



Southern Cross
Healthcare Group

Southern Cross Health Trust 2010 Annual Report



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Chairman and Chief Executive Officer's report

OUR CHARITABLE PURPOSES

It is no secret that New Zealand's health system is under enormous pressure. The combined demands of high medical inflation, an ageing population, and a community with high expectations of taxpayer-funded healthcare provision have pushed Government health spending up 89 per cent in the last decade. For a small country with limited income, smarter thinking is essential if we are to deliver a world-class healthcare system.

As a charitable trust, the Southern Cross Health Trust is focused on achieving the best possible health outcomes for New Zealanders, rather than, as is the case with most for-profit organisations, providing returns for shareholders. Backed by our size and experience, we are uniquely positioned to work collaboratively with the public sector towards this goal.

In countries such as the United Kingdom, private sector treatment centres have been vital in helping the public access essential elective surgery and diagnostic services. At Southern Cross we believe that efficiency, quality and delivery are more important than who owns the facilities or resources. The private sector, particularly organisations with a charitable purpose like our own, have a positive role to play in bringing cost-savings, innovation and improved access to health services. We make it our business to engage with the public sector in formal and informal consultation on health sector issues, and advocating for public-private collaboration.

A charitable trust registered with the Charities Commission, the Southern Cross Health Trust was established in 1977 for purposes relating to the provision of medical facilities and services in New Zealand. The Trust and its subsidiaries, Southern Cross Hospitals Limited and Southern Cross Benefits Limited (trading as Southern Cross Travel Insurance), exist to further our charitable purposes in accordance with the Trust Deed.

In our Hospitals business we continually invest in infrastructure and services to provide and improve access to private elective surgery and other healthcare treatments. Our facilities are utilised by a wide cross section of the community and include self-funded and publicly-funded patients, as well as those with private health insurance. In our Travel Insurance business, born from New Zealanders' desire for value-for-money health cover when abroad, the success of our low-cost online business model is creating a strong, sustainable stream of funding for the Trust. Our aim is to grow this business in order to generate surpluses that can be used to further the charitable purposes of the Trust.

There are additional ways the Trust can fulfil its charitable purposes. One area in which we believe we can make a positive contribution is primary health care, and we are investigating opportunities in this sector.

The Trust forms part of the Southern Cross Healthcare Group, which also encompasses Southern Cross Health Society, New Zealand's largest health insurer. Though they share a common brand, the Trust and the Society are legally separate, and their businesses function independently and at "arm's length" from one another.

OUR FINANCIAL PERFORMANCE

In the 2010 financial year the subsidiaries of the Southern Cross Health Trust achieved positive growth in what remains a challenging economic environment for the health sector and New Zealand as a whole.

Overview for the year ending 30 June 2010:

- Operating revenue was \$229.2m, up from \$214.6m in the 2009 year.
- Both of the Trust's core businesses contributed to the growth in revenue, with Travel Insurance in particular reporting strong income growth over the year. Travel Insurance net revenue was \$31.4m, up 43 per cent on



COMMITTED TO THE HEALTH AND WELLBEING OF NEW ZEALAND.

Ian McPherson (left) and Graeme Hawkins

2009, while Hospitals' revenue grew to \$197.8m, up 3 per cent on 2009.

- The Trust's net surplus was \$15.4m, down 3.7% from 2009.
- Hospitals' contribution to net surplus was \$15.0m, down 5 per cent from 2009, while Travel Insurance contributed \$955,000, down 33 per cent on 2009.
- During the year \$33.9m was invested in the enhancement or expansion of services offered by the Trust's subsidiaries, including hospital upgrades and investments, and development of travel insurance services.

Hospitals

After five years of steady growth, our Hospitals, like most private hospitals in New Zealand, experienced slightly lower patient volumes over the year. The primary driver for this decrease was a reduction in the number of ACC-funded patients. Financial pressures saw some District Health Boards (DHBs) cease outsourcing elective surgical volumes to private providers while, at the same time, increasing their own capacity to meet the Ministry of Health target of improved access to elective surgery. The ongoing effects of the recession have also played a part – the number of New Zealanders with private health insurance dropped 0.4 per cent in the 2010 financial year, while the number of self-funded patients also decreased.

Despite a levelling off in volumes, long-term indicators for Southern Cross Hospitals are strong. As New Zealand's largest network of private surgical hospitals, with a genuine national presence, we will continue to play a vital role in meeting demand from New Zealand's ageing population.

Travel Insurance

Southern Cross Travel Insurance (SCTI) reported impressive growth over the year. Net premium revenue was up 43 per cent on 2009 to \$31.4m. This was driven by a large increase in sales volume, up 33 per cent over the year, in what was a largely flat market.

Net claims were up 39 per cent to \$18.6m. This represented both the natural increase from the rise in sales volumes and the impact of large claiming events including the eruption of the Eyjafjallajokull volcano in Iceland which caused prolonged and widespread disruption to worldwide air travel in April and May 2010. For SCTI the eruption resulted in the highest total claims payment from a single event since the US terrorist attacks of 9/11, of around \$500,000 in related claims.

OUR THANKS

We wish to thank Southern Cross Hospitals Chief Executive Officer Terry Moore and Southern Cross Travel Insurance Chief Executive Officer Craig Morrison, their management teams and staff for their significant achievements over the past year.

A special mention also to long-serving Trustee/Director David May who is stepping down from the Trust and subsidiary Boards. Thank you for your valued contribution to the successful governance of the Southern Cross Health Trust.



Graeme Hawkins
Chairman



Ian McPherson
Chief Executive Officer



Since 1982 Southern Cross Travel Insurance (SCTI) has been providing peace of mind for New Zealanders travelling abroad. Today SCTI is a leading online travel insurance provider, both for New Zealanders going overseas and for thousands of visitors to New Zealand.

SCTI offers five travel insurance products – TravelCare (for leisure travel), Frequent Traveller, Working Overseas, International Student, and Visiting New Zealand. In 2003 SCTI was one of the first insurers to adopt an online business model and today it leads New Zealand’s direct-to-consumer market - 92 per cent of sales are now transacted over the internet.

Southern Cross Travel Insurance Chief Executive Officer **Craig Morrison’s** team has continued to build SCTI’s presence in the Australian leisure travel insurance market after launching there in April 2009. However, it remains an entirely New Zealand-based business, with 65 staff and all business units servicing its trans-Tasman customer base out of an Auckland office.



Highlights for the year to 30 June 2010 include:

- A 29 per cent increase in policies sold on the 2009 financial year.
- A 26 per cent increase in customers covered on the 2009 financial year.

In 2010 SCTI continued to collect recognition for the high quality of its policies. In New Zealand, the business received a “five star” rating in a Consumer magazine survey, awarded on a combination of cover and premium, for the majority of travel scenarios (which differed by country/region travelled to and the requirements/age of the traveller). In Australia, SCTI was the top-rated travel insurance provider in a Choice magazine survey of 21 travel insurance brands, with its policies rated “best buy” in all four categories.

SCTI operates in a highly competitive environment in which there are now a number of channels to buy travel insurance, including travel agents, banks, through airlines and directly from underwriters via telephone and online sales. Competition is expected to remain strong, with further new entrants to the online market this year.

In order to continue delivering outstanding value in its policies, SCTI is focused on maximising operational efficiencies. In 2010 the ongoing progression of its ‘paperless’ business model remained a key focus, with a significant investment in technological improvements. Over 70 per cent of customers now have their insurance documents emailed to them rather than paper-mailed, while 45 per cent receive post-purchase confirmation of their policy number and an emergency assistance phone number via text message.

Growing SCTI’s Australian presence was another strong focus. Launching in a fiercely competitive environment like Australia was always going to be difficult. However, a good foothold has now been established. In September 2009, after less than six months operation in the market, SCTI came out as the top choice for international travel insurance in a comprehensive Australian survey by financial services research company Canstar Cannex.

In March this year the business launched an Australia-wide integrated marketing campaign. This optimised the timing of television commercials and online advertising in order to maximise traffic to the SCTI website and convert this traffic to sales. Results have been very pleasing. The success of this campaign has SCTI well placed to continue its long term objective to be a leading participant in this market.





With nine wholly-owned and eight joint venture facilities, Southern Cross Hospitals is New Zealand's largest private hospital network. In 2010, around 900 medical specialists undertook 67,000 elective surgical procedures across our nationwide network. Many more patients are referred for specialist consultations, imaging and other services at the health campuses of Southern Cross Hospitals. The business has over 1,100 staff, with hundreds more employed by Southern Cross joint ventures.

During the 2009-2010 year, Southern Cross Hospitals Chief Executive Officer

Terry Moore and his team focused on two key areas of ongoing development. The largest area of focus was the 'extended model of care' initiative, which aims to provide an advanced level of care (both in facilities and people) for the increasing number of complex patients who choose to have surgery at Southern Cross Hospitals. This initiative includes the building or updating of higher acuity care facilities, the provision of higher-level staff training, and the establishment of Clinical Nurse Specialist positions.



This focus saw Southern Cross Hospitals receive industry recognition for excellence in developing surgical nursing expertise. In September 2010 the New Zealand Private Surgical Hospitals Association awarded its Clinical Service Delivery Quality Award to the business for innovation in the delivery of nurse training.

The second ongoing focus for Hospitals is the development of 'health campus' environments at our facilities through the co-location of other healthcare services, some of which are joint venture partnerships.

Major developments and additions to the Hospitals network in the 2010 financial year included:

Silverdale – A land purchase was settled in June with the intention of developing a private hospital and medical centre as part of a joint venture partnership.

