in Victoria under the Accident Compensation (WorkCover Insurance) Act 1993 Following amendments to the legislation, the controlled entity's licences as authorised insurers were cancelled and, effective 30 June 1999, their liabilities were transferred to the Victorian WorkCover Authority.

The 1999 comparatives have been restated to exclude Victorian workers compensation gross earned premium of $302.4 million and claims incurred of $338.9 million and amounts related to Victorian WorkCover insurance not specifically covered in Class Order 98/0109 previously included in trade debtors ($26.3 million) and accounts payable ($26.3 million). The risk was reinsured 100% to the Victorian WorkCover Authority

SUBSEQUENT EVENTS

On 13 September 2000 a joint venture agreement was signed between certain controlled entities and Allianz Australia Insurance Limited (a wholly-owned subsidiary of Allianz AG). The joint venture business will comprise Allianz and those controlled entity's private motor; householders; CTP (New South Wales and Queensland); and rural and commercial business sourced through all distribution channels with the exception of international brokers.

The terms of the joint venture provide Allianz with 51% equity and the consolidated entity with 49%, effectively reducing the consolidated entity's retail annual premium by around $300 million to $700 million. Under the agreement, Allianz will pay the consolidated entity $200 million upfront and have a call option to acquire the consolidated entity's joint venture interest at fair market value after 5 years (up to a maximum of $500 million with a minimum of $125 million). The consolidated entity has a put option, exercisable at the minimum valuation at any time.

The joint venture is due to commence on 1 January 2001, subject to certain conditions precedent, including regulatory approvals and the maintenance of an appropriate claims paying rating

ADJUSTMENT TO PRELIMINARY FINAL STATEMENT

The consolidated balance sheet of the consolidated entity for the year ended 30 June 2000 differed from those announced in the Unaudited Preliminary Final Statement made to the Australian Stock Exchange, as follows:

	CONSOLIDATED FINANCIAL STATEMENT		PRELIMINARY FINAL STATEMENT	
	30.6.00 $m	30.6.99 $m	30.6.00 $m	30.6.99 $m
Non-Current Assets				
Reinsurance recoveries receivable	***1 388.3***	*986.7*	***1 388.3***	*634.7*
Total Non-Current Assets	***4 045.4***	*3 616.5*	***4 045.4***	*3 264.5*
Total Assets	***8 327.1***	*8 051.1*	***8 327.1***	*7 725.4*
Non-Current Liabilities				
Accounts payable	***14.5***	-	***2.4***	-
Borrowings	***504.4***	*335.8*	***516.5***	*335.8*
Outstanding claims	***3 007.5***	*2 636.0*	***3 007.5***	*2 284.0*
Total Non-Current Liabilities	***3 530.5***	*2 977.8*	***3 530.5***	*2 625.8*
Total Liabilities	***7 388.0***	*7 104.7*	***7 388.0***	*6 779.0*

The changes in the above balance sheet items arose from:

1. *Reclassification of certain accruals between Borrowings and Accounts Payable*
2. *Amendment to prior period comparatives reflecting the change in accounting policy on whole of account reinsurance contract recoveries*

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 2000 and performance of the company and consolidated entity for the year 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;

(ii) the financial statements and notes are in accordance with the Corporations Law; and

(iii) at the date of this declaration, there are reasonable grounds to believe that the parent entity and the subsidiaries party to the deed described in Note 37 will be able to meet any obligation or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee

Made in accordance with a resolution of the directors.

G A Cohen AM *Director*

R R Williams AM *Director*

Sydney, 16th October 2000

To the Members of HIH Insurance Limited

Scope

We have audited the financial report of HIH Insurance Limited for the financial year ended 30 June 2000 as set out on pages 24 to 74. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The Company's directors are responsible for the financial report We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and 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 Accounting Standards, other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

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

Audit Opinion

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

a) the Corporations Law, including:

i) giving a true and fair view, of the Company's and consolidated entity's financial position as at 30 June 2000 and of their performance for the year ended on that date; and

ii) complying with Accounting Standards and the Corporations Regulations; and

b) other mandatory professional reporting requirements.

Whole of Account Reinsurance

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1(t) to the financial statements, the consolidated entity enters into whole of account reinsurance contracts to protect its underwriting portfolio. The realisation of benefits arising from a contract entered into during the financial year are dependent on factors described in Note 13.

Arthur Andersen

Arthur Andersen
Chartered Accountants

John Buttle
Partner

Sydney, 16th October 2000

Corporat
di

SECRETARY

Frederick Lo

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ASX CODE

HIH - Ordinary Shares
HIHG - Convertible Notes
HNZG - Converting Notes

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