North Harbour – In June the North Harbour Hospital opened a new 4-bed Intermediate Care Facility, a specialised post-operative ward for the monitoring and care of complex patients. The year also saw the construction of a physical link between the buildings of

Southern Cross North Harbour and the Northern Clinic (the land and buildings of the latter were acquired by Southern Cross Hospitals in early 2009).

Auckland Radiation Oncology – During the year this private radiation facility, a Southern Cross Hospitals joint venture, added a third radiotherapy bunker in preparation for a new linear accelerator, increasing its capacity to meet the growing need for cancer care in the northern region.

Wellington – A major expansion of our Wellington hospital was completed in early 2010. Enhanced facilities include a new theatre with digital capability to meet the requirements of increasingly sophisticated levels of surgical equipment. Digital theatres offer integrated monitoring and navigation technology for use in procedures that require a high level of precision, such as laparoscopic surgery. The expansion also included the addition of a new 6-bed High Dependency Unit/Intensive Care Unit.

Southern Cross QE – This joint venture facility, a merger of QE Health's surgical business with the operations of Southern Cross Hospital Rotorua, commenced operations in September 2009. This merger incorporated an \$8 million rebuild of the existing Rotorua campus, including two new theatres and the upgrade of an existing theatre.

Christchurch – A new PET/CT scanner was installed on site by the Canterbury Radiology Group earlier this year. The first of its kind in the South Island, the scanner provides specialists with advanced cancer diagnosis capability. The hospital received only minor cosmetic damage as a result of the major earthquake that struck on September 4, 2010. Thank you to staff who worked throughout this difficult time.

Southern Endoscopy Centre – This new joint venture with specialists was nearing completion at the end of the financial year and opened to patients in August 2010. Located at Southern Cross Christchurch hospital campus, the centre is one of the largest endoscopy facilities in New Zealand.



Statement of corporate governance

The Southern Cross Health Trust adheres to principles designed to further its charitable purposes and to ensure good corporate governance of its affairs.

BOARD OF TRUSTEES

The Southern Cross Health Trust is a charitable trust registered with the Charities Commission and is governed by a Board of Trustees in accordance with the Board Charter and the Trust Deed.

The Charter describes the Board's role, procedures and relationship with management. The Board reviews its performance on an annual basis. The Board delegates a number of its responsibilities to Board Committees.

The Trust and its subsidiaries exist to further their charitable purposes in accordance with the Trust Deed.

The Trustees in office as at 30 June 2010 are:

Graeme S Hawkins (Chairman)

Dr Douglas D Baird

Carole B Durbin

Dr Harley Gray

Elizabeth (Liz) M Hickey

David J May

Phillip J Meyer

Mark J Verbiest

BOARD RESPONSIBILITIES

The Board endorses the principles set out in the Code of Practice for Directors as adopted and approved by the Institute of Directors in New Zealand Inc. The Board has also adopted its own Code of Conduct and Ethics Policy to provide guidance to the Board, management and employees as to how it expects them to conduct themselves when undertaking business on behalf of the Trust and its subsidiaries.

The Board believes that all employees should be protected from dismissal or disadvantage if they, in good faith and by following the correct process, report their concerns about serious wrongdoing within the organisation. Accordingly, the Board has adopted a Protected Disclosures Policy and through this seeks to promote an open, honest and transparent working culture.

The Board guides and monitors the business affairs of the Trust. It ensures that the Trust complies with all legal and regulatory obligations.

The Board is responsible for identifying areas of significant business risk. Managing risk is central to the sustainability of the Trust's business in order to:

- fulfil governance and oversight obligations to regulators

- assess and manage the impacts of potential risks on the Trust and
- support the Trust in executing its strategy and achieving strategic goals.

A Risk Management Framework is in place for managing the full spectrum of risks faced by the Trust. The Financial Statements contain further information on risk (refer to Note 25).

The Trustees ensure that any transactions between related parties are conducted at arms length and on normal commercial terms (refer to Note 28 to the Financial Statements).

All Trustees disclose any actual or potential conflicts of interest. Should a conflict of interest arise during the course of Board business the affected Trustee is expected to excuse him or herself from the discussion and will not vote on those matters.

DELEGATION FRAMEWORK

Responsibility for the day-to-day operation and administration of the Trust is delegated by the Board to the Group Chief Executive Officer and senior management. The Group CEO is authorised to make decisions in accordance with the strategy, plans, budgets and specific delegation framework approved by the Board.

BOARD MEETINGS

The Board meets formally on a scheduled basis and follows guidelines that ensure all Trustees have available the necessary information to participate in an informed discussion of all agenda items. Separate strategic planning meetings are held in conjunction with the senior management team on a scheduled basis.

COMMITTEES

The Board has established a number of committees that meet at predetermined intervals to oversee specific business aspects. Each Board committee has a charter approved by the Board summarising the role, rights, responsibilities and membership requirements for that committee. The Board regularly reviews the charters of the Board committees and their performance against those charters.

Audit Committee

The Audit Committee's objectives are to assist the Board in discharging its responsibilities in relation to oversight of financial matters including internal and external audit functions. Specific responsibilities include reviewing the content and disclosure of the Annual Report's Financial Statements; ensuring the Board makes informed decisions regarding accounting policies, practices and disclosures; recommending the appointment of external and internal auditors; reviewing the annual external and internal audit plans; ensuring that adequate internal control systems are in place; and ensuring management has established a risk management framework to effectively identify, treat, monitor and report key business risks. The Audit Committee comprises David May (Chairman), Graeme Hawkins, Liz Hickey and Phillip Meyer.

Remuneration Committee

The Remuneration Committee's objectives include providing advice to the Board in relation to: the remuneration, employment conditions, development and performance management of the organisation's Group Chief Executive Officer and senior executives, and other remuneration related matters including standard terms and conditions of employment. The Remuneration Committee comprises Carole Durbin (Chairman), Douglas Baird and Graeme Hawkins.

Nomination Committee

The Nomination Committee meets on an ad hoc basis to assist the Board in planning the Board's composition, evaluating the competencies required of prospective Trustees, identifying those prospective Trustees, establishing their degree of independence, developing succession plans for the Board, and making recommendations to the Board accordingly. The Committee will consult with external advisors including executive search consultants and other independent sources of information and advice as it considers necessary for carrying out its responsibilities. The Nomination Committee comprises not less than three Trustees including the Chairman of the Board.

Constitutional Committee

The Constitutional Committee meets on an ad hoc basis. Its objectives are to assist the Board in reviewing the Trust's constitutional documentation, policies and procedures against corporate governance best practice, and to make recommendations to the Board accordingly. The Committee will make recommendations to the Board

with regard to the form and content of the Trust's Annual Report, and other governance matters referred to it by the Board. The Committee will be disestablished once it has discharged its function. The Constitutional Committee comprises Mark Verbiest (Chairman), Harley Gray, Graeme Hawkins and Carole Durbin.

EXTERNAL AUDIT INDEPENDENCE

The Board is committed to auditor independence. The Audit Committee is responsible for making recommendations to the Board concerning the appointment of external auditors and their terms of engagement.

LOANS TO TRUSTEES

The Southern Cross Health Trust does not make loans to Trustees.

Board of Trustees

GRAEME HAWKINS

(BSC, BCom, ACA, FlnstD)
Chairman

Graeme Hawkins has been a professional director for 17 years. He was appointed as a Trustee in October 2008, and appointed Chairman on 1 July 2009. He is Chairman of Trust subsidiary Southern Cross Benefits Limited, a director of Trust subsidiary Southern Cross Hospitals Limited, and Chairman of the Southern Cross Medical Care Society. He is Chairman of Watercare Services, a Director of Cavalier Corporation Ltd and Ports of Auckland Ltd, and a Director and shareholder of Biomed Ltd. From 2001 to 2007 he was an appointed Director of Fonterra Co-operative Group and is a former Chairman of Auckland Healthcare, now Auckland District Health Board. Earlier in his career he held a number of strategic and financial roles at Fletcher Challenge and is a former CEO of Dominion Breweries.

DR DOUGLAS BAIRD

(MBChB, DipObst, FRNZCGP)

Dr Douglas Baird was appointed as a Trustee in July 2007. He is a Director of Trust subsidiary Southern Cross Hospitals Limited and a Director of Southern Cross Medical Care Society. He is the Chairman of Auckland Medical Benevolent Fund, a Director of Dr Ponsonby-White Cross, and Managing Director of Aotea Health Services. Dr Baird is a past Chairman of the Independent Practitioners Association Council (IPAC), was a founding Director of ProCARE Health (which represents more than 500 GPs in Auckland) and of BPACnz (an organisation dedicated to effective use of resources by health providers). He has served in elected and advisory roles with the Auckland District Health Board, the ACC Medical Misadventure Unit and the Office of the Health and Disability Commissioner. Dr Baird has a Diploma of Obstetrics, is a Fellow of the Royal New Zealand College of General Practice and worked in general practice from the late 1970s until 2007.

CAROLE DURBIN

(BCom, LLB(Hons), FAMINZ, FlnstD)

Carole Durbin was appointed as a Trustee in August 2006. She is a Director of Trust subsidiaries Southern Cross Hospitals Limited and Southern Cross Benefits Limited, and a Director of Southern Cross Medical Care Society. She is Chair of Damwatch Services Limited (a Wellington-based dam engineering consultancy) and a Director of New

Zealand-owned Fidelity Life. Until October 2009 she was Chair of electricity generator Mighty River Power and retailer Mercury Energy, having been on that board since 1998. A consultant to Simpson Grierson, one of New Zealand's leading legal firms, Ms Durbin has also held a number of previous Board appointments including Simpson Grierson, Transpower NZ, software developer Synergy International (now Fronde), and was an Earthquake Commissioner. She is a Fellow of the Institute of Directors.

DR HARLEY GRAY CNZM

(ChM, MMedSc, FRACS)

Dr Harley Gray was appointed as a Trustee in July 2004 and is Chairman of Trust subsidiary Southern Cross Hospitals Limited. He was formerly a Director of the Southern Cross Medical Care Society, retiring from that role on 1 September 2008. Dr Gray was an eminent orthopaedic surgeon at Auckland's Middlemore Hospital until 2000 and is a former President of the NZ Orthopaedic Association and the Auckland Medico Legal Society. He was made a Companion of the New Zealand Order of Merit in 2003.

LIZ HICKEY

(MCom(Hons), FCA, MInstD, MNZM)

Liz Hickey is a chartered accountant and member of the Institute of Directors who was appointed as a Trustee in October 2009. Ms Hickey is a Director of the Southern Cross Medical Care Society, the Institute of Chartered Accountants (NZICA) and the Institute of Environmental Science & Research (a Crown Research Institute); a co-opted member of the ASB Community Trust's Audit and Risk Committee; and a Trustee of Sight Loss Services Charitable Trust Board. Her past governance experience includes being a Director of Radio New Zealand and Genesis Power, and serving on both the New Zealand and international boards of the World Association of Girl Guides and Girl Scouts. She is a Fellow of the NZICA.

DAVID MAY

(BSc(Hons), FIAA)

David May was appointed as a Trustee in June 2002. He is a Director of Trust subsidiaries Southern Cross Hospitals Limited and Southern Cross Benefits Limited, and a Director of Southern Cross Medical Care Society. A qualified actuary, Mr May has had extensive involvement

in superannuation funds management in New Zealand, Australia, Asia and the UK. He is Chairman of the Guardians of the New Zealand Superannuation Fund (NZSF), Deputy Chairman of the Government Superannuation Authority and a Director of Annuitas Management. Former management roles include Managing Director of the Colonial Group (NZ), CEO of Jacques Martin in New Zealand and CEO of Colonial's regional Asian operations based in Hong Kong.

PHILLIP MEYER

(FAIM, FNZIM, AF INST D, F FIN)

Phillip Meyer is an experienced company director and investment banker who was appointed as a Trustee in June 2002. He is a Director of Trust subsidiaries Southern Cross Hospitals Limited and Southern Cross Benefits Limited, and a Director of Southern Cross Medical Care Society. Mr Meyer is Chairman of Australian Financial Services Group, the New Zealand Institute of Management Inc, the New Zealand Institute of Management Central Inc, the Institute of Financial Advisors, Angel HQ (an angel investment network for the Wellington region), Trans Tasman Business Circle and Deputy Chairman of the Institute of Directors (Wellington Branch). He is a Director of Kordia Group, a Trustee of Young Enterprise Trust and Crimestoppers Trust, a member of the Disciplinary Tribunal of the New Zealand Institute of Chartered Accountants and the New Zealand Markets Disciplinary Tribunal. He is also National Chairman of the Salvation Army Red Shield Appeal Committee.

MARK VERBIEST

(LLB)

Mark Verbiest, a lawyer and professional director, was appointed as a Trustee in January 2009. He is a Director of the Southern Cross Medical Care Society, Transpower New Zealand Limited, AMP Haumi Management Ltd (manager of NZX-listed AMP NZ Office Trust), Freightways Ltd and board member of the Government Superannuation Fund Authority. Mr Verbiest is Chairman of Willis Bond Capital Partners Limited and Aptimize Limited (a small internet software company), a member of the Securities Commission, and a consultant to law firm Simpson Grierson. Between 2000 and mid-2008 Mark was a senior executive of Telecom Corporation of New Zealand Limited where he was responsible for a number of corporate units and two business units. Prior to this he was a senior corporate partner in Simpson Grierson for many years.

Board of Trustees

Standing (L to R)
David May, Carole Durbin, Dr Douglas Baird, Mark Verbiest, Phillip Meyer

Seated (L to R)
Dr Harley Gray, Liz Hickey, Graeme Hawkins



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Southern Cross Health Trust

STATEMENTS OF COMPREHENSIVE INCOME for the year ended 30 June 2010

	Note	Group		Parent	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
Revenue	2	229,172	214,623	-	-
Direct expenses	3	183,549	172,500	977	1,075
Gross surplus/(deficit)		45,623	42,123	(977)	(1,075)
Administration expenses	5	18,403	17,268	201	204
Other expenses	5	18,624	16,676	1,138	651
Operating surplus/(deficit)	5	8,596	8,179	(2,316)	(1,930)
Share of profit on equity accounted investments		3,406	2,547	-	-
Financing income	6	2,059	3,582	1,748	8,321
Financing expenses	6	901	122	-	-
Net financing income	6	1,158	3,460	1,748	8,321
Other income		2,392	1,112	-	-
Net surplus/(deficit) before tax		15,552	15,298	(568)	6,391
Taxation	7	39	6	-	-
Net surplus/(deficit) from continuing operations after tax		15,513	15,292	(568)	6,391
Discontinued operation					
Surplus from discontinued operations	8	-	-	-	21,744
Net surplus/(deficit) for the year		15,513	15,292	(568)	28,135
Other comprehensive income:					
Movement on foreign currency translation reserve		(101)	715	-	-
Net comprehensive surplus/(deficit) for the year		15,412	16,007	(568)	28,135
Attributable to:					
Trustees of the Trust		15,075	16,022	(568)	28,135
Non-controlling interest		337	(15)	-	-
Net comprehensive surplus/(deficit) for the year		15,412	16,007	(568)	28,135

The accompanying notes form part of these financial statements

Southern Cross Health Trust

STATEMENTS OF CHANGES IN TRUST FUNDS for the year ended 30 June 2010

Group 2009	Attributable to the Trustees of the Trust					
	Retained surpluses \$000	Capital reserve \$000	Foreign currency translation reserve \$000	Total \$000	Non- controlling interest \$000	Total reserves \$000
Balance as at 1 July 2008	182,130	250	-	182,380	66	182,446
Total comprehensive income:						
Surplus after taxation	15,307	-	-	15,307	(15)	15,292
Other comprehensive income:						
Transfer to foreign currency translation reserve	-	-	715	715	-	715
Total comprehensive income for the period	15,307	-	715	16,022	(15)	16,007
Transactions with owners recorded directly in equity:						
Issue of ordinary shares in Southern Cross QE Limited	-	-	-	-	329	329
Balance as at 30 June 2009	197,437	250	715	198,402	380	198,782
Group 2010	Attributable to the Trustees of the Trust					
	Retained surpluses \$000	Capital reserve \$000	Foreign currency translation reserve \$000	Total \$000	Non- controlling interest \$000	Total reserves \$000
Balance as at 1 July 2009	197,437	250	715	198,402	380	198,782
Total comprehensive income:						
Surplus after taxation	15,176	-	-	15,176	337	15,513
Other comprehensive income:						
Transfer to foreign currency translation reserve	-	-	(101)	(101)	-	(101)
Total comprehensive income for the period	15,176	-	(101)	15,075	337	15,412
Balance as at 30 June 2010	212,613	250	614	213,477	717	214,194
The accompanying notes form part of these financial statements						

Southern Cross Health Trust

STATEMENTS OF CHANGES IN TRUST FUNDS for the year ended 30 June 2010 (continued)

Parent 2009	Attributable to the Trustees of the Trust		
	Retained surpluses \$000	Capital Reserve \$000	Total Reserves \$000
Balance as at 1 July 2008	149,297	250	149,547
Total comprehensive income:			
Surplus after taxation	28,135	-	28,135
Other comprehensive income:	-	-	-
Total comprehensive income for the period	28,135	-	28,135
Balance as at 30 June 2009	177,432	250	177,682
Parent 2010	Attributable to the Trustees of the Trust		
	Retained surpluses \$000	Capital Reserve \$000	Total Reserves \$000
Balance as at 1 July 2009	177,432	250	177,682
Total comprehensive income:			
Surplus after taxation	(568)	-	(568)
Other comprehensive income:	-	-	-
Total comprehensive income for the period	(568)	-	(568)
Balance as at 30 June 2010	176,864	250	177,114

The accompanying notes form part of these financial statements

Southern Cross Health Trust

STATEMENTS OF FINANCIAL POSITION for the year ended 30 June 2010

	Note	Group		Parent	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
Current assets					
Cash and cash equivalents	9	12,089	17,472	853	1,315
Trade and other receivables	10	19,983	22,123	174	224
Financial assets	11	19,058	6,258	-	-
Inventories		3,242	2,432	-	-
Assets classified as held for sale	12	2,734	-	-	-
Total current assets		57,106	48,285	1,027	1,539
Non-current assets					
Financial assets	11	11,425	19,550	-	-
Investments	13	22,320	20,441	147,600	147,600
Advance to subsidiary	14	-	-	28,683	28,683
Property, plant and equipment	15	169,837	150,979	-	-
Intangible assets	16	1,510	1,868	-	-
Goodwill	17	9,304	9,304	-	-
Total non-current assets		214,396	202,142	176,283	176,283
Total assets		271,502	250,427	177,310	177,822
Liabilities					
Payables	18	18,147	17,954	196	137
Provisions	19	-	840	-	-
Employee entitlements	20	5,280	5,006	-	3
Insurance contract liabilities	21	16,078	12,281	-	-
Interest bearing loans and borrowings	22	500	15,564	-	-
Total current liabilities		40,005	51,645	196	140
Non-current liabilities					
Interest bearing loans and borrowings	22	16,800	-	-	-
Derivative financial instruments	23	323	-	-	-
Subordinated shareholder loans	24	180	-	-	-
Total non-current liabilities		17,303	-	-	-
Net assets		214,194	198,782	177,114	177,682
Trust funds					
Retained earnings		212,613	197,437	176,864	177,432
Capital reserve		250	250	250	250
Foreign currency translation reserve		614	715	-	-
Parent interest		213,477	198,402	177,114	177,682
Non-controlling interest		717	380	-	-
Trust funds		214,194	198,782	177,114	177,682
The accompanying notes form part of these financial statements					

Southern Cross Health Trust

STATEMENTS OF CASH FLOWS for the year ended 30 June 2010

	Note	Group		Parent	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
Cash flows from operating activities					
Receipts from customers		233,210	213,555	50	(224)
Payments to suppliers and employees		(187,011)	(166,996)	(2,260)	(1,782)
Payments of direct claims		(17,098)	(12,787)	-	-
Interest received		1,958	2,548	1,748	821
Interest paid		(901)	(122)	-	-
Dividends received		1	316	-	7,500
Other income		2,434	3,102	-	-
Net cash flows from operating activities	29	32,593	39,616	(462)	6,315
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		712	40	-	-
Distributions from hospital partnerships and associates		2,184	1,750	-	-
Purchase of investments		(5,399)	-	-	(5,000)
Purchase of property, plant and equipment		(34,053)	(38,720)	-	-
Purchase of intangible assets		(713)	(719)	-	-
Investment in hospital partnerships and associates		(2,623)	(5,661)	-	-
Acquisition of Northern Surgical Centre		-	(3,500)	-	-
Net cash flows from investing activities		(39,892)	(46,810)	-	(5,000)
Cash flows from financing activities					
Proceeds from borrowings		1,916	15,564	-	-
Net cash flows from financing activities		1,916	15,564	-	-
Net increase/(decrease) in cash and cash equivalents		(5,383)	8,370	(462)	1,315
Cash and cash equivalents at beginning of period		17,472	9,102	1,315	-
Cash and cash equivalents at end of period		12,089	17,472	853	1,315

The accompanying notes form part of these financial statements

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The reporting entity is the Southern Cross Health Trust. For the period 1 July 2008 to 31 January 2009, the Group consisted of the Southern Cross Health Trust ("Parent") and its subsidiaries; Southern Cross Benefits Limited, Southern Cross Health Trust Gillies Partnership Limited, Southern Cross Hospitals Oxford Partnership Limited, Southern Cross Health Trust Tauranga Partnership Limited, Southern Cross Hospitals Radiotherapy Partnership Limited, Southern Cross Hospitals Christchurch Partnership Limited, Southern Cross Hospitals Silverdale Partnership Limited and Southern Cross QE Limited.

Southern Cross Hospitals Limited was incorporated on 11 December 2007 and was previously a dormant company. On 1 February 2009, the Parent sold all the hospital operations and associated assets and liabilities to Southern Cross Hospitals Limited. Hence, from 1 February 2009, the Trust's principal subsidiaries are Southern Cross Benefits Limited and Southern Cross Hospitals Limited. The income and cash flow statements for the Parent therefore include the hospital operations only for the period up to 31 January 2009 in the 2009 comparatives and, in accordance with the relevant accounting standards, are treated as a discontinued activity.

Southern Cross Health Trust is domiciled in New Zealand. It operates through two principal subsidiaries. Southern Cross Hospitals Limited operates nine private surgical hospitals and has investments in a number of joint venture partnerships. Southern Cross Benefits Limited provides a range of travel insurance products for inbound and outbound travellers.

Southern Cross Benefits Limited has a non-trading joint venture with Fusion Insurance Services Limited in which it has a 50% share. Southern Cross Benefits Limited also operates in Australia selling outbound travel insurance. This activity is conducted through a branch structure which is a Category C Direct Offshore Foreign Insurer ("DOFI") regulated by the Australian Prudential Regulation Authority ("APRA") and the Australian Securities and Investment Commission ("ASIC").

The statutory base for the Group is the Charities Act 2005.

Southern Cross Hospitals Limited and Southern Cross Benefits Limited are registered as charitable entities under the Charities Act 2005, as part of the Southern Cross Health Trust group registration.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable financial reporting standards, as appropriate for public benefit entities.

The Statement of Financial Position has been presented in the current and non-current assets and liabilities format.

The financial statements were approved by the Board of Trustees on 2 November 2010.

BASIS OF MEASUREMENT

The financial statements are prepared on the historical cost basis except that the following are stated at their fair value:

Financial assets at fair value through the profit or loss and insurance contract liabilities.

BASIS OF CONSOLIDATION

The consolidated financial statements include the Parent, its subsidiaries accounted for using the purchase method and its interests in its associates and joint venture partnerships using the equity method. All material transactions between subsidiaries or between the Parent and subsidiaries are eliminated on consolidation. In the Parent financial statements, investments in subsidiaries and associates are stated at cost.

FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in New Zealand dollars, which is the functional and presentation currency. The functional currency for the Australian branch is Australian dollars. Transactions in the branch are translated to New Zealand dollars as discussed in the foreign currency transactions accounting policy. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relate to insurance contract liabilities in note 21 and the valuation of financial assets in note 11. In addition, the carrying value of goodwill is assessed at least annually to ensure that it is not impaired. Performing this assessment requires management to estimate future cash flows to be generated by cash generating units or groups of cash generating units to which goodwill has been allocated. Estimating future cash flows entails making judgements including the expected rate of growth of revenues, margins expected to be achieved, the level of future maintenance expenditure required to support these outcomes and the appropriate discount rate to apply when discounting future cash flows. Note 17 of these financial statements provides more information surrounding the assumptions management have made in this area.

On initial recognition of items of property, plant and equipment and finite-lived intangible assets, judgements must be made about whether costs incurred relate to bringing an asset to working condition for its intended use, and therefore are appropriate for capitalisation as part of the cost of the asset, or whether they should be expensed as incurred. Thereafter, judgement is required to assess whether subsequent expenditure increases the future economic benefits to be obtained from that asset and is therefore also appropriate for capitalisation or whether such expenditure should be treated as maintenance and expensed.

The determination of the appropriate useful life for a particular asset requires management to make judgements about, among other factors, the expected period of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances, and the likelihood of the group ceasing to use the asset in its business operations.

Assessing whether individual assets or a grouping of related assets are impaired may involve estimating the future cash flows that those assets are expected to generate. This will in turn involve assumptions, including rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows.

ADOPTION OF NEW ACCOUNTING STANDARDS

Presentation of financial statements

The Group has applied revised NZ IAS 1 – Presentation of Financial Statements (2007), which became effective from 1 January 2009.

Comparative information has been re-presented to conform with the revised standard. Accordingly, the total comprehensive income for the year has changed to reflect the foreign currency translation reserve in other comprehensive income.

Disclosures relating to fair values

The Group has applied the Amendments to NZ IFRS 7 – Financial Instruments: Disclosures (March 2009), that require enhanced disclosures about fair value hierarchy measurements.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial assets and liabilities:

Level 1: Valuation based on quoted market prices (unadjusted) in an active market.

Level 2: Valuation techniques based on observable market data, either directly (as prices) or indirectly (derived from prices).

Level 3: Valuation techniques not based on observable market data.

Specific disclosures are required when fair value measurements are categorised at level 3 (significant unobservable inputs) in the fair value hierarchy. Any significant transfers between level 1 and level 2 of the fair value hierarchy are disclosed separately, distinguishing between transfers into and out of each level. Furthermore, any changes in valuation techniques from one period to another, are disclosed along with the reason for the changes.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, current account balances and cash on call deposits. Under NZ IFRS definition of financial assets, cash and cash equivalents are classified as “financial assets at fair value through profit or loss”.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

TRADE AND OTHER RECEIVABLES

Receivables are stated at their estimated realisable value. Insurance premium receivables are stated at their cost less impairment losses. Impairment losses for uncollectible premiums are written off against premium revenue in the year in which they are incurred. Under NZ IFRS definition of financial assets, premium and other receivables are classified as "loans and receivables".

INTEREST RATE SWAPS

Interest rate swaps are classified as held for trading and revalued to market value and any gain or loss in value is recognised in profit or loss.

ASSETS HELD FOR SALE

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and the fair value less costs to sell. Any impairment loss on disposal is allocated to the asset. Impairment losses on initial classification as held for sale and subsequent gains and losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

FINANCIAL ASSETS

Financial assets are classified as "fair value through profit or loss" at inception. Financial assets are purchased with the intention of being held until maturity.

Financial assets designated as "fair value through profit or loss" at inception are those that are held to match insurance contract liabilities. The designation of these assets to be at "fair value through profit or loss" eliminates or significantly reduces a measurement or recognition inconsistency between assets and liabilities.

Financial assets are carried at fair value using the market bid price or valuation based on market observable data with changes in fair value recognised in profit or loss. Transaction costs are recognised in profit or loss on transaction date.

As financial assets are held until maturity, and then reinvested, only the net purchased or matured amount is disclosed in the statement of cash flows.

All purchases of financial assets are recognised on the date of the trade. Financial assets are de-recognised on the date of maturity or sale of the financial assets.

PROPERTY, PLANT AND EQUIPMENT

Fixed assets are recorded at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight line basis on all fixed assets excluding land and capital work in progress. On completion, capital work in progress projects are transferred to the appropriate asset category and depreciated.

The depreciation rates in use are:

Buildings	3% - 6.60% per annum
Computer equipment	20% - 33% per annum
Furniture and fittings	10% - 20% per annum
Motor vehicles	20% per annum
Office equipment	15% - 20% per annum
Plant and medical equipment	15% - 25% per annum

Land is not depreciated.

Assets valued at less than \$1,000 are expensed in the year of acquisition.

The carrying value of each class of asset is assessed annually. If the estimated recoverable amount of each class of asset is less than its carrying amount, the class of asset is written down to its recoverable amount and an impairment loss is recognised in profit or loss.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

Computer software is recognised as an intangible asset when it is not an integral part of the computer hardware. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. All capitalised costs are deemed to have an expected useful life of 3-5 years unless it can be clearly demonstrated that the net benefits are to be generated over a longer period. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project at the relevant depreciation rate.

The recoverability of the carrying amount of the asset is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset to its carrying value. An impairment loss is recognised whenever the carrying value exceeds the recoverable amount. Impairment losses are recognised in profit or loss and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

GOODWILL ARISING ON ACQUISITION

Goodwill arising on acquisition represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill arising on acquisition is impairment tested at balance date. Any impairment loss recognised is taken to profit or loss.

INVENTORIES

Inventories of medical and pharmaceutical supplies are valued at the lower of cost and net realisable value.

PROVISIONS

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market rates and, where appropriate, the risks specific to the obligation.

REVENUE RECOGNITION

Healthcare operations

Revenue is recognised in the period of patient discharge.

Investment income

Interest income is recognised in profit or loss as it accrues and is calculated by using the effective interest rate method. Transaction costs that are an integral part of the effective yield of the investment are recognised as an adjustment to the effective interest rate of the investment.

Realised and unrealised gains and losses recorded in profit or loss on investments include gains and losses on financial assets classified as fair value through profit or loss. Gains and losses on the sale of investments are classified as the difference between net sales proceeds and the fair value recorded on occurrence of the sale transaction.

Other income

Other income is recognised as income over the period in which the related services are performed.

LEASES

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT POLICY

Assets of the Group are assessed for indicators of impairment at each reporting date. Indicators include both internal and external factors.

Goodwill acquired in a business combination, assets that have an indefinite useful life and intangible assets not yet available for use have their recoverable amount estimated annually.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset has previously been revalued. In that case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss. After the recognition of impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) – this may be an individual asset or a group of assets. For the purpose of assessing impairment of goodwill, goodwill is allocated to cash-generating units representing the Group's investment in each of the business lines, which are the primary reporting segments. Impairment losses, if any, recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of the Group's loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate computed at initial recognition of these financial assets. Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversal of impairment

An impairment loss for an asset other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss is reversed, in profit or loss, only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded. An impairment loss recognised for goodwill is not reversed.

STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the statement of cash flows:

- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash.
- Cash and cash equivalents are considered to be cash on hand, current accounts in banks net of overdrafts and cash on call deposit.
- As term investments are held to maturity, and then reinvested, only the net purchase or matured amount is disclosed in the statement of cash flows.

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in profit or loss.

Foreign operations

Activities of the Australian branch are recorded in Australian dollars, its functional currency. Profit and loss items are translated to New Zealand dollars at an average exchange rate for each month.

The assets and liabilities of the branch are initially translated to New Zealand dollars at the foreign exchange rate on the date they arise. At reporting date, all the assets and liabilities are re-translated at the exchange rate ruling on that date.

Foreign exchange differences arising from their translation are recognised in other comprehensive income in the statement of comprehensive income as the movement in foreign currency translation reserve.

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost. Under NZ IFRS definition of financial liabilities, trade and other payables are classified as "other liabilities at amortised cost".

EMPLOYEE ENTITLEMENTS

Employee entitlements represent the current obligation to employees in respect of outstanding salaries, leave entitlements and other short term benefits.

GOODS AND SERVICES TAX (GST)

The statements of comprehensive income and the statements of cash flow have been prepared so that all components are stated exclusive of GST. All items in the statements of financial position are stated exclusive of GST, with the exception of receivables and payables, which include GST invoiced.

TAXATION

No income tax is payable by the Parent or the Group due to the charitable status of the entities. Australian income taxes are payable by the Australian branch of Southern Cross Benefits Limited. The income tax expense comprises current tax and is recognised in the statement of comprehensive income.

ACCOUNTING POLICIES RELATING TO INSURANCE CONTRACTS:

Travel insurance premiums

Gross earned premiums from insurance contracts are recognised evenly over the travel period covered by the contract. Income is recognised on the date from which the travel period commences. Premium billed but unearned is recorded as unearned premiums. Premium ceded to reinsurers is recognised as reinsurers' share of the premium and excluded from net premium. Premiums are stated net of fire service levies and stamp duty.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

It has been determined that all travel insurance policies provided to customers are insurance contracts.

Reinsurance premium expense and deferred reinsurance premium receivable

The minimum reinsurance premium obligation is recognised in the statement of financial position when the contract is agreed with the reinsurer and a deferred reinsurance asset is recognised in the statement of financial position at reporting date.

The amortisation of deferred reinsurance premiums and recognition of the expense in the profit or loss is in accordance with the pattern of reinsurance service received. The amount deferred at reporting date represents the future economic benefit to be received from reinsurance contracts.

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING POLICIES RELATING TO INSURANCE CONTRACTS: (CONTINUED)

Reinsurance recoveries

The component of claims expense relating to policies ceded to reinsurers is recognised as reinsurance recoveries in profit or loss and as a reinsurance receivable in the statement of financial position. The recoverability of these assets is assessed at reporting date and impairment is recognised where there is objective evidence that the Group may not receive the amounts due to it and these amounts can be reliably measured.

Acquisition costs

The costs incurred in acquiring and recording insurance contracts are deferred in recognition that they represent future benefits. Acquisition costs are initially recorded in profit or loss.

Any amounts that give rise to premiums in subsequent reporting periods are deferred as an asset and amortised over the period covered by the insurance contract.

Net claims expense

The net claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions (as described below).

Outstanding claims provision

The liability for outstanding claims comprises claims incurred but not settled at the reporting date, whether reported or not. A central estimate is made of claims incurred but not paid. The central estimate includes expected claim payments plus associated claims handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimate of claims and claims handling costs.

Unexpired risk provision and liability adequacy test

The liability for unearned premiums arises from premiums received for risks that have not yet expired. The provision is released evenly over the duration of the travel period and is recognised as premium income. A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. The test has been performed on the aggregate portfolio as risks are broadly similar and are managed together as a single portfolio.

The central estimate of claims and administration expenses is calculated. In addition, a risk margin is added to reflect the inherent uncertainty in the estimate of future claims. The total is compared with the unearned premium liability. Any deficiency is recognised in profit or loss after first writing down any deferred acquisition costs. The deficiency (if any) in excess of deferred acquisition costs is recognised in the statement of financial position as an unexpired risk liability.

NEW FINANCIAL REPORTING STANDARDS APPROVED BUT NOT YET EFFECTIVE

The following new or amended standards and interpretations, which are applicable to the Group, are not yet effective for the year ended 30 June 2010, and have not been applied in preparing these financial statements.

NZ IAS 7 – Statement of cash flows

NZ IFRS 9 – Financial Instruments: Classification and Measurement

The amendment to NZ IAS 7 – statement of cash flows explicitly states that only expenditure that results in a recognised asset can be classified as cash flow from investing activities. This is effective for annual reporting periods after 1 January 2010. The Group is currently in compliance with this requirement.

The requirement of NZ IFRS 9 – Financial Instruments: Classification and Measurement represent a significant change from the existing requirements in NZ IAS 39 – Financial Instruments: Recognition and Measurement, in respect of financial assets. The standard contains two primary measurement categories for financial assets (amortised cost and fair value), and eliminates the existing three NZ IAS 39 categories (held to maturity, available for sale, and loans and receivables). A financial asset would be measured at amortised cost if it is held to collect contractual cash flows of principal and interest on specified dates. All other financial assets would be measured at fair value.

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

CHANGES IN ESTIMATES

If a change in an accounting estimate gives rise to a change in an asset or liability, or relates to equity, it is recognised by adjusting the carrying amount of the asset, liability or equity item in the period of the change. Otherwise, it is recognised prospectively by including it in the statement of comprehensive income in the period of the change and future periods, as applicable.

2. REVENUE

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Hospital income	197,799	192,742	-	-
Travel insurance premium income	32,529	22,629	-	-
Reinsurers' share of income	(1,156)	(748)	-	-
	229,172	214,623	-	-

3. DIRECT EXPENSES

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Employee expenses	65,364	60,624	977	1,075
Travel insurance net claims expense (refer note 4)	18,564	13,291	-	-
Hospital direct expenses	99,621	98,585	-	-
	183,549	172,500	977	1,075

4. TRAVEL INSURANCE NET CLAIMS EXPENSE

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Claims incurred relating to risk borne in the current financial year	18,601	13,484	-	-
Claims incurred relating to risk borne in previous financial years	(60)	(287)	-	-
Movement in provision for claims handling cost	(93)	61	-	-
Movement in risk margin	116	33	-	-
Net claims expense	18,564	13,291	-	-

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

7. TAXATION

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Australian income taxes	39	6	-	-

The Australian branch is subject to Australian income tax, calculated as a percentage of gross written premium. Taxation payable is a current liability.

8. SURPLUS FROM DISCONTINUED OPERATIONS

As explained in Note 1, on 1 February 2009 the Trust sold its hospital operations and associated assets and liabilities to a subsidiary, Southern Cross Hospitals Limited.

	Parent 2009 \$000
Results from discontinued operations	
Revenue	106,970
Direct expenses	85,595
Indirect expenses	14,179
Operating surplus	7,196
Interest and other income	1,126
	8,322
Gain on sale of hospital assets and liabilities	13,422
Surplus from discontinued operations	21,744
Cash flows from discontinued operations	
Net cash flow from operating activities	12,623
Net cash flow used in investing activities	(11,615)
Net cash flow from financing activities	-
Net cash flow from discontinued operation	1,008
Cash and cash equivalents at the beginning of the period	7,974
Cash and cash equivalents at the end of the period	8,982

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

8. SURPLUS FROM DISCONTINUED OPERATIONS (CONTINUED)

	Parent 2009 \$000
Effect of disposal on the financial position of the Parent	
Cash and cash equivalents	8,982
Trade and other receivables	19,962
Inventories	2,072
Investments	5,799
Property, plant and equipment	125,329
Intangible assets	1,529
Goodwill	5,727
Trade and other payables	(9,165)
Provision for employee entitlements	(2,974)
Net assets disposed	157,261
Consideration received	
Share issue	142,000
Intra-group debt	28,683
	170,683

The net gain from disposal of net assets to Southern Cross Hospitals Limited of \$13,422,000 is eliminated upon consolidation. This gain arises from sale of investment in partnerships of \$9,449,000, and sale of land and buildings of \$3,973,000.

9. CASH AND CASH EQUIVALENTS

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Bank balances	5,923	6,740	853	1,315
Call deposits	6,166	10,732	-	-
	12,089	17,472	853	1,315

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

10. TRADE AND OTHER RECEIVABLES

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Premium accounts receivable	257	205	-	-
Deferred acquisition costs	542	532	-	-
Reinsurance recoveries	141	-	-	-
Deferred reinsurance expense	-	91	-	-
Accounts receivable	18,753	21,050	-	224
Accounts receivable - related party (refer Note 28)	18	127	174	-
Prepayments	272	118	-	-
	19,983	22,123	174	224

11. FINANCIAL ASSETS

At fair value through the income statement:	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
New Zealand Government stock	531	501	-	-
Local body stock	2,088	2,142	-	-
Other bonds	8,806	8,712	-	-
Bank deposits, commercial paper and floating rates notes	19,058	13,683	-	-
Surety sum held in trust	-	635	-	-
Deposit on purchase of land	-	135	-	-
	30,483	25,808	-	-
Current assets	19,058	6,258	-	-
Non-current assets	11,425	19,550	-	-
	30,483	25,808	-	-

New Zealand Government Stock is held by the Public Trustee as a deposit required under the Insurance Companies' Deposits Act 1953.

The Group is required to hold designated levels of investments in Australia to comply with the capital adequacy requirements of the Australian Prudential Regulatory authority ("APRA") in relation to the activities of the Australian branch (refer note 25). Restrictions are imposed on these investments and the Group's ability to utilise them. At reporting date, \$8,593,000 of floating rate notes were held in this category (30 June 2009: 8,695,000).

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

12. ASSETS CLASSIFIED AS HELD FOR SALE

The Group is party to an Agreement to sell the assets of the Oxford Clinic Hospital held by Oxford Clinic Hospital Partnership. The sale is expected to be completed during the course of the 2011 financial year and is conditional upon the completion of due diligence and acceptable terms on the Sale and Purchase Agreement. The sale price is expected to be in line with the current carrying value of the investment.

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Investment in Oxford Clinic Hospital Partnership	2,734	-	-	-

13. INVESTMENTS

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Shares in subsidiaries:				
<u>Southern Cross Benefits Limited (100%)</u>				
Carrying value at start of year	-	-	600	600
Carrying value at end of year	-	-	600	600
<u>Southern Cross Hospitals Limited (100%)</u>				
Carrying value at start of year	-	-	-	-
Investment during the year	-	-	147,000	147,000
Carrying value at end of year	-	-	147,000	147,000
<u>Southern Cross QE Limited (70%)</u>				
Carrying value at start of year	-	-	-	434
Investment during the year	-	-	-	2,170
Transfer to Southern Cross Hospitals Limited	-	-	-	(2,604)
Carrying value at end of year	-	-	-	-
Carrying value of shares in subsidiaries at end of year	-	-	147,600	147,600

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

13. INVESTMENTS (CONTINUED)				
	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Hospital Partnerships:				
<u>Gillies Hospital Partnership (50%)</u>				
Carrying value at start of year	3,328	1,055	-	-
Investment during year	300	2,245	-	-
Equity accounted earnings	1,197	1,328	-	-
Distributions received	(1,030)	(1,300)	-	-
Carrying value at end of year	3,795	3,328	-	-
<u>Oxford Clinic Hospital Partnership (50%)</u>				
Carrying value at start of year	2,666	2,719	-	-
Equity accounted earnings	443	397	-	-
Distributions received	(375)	(450)	-	-
Transferred to assets classified as held for sale	(2,734)	-	-	-
Carrying value at end of year	-	2,666	-	-
<u>Norfolk Southern Cross Partnership (40%)</u>				
Carrying value at start of year	7,319	6,648	-	-
Equity accounted earnings	796	671	-	-
Carrying value at end of year	8,115	7,319	-	-
<u>Auckland Radiotherapy Partnership (50%)</u>				
Carrying value at start of year	891	813	-	-
Investment during year	-	-	-	-
Equity accounted earnings	1,489	78	-	-
Carrying value at end of year	2,380	891	-	-
<u>Silverdale Medical Property Partnership (50%)</u>				
Carrying value at start of year	-	-	-	-
Investment during year	2,286	-	-	-
Equity accounted earnings	-	-	-	-
Carrying value at end of year	2,286	-	-	-
<u>Southern Endoscopy Specialists Partnership (50%)</u>				
Carrying value at start of year	-	-	-	-
Investment during year	308	-	-	-
Equity accounted earnings	-	-	-	-
Carrying value at end of year	308	-	-	-
Carrying value of hospital partnerships at end of year	16,884	14,204	-	-

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

13. INVESTMENTS (CONTINUED)				
	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Associate Companies:				
<u>Auckland Private Laundry (50%)</u>				
Carrying value at start of year	-	-	-	-
Investment during period	450	-	-	-
Equity accounted earnings	(170)	-	-	-
Carrying value at end of year	280	-	-	-
<u>Mercy Angiography Limited (33%)</u>				
Carrying value at start of year	800	800	-	800
Transfer to Southern Cross Hospitals Limited	-	-	-	(800)
Equity accounted earnings	1,065	-	-	-
Distributions received	(656)	-	-	-
Carrying value at end of year	1,209	800	-	-
<u>Ormiston Surgical & Endoscopy Limited (46%)</u>				
Carrying value at start of year	5,252	1,836	-	1,836
Equity accounted earnings	(1,532)	-	-	-
Investment during period	47	3,416	-	416
Transfer to Southern Cross Hospitals Limited	-	-	-	(2,252)
Carrying value at end of year	3,767	5,252	-	-
<u>Waitemata Endoscopy Limited (50%)</u>				
Carrying value at start of year	185	112	-	-
Investment during period	-	-	-	-
Equity accounted earnings	118	73	-	-
Distributions received	(123)	-	-	-
Carrying value at end of year	180	185	-	-
Carrying value of associate companies at end of year	5,436	6,237	-	-
Total carrying value of investments	22,320	20,441	147,600	147,600
Gillies Hospital Partnership includes both Gillies Hospital Partnership and Gillies Hospital Property Partnership.				

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

13. INVESTMENTS (CONTINUED)

The investments with March rather than June balance dates are Waitemata Endoscopy Limited, Mercy Angiography Limited and Ormiston Surgical and Endoscopy Limited.

For Southern Cross Hospitals Limited to be a recipient of a distribution of cash from one of its investments, a resolution needs to be passed by the Directors of each respective investment vehicle.

14. ADVANCE TO SUBSIDIARY

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Unsecured intra-group facility	-	-	28,683	28,683

The terms and conditions of the outstanding loan are as follows:

2010	Nominal interest rate	Year of maturity	Carrying value \$000	Face value \$000	Maximum facility \$000
Unsecured loan to Southern Cross Hospitals Limited	6.0%	2012	28,683	28,683	30,000
2009	Nominal interest rate	Year of maturity	Carrying value \$000	Face value \$000	Maximum facility \$000
Unsecured loan to Southern Cross Hospitals Limited	7.0%	2012	28,683	28,683	30,000

15. PROPERTY, PLANT AND EQUIPMENT

Group 2010	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Cost	37,212	112,866	8,260	89,875	11,038	259,251
Accumulated depreciation	-	(24,067)	-	(57,824)	(7,523)	(89,414)
Closing book value	37,212	88,799	8,260	32,051	3,515	169,837

Group 2010	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Opening book value	34,022	70,473	15,749	28,716	2,019	150,979
Additions/disposals	3,190	23,044	(7,489)	12,097	2,480	33,322
Acquisition through business combinations (refer note 35)	-	-	-	-	-	-
Depreciation	-	(4,718)	-	(8,762)	(984)	(14,464)
Closing book value	37,212	88,799	8,260	32,051	3,515	169,837

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)						
Group 2009	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Cost	34,022	89,822	15,749	77,778	8,558	225,929
Accumulated depreciation	-	(19,349)	-	(49,062)	(6,539)	(74,950)
Closing book value	34,022	70,473	15,749	28,716	2,019	150,979
Group 2009	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Opening book value	23,184	67,671	3,871	28,260	2,435	125,421
Additions/disposals	10,838	7,161	11,878	7,948	393	38,218
Acquisition through business combinations (refer note 35)	-	118	-	146	74	338
Depreciation	-	(4,477)	-	(7,638)	(883)	(12,998)
Closing book value	34,022	70,473	15,749	28,716	2,019	150,979
Parent 2010	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Cost	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Closing book value	-	-	-	-	-	-
Parent 2010	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Opening book value	-	-	-	-	-	-
Additions/disposals	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Transfer to Southern Cross Hospitals Limited	-	-	-	-	-	-
Closing book value	-	-	-	-	-	-

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)						
Parent 2009	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Cost	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Closing book value	-	-	-	-	-	-
Parent 2009	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Opening book value	23,184	67,671	3,317	28,260	2,228	124,660
Additions/disposals	3	2,237	1,296	3,611	1,149	8,296
Depreciation	-	(2,520)	-	(3,744)	(1,363)	(7,627)
Transfer to Southern Cross Hospitals Limited	(23,187)	(67,388)	(4,613)	(28,127)	(2,014)	(125,329)
Closing book value	-	-	-	-	-	-
16. INTANGIBLES						
Group 2010	Computer Software \$000		Work in progress \$000		Total \$000	
Cost	4,694		84		4,778	
Amortisation	(3,268)		-		(3,268)	
Closing book value	1,426		84		1,510	
Group 2010	Computer Software \$000		Work in progress \$000		Total \$000	
Opening book value	1,868		-		1,868	
Additions/disposals	129		84		213	
Amortisation	(571)		-		(571)	
Closing book value	1,426		84		1,510	
Group 2009	Computer Software \$000		Work in progress \$000		Total \$000	
Cost	4,566		-		4,566	
Amortisation	(2,698)		-		(2,698)	
Closing book value	1,868		-		1,868	

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

16. INTANGIBLES (CONTINUED)			
Group 2009	Computer Software \$000	Work in progress \$000	Total \$000
Opening book value	1,366	-	1,366
Additions/disposals	719	-	719
Amortisation	(217)	-	(217)
Closing book value	1,868	-	1,868
Parent 2010	Computer Software \$000	Work in progress \$000	Total \$000
Cost	-	-	-
Amortisation	-	-	-
Closing book value	-	-	-
Parent 2010	Computer Software \$000	Work in progress \$000	Total \$000
Opening book value	-	-	-
Additions/disposals	-	-	-
Amortisation	-	-	-
Closing book value	-	-	-
Parent 2009	Computer Software \$000	Work in progress \$000	Total \$000
Cost	-	-	-
Amortisation	-	-	-
Closing book value	-	-	-
Parent 2009	Computer Software \$000	Work in progress \$000	Total \$000
Opening book value	1,366	-	1,366
Additions/disposals	163	-	163
Amortisation	-	-	-
Transfer to Southern Cross Hospitals Limited	(1,529)	-	(1,529)
Closing book value	-	-	-

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

17. GOODWILL

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Auckland Surgical Centre	5,727	5,727	-	-
Northern Surgical Centre	3,577	3,577	-	-
Closing book value	9,304	9,304	-	-
Reconciliation of movement				
Carrying value at start of year	9,304	5,727	-	5,727
Transfer to Southern Cross Hospitals Limited	-	-	-	(5,727)
Goodwill arising from business acquisition	-	3,577	-	-
Carrying value at end of year	9,304	9,304	-	-

Goodwill is allocated to the Group's cash-generating units.

The recoverable amount of the goodwill is calculated on the basis of value-in-use using a discounted cash flow model. Future cash flows are projected out three years, based on actual results and approved business plans. A terminal growth rate of 0% is applied. A pre-tax discount rate of 9% is utilised.

The recoverable amount exceeds the net assets plus goodwill allocated to the cash generating units. Therefore, Trustees have determined that no impairment to goodwill has occurred during the period.

18. PAYABLES

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Accounts payable and accruals	17,583	17,365	102	97
Reinsurance premium payable	204	234	-	-
Amounts owed to related parties	360	355	94	40
	18,147	17,954	196	137

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

19. PROVISIONS				
	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Provision for earn-out payment on acquisition	-	500	-	-
Other provision	-	340	-	-
	-	840	-	-
Reconciliation of movement				
Carrying value at beginning of period	840	-	-	-
Payments	(840)	840	-	-
Carrying value at end of period	-	840	-	-
20. EMPLOYEE ENTITLEMENTS				
	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Employee entitlements	5,280	5,006	-	3
21. INSURANCE CONTRACT LIABILITIES				
	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Provision for outstanding claims (refer note 21a)	5,959	4,493	-	-
Provision for unearned premium (refer note 21c)	10,119	7,788	-	-
	16,078	12,281	-	-
a) Provision for outstanding claims (Note 33)				
	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Central estimate of outstanding claims liability	4,983	3,540	-	-
Claims handling costs	577	670	-	-
Risk margin	399	283	-	-
Closing balance	5,959	4,493	-	-
Claims are predominantly short-term in nature, and are generally settled within twelve months of being incurred. Accordingly, amounts are not discounted.				

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

21. INSURANCE CONTRACT LIABILITIES (CONTINUED)

b) Reconciliation of movements in provision for outstanding claims

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Opening balance	4,493	3,989	-	-
Amounts utilised during the year	(4,379)	(2,843)	-	-
Additional provision required/(reversal of unused provision)	(60)	(287)	-	-
Amounts provided during the year	5,882	3,540	-	-
Movement in claims handling costs	(93)	61	-	-
Movement in risk margin	116	33	-	-
Closing balance	5,959	4,493	-	-

(c) Reconciliation of movements in the provision for unearned premium (Note 33)

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Opening balance	7,788	5,734	-	-
Premiums written in the year	34,860	24,683	-	-
Premiums earned during the year	(32,529)	(22,629)	-	-
Closing balance	10,119	7,788	-	-

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

22. INTEREST BEARING LOANS AND BORROWINGS					
	Group		Parent		
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	
Current					
\$30m unsecured bank revolving credit facility	-	10,000	-	-	
Secured committed cash advance facility	500	5,564	-	-	
	500	15,564	-	-	
Non-current					
\$30m unsecured bank revolving credit facility	10,000	-	-	-	
Secured committed cash advance facility	6,800	-	-	-	
	16,800	-	-	-	
	17,300	15,564	-	-	
<p>The secured committed cash advance facility is secured against the fixed assets of Southern Cross QE Limited, comprising work in progress. The facility is repayable in September 2011.</p> <p>Terms and debt payment schedule</p> <p>The terms and conditions of outstanding loans are as follows:</p>					
Group 2010					
	Nominal interest rate	Year of maturity	Carrying value \$000	Face value \$000	Maximum facility \$000
Unsecured bank revolving credit facility	4.7%	2011	10,000	10,000	30,000
Secured bank loan	4.4%	2011	7,300	7,300	7,300
			17,300	17,300	37,300
Group 2009					
Unsecured bank revolving credit facility	3.1%	2009	10,000	10,000	30,000
Secured bank loan	5.1%	2009	5,564	5,564	7,300
			15,564	15,564	37,300

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Interest rate swaps	323	-	-	-

24. SUBORDINATED SHAREHOLDER LOAN

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Subordinated shareholder loans	180	-	-	-

25. RISK MANAGEMENT

The Group and Parent are exposed to a number of risks in the normal course of business. Firstly, there is the risk of conducting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (interest rate risk and foreign currency risk), and non-financial risks (operational risk and compliance risk). The Trustees and management recognise the importance of having an effective risk management policy in place. The risks and any objectives, policies and processes to manage the risks are described below.

A. Insurance risk

Southern Cross Benefits Limited assumes insurance risk through its travel insurance activities. The key risk arises in respect of claims costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

I. Risk management objectives, policies and processes for mitigating risk

The primary objective in managing risk is, as far as possible, to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the business if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

- Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- Strict claims management procedures to ensure the payment of claims in accordance with policy conditions.
- Maintaining a reinsurance programme which protects the Group against single large claims in excess of the Group's retention, and against a catastrophic event involving multiple claims.
- A long-term pricing strategy adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results and detailed investigations into the claims experience of the portfolio.
- A target capital adequacy standard / minimum capital requirement based on a formal capital management plan, and on APRA standards for the Australian operations.
- Implemented a risk management policy, which is in accordance with the prudential standards issued by APRA.

II. Sensitivity to insurance risk

The financial results of Southern Cross Benefits Limited are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 33.

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit involves the reimbursement of losses during travel for medical and surgical expenses in addition to the losses relating to personal property, cancellation, personal accident and personal liability, and rental vehicle excesses. The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain.

25. RISK MANAGEMENT (CONTINUED)

III. Concentration of insurance risk

Southern Cross Benefits Limited transacts travel insurance business in New Zealand for inbound and outbound travellers, and in Australia for outbound travellers. The nature of its business means that this concentration of risk cannot be avoided. Management defines concentration of risk by geographic region, specific destination, and unknown and unforeseen accumulations of insured on a single transport carrier. Southern Cross Benefits Limited is most at risk to the global commercial aviation industry and its ability to offer continuous operations given the impacts of oil prices, pandemics, and terrorism, which leads itself to a single event resulting in a high volume of relatively low dollar value cancellation / delay claims.

Concentration risks are mitigated by its catastrophe reinsurance cover, to protect it from high severity losses and catastrophic events. Southern Cross Benefits Limited has a reinsurance treaty with Munich Reinsurance Company, Germany, New Zealand Branch; Allianz AG, Reinsurance Branch Asia Pacific, Singapore Branch and HCC International Insurance Company plc, UK. The Australian branch has a reinsurance agreement through Munich Reinsurance Company, Germany, Australian branch and Lloyds Illium Syndicate No. 4040. Southern Cross Benefits Limited also has a separate terrorism specific reinsurance treaty covering New Zealand and Australia with SJO Catlin UK. Reinsurance is placed to cover losses in excess of agreed retentions.

B. Financial risks

I. Credit risk

In the normal course of its business the Group incurs credit risk from its hospital and travel insurance operations and from investment in financial assets. There are no significant concentrations of credit risk.

The Group maintains an investment policy which is used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis. The maximum exposure to credit risk at balance date is the amount of financial assets and receivables stated in the statements of financial position. These exposures are net of any recognised provisions for impairment losses. The Group does not require any collateral or security to support financial assets due to the quality of the counter-party organisations. The credit quality of counter parties is assessed based on published credit ratings, issued by Standard & Poor's or equivalent ratings agencies.

The credit quality of investment counter parties is as follows:

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
New Zealand Government rated:				
AAA	531	501	-	-
Local authorities rated:				
AA	2,088	2,142	-	-
Corporates rated:				
AAA	8,594	8,695	-	-
AA	11,261	12,702	-	-
A	8,009	998	-	-
	30,483	25,038	-	-

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

25. RISK MANAGEMENT (CONTINUED)

II. Liquidity risk

The Group is exposed to daily calls on available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Trustees set limits on the minimum proportion of maturing funds available to meet such calls to cover claims and expenses at unexpected levels of demand.

The contractual maturities of investments are as follows:

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
0 - 6 months	10,464	5,488	-	-
7 - 12 months	13,773	-	-	-
1 - 2 years	2,067	5,340	-	-
2 - 5 years	4,179	14,210	-	-
	30,483	25,038	-	-

The cash and cash equivalents are available on call. Substantially all receivables are due within one month of reporting date and all liabilities are payable within one year of reporting date.

The Group's forecast cash flows have been subjected to 'stress' tests to assess the risk of a major cash shortfall. Whilst current forecasts do not indicate any significant reduction in the amount of cash generated by the Group, any shortfall would be addressed by continuing tight control over capital expenditure and implementation of any steps necessary to control the level of operating costs.

C. Market risks

I. Foreign currency risk

At 30 June 2010, Southern Cross Benefits Limited had assets of New Zealand dollars \$1,184,000 and no liabilities denominated in foreign currencies (30 June 2009: assets of \$844,000 and no liabilities). Foreign currency bank balances are maintained to meet future claim expenses in these currencies, thereby creating a natural hedge. Balances are held in United States dollars, Australian dollars, Euros and Canadian dollars. A movement of 100 basis points on these exchange rates would have an immaterial impact on the statements of comprehensive income.

The balances held in foreign currencies are:

	Foreign currency		New Zealand dollar equivalent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Australian dollar	424	117	513	142
Canadian dollar	65	123	87	161
Euros	182	44	313	92
United States dollar	192	299	271	449
	863	583	1,184	844

Southern Cross Benefits Limited's Australian branch exposes it to currency risk, as the branch functional currency is Australian dollars. The New Zealand dollar equivalents of the Australian assets and liabilities at reporting date amounted to \$10,700,000 and \$2,242,000 respectively (30 June 2009: assets of \$10,618,000 and liabilities of \$1,193,000).

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

25. RISK MANAGEMENT (CONTINUED)

As the Australian operation is considered an ongoing investment, no hedging of the foreign currency exposure is undertaken. Any movement in the Australian dollar exchange rate is reflected in the foreign currency translation reserve. A movement of 100 basis points on the Australian dollar exchange rate would have an impact of \$85,000 (2009: \$94,000) on the net assets of the Company and the foreign currency translation reserve.

Southern Cross Hospitals Limited is exposed to foreign currency risk in as far as it purchases goods from importers of medical consumables and equipment from overseas manufacturers. This risk is managed by way of multi-year contracts with major suppliers that limit price increases to inflation rates. Medical consumables are on-charged to patients during surgical visits to the hospitals at mark-ups commensurate with the items being used. Southern Cross Hospitals Limited does not use forward exchange contracts to manage this risk.

II. Interest rate risk

The Parent invests in on call deposits with banks. Southern Cross Benefits Limited invests in both fixed and variable rate financial assets such as bonds, commercial paper and floating rate notes. There is a risk that the movement in interest rates can have an effect on the profitability and cash flows of Southern Cross Benefits Limited. It maintains a spread of investment types and maturity profiles to mitigate this risk.

Southern Cross Hospitals Limited has borrowings as detailed in note 22. To reduce the interest rate risk on borrowings, Southern Cross Hospitals Limited has acquired a \$10 million interest rate swap. The swap fixes the interest rate at 5.26% and expires in September 2013. Southern Cross QE Limited has acquired a \$4 million interest rate swap. The swap fixes the interest rate at 5.36% and expires in May 2013.

III. Fair value risk

The fair value of financial assets held by Southern Cross Benefits Limited can fluctuate depending on changes in interest rates. Southern Cross Benefits Limited policy is to hold all investments until maturity. This eliminates any effects of fair value changes to the investments upon realisation. However, unrealised fair value changes are recognised in profit or loss for each period.

The following analysis shows the impact of notional changes in interest rates on profitability :

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Impact of increase by 100 basis points on profit or loss	(169)	(312)	-	-
Impact of decrease by 100 basis points on profit or loss	171	319	-	-

IV. Cash flow interest rate risk

The cash flows from investments are susceptible to changes in interest rates in the short term. However, as the majority of investments are fixed-rate, and these investments are held until maturity, this exposure is mitigated. The following analysis shows the impact of notional changes in interest rates on cash flows for Southern Cross Benefits Limited:

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Impact of increase by 100 basis points on statements of cash flow	177	394	-	-
Impact of decrease by 100 basis points on statements of cash flow	(177)	(394)	-	-

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

25. RISK MANAGEMENT (CONTINUED)

V. Operational risk

The economic downturn has heightened the financial risks through an increase in uncertainty. The Group's financial risk management policy is to ensure that there are sufficient funds to finance the Group and to ensure that the loan covenants are met. This requires regular and frequent financial forecasts, followed by appropriate action.

The Group keeps the prices it charges to its patients and customers under continuous review. Prices that the Group are charged for goods and services can fluctuate and could have an impact on the Group's margins and cash flows; these fluctuations are kept under review so that their impact on the cash flow is controlled.

D. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the statements of financial position are carried at amounts that approximate fair value.

The table below analyses financial assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Definition of the fair value hierarchy

Level 1: Valuation based on quoted market prices (unadjusted) in an active market.

Level 2: Valuation techniques based on observable market data, either directly (as prices) or indirectly (derived from prices).

Level 3: Valuation techniques not based on observable market data.

30 June 2010	Level 1	Level 2	Level 3	Total
New Zealand Government stock	531	-	-	531
Local authorities stock	-	2,088	-	2,088
Corporate bonds	-	8,806	-	8,806
Bank deposits, commercial paper and floating rate notes	1,550	19,058	-	20,608
Total investments	2,081	29,952	-	32,033

Bancorp Treasury Services Limited has valued the investment portfolio as at 30 June 2010 on the June 2010 month-end closing market rates as supplied by ANZ Bank each month to wholesale investors. Where there are investments that are not included in this summary, for example private placements by Local Authorities in which Southern Cross Benefits Limited has participated, the value of these investments are based on observable inputs using quoted prices from for similar instruments ensuring that all significant inputs are directly or indirectly observable from market data.

30 June 2009	Level 1	Level 2	Level 3	Total
New Zealand Government stock	501	-	-	501
Local authorities stock	-	2,142	-	2,142
Corporate bonds	-	8,712	-	8,712
Bank deposits, commercial paper and floating rate notes	3,200	13,683	-	16,883
Total investments	3,701	24,537	-	28,238

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

26. CREDIT RATING

On 21 February 2010 Standard & Poor's reaffirmed Southern Cross Benefits Limited's Insurer Financial Strength Rating of A+. This signifies the insurer "has strong financial security characteristics".

27. FINANCIAL SOUNDNESS

Southern Cross Health Trust is a not-for-profit organisation. The Trust's capital of \$214,194,000 (2009: \$198,782,000) is equal to the funds as disclosed in the financial statements. The Group solvency and funds adequacy position is formally reviewed each year against a number of criteria, to establish whether there is sufficient capital to meet the commitments in the event of a major deviation in operating, claims or investment experience. The ongoing position relative to these criteria is monitored monthly. The Trustees consider the current level of funds is sufficient for the requirement of maintaining financial soundness. There have been no material changes to the Trust's policy for the management of its funds during the financial year.

Southern Cross Benefits has adopted a formal capital management plan. There is also a requirement to meet the capital adequacy standards prescribed by APRA for the Australian branch.

The New Zealand authorities are proposing to introduce a new regulatory regime for insurers, to be supervised by the Reserve Bank of New Zealand. This is scheduled to take effect in late 2010. One component of the proposal is a New Zealand solvency standard for non-life insurers. The new standard will be incorporated into Southern Cross Benefits Limited's capital management policy once implemented.

The Directors of Southern Cross Benefits Limited consider the current level of reserves are sufficient for the requirement of maintaining financial soundness. The capital position of its Australian branch meets the requirements of APRA.

28. RELATED PARTIES

Identity and relationship of related parties:

Group

Southern Cross Health Trust ("Trust")	Parent
Southern Cross Benefits Limited ("Benefits")	100% subsidiary of Trust
Southern Cross Hospitals Limited ("Hospitals")	100% subsidiary of Trust
Southern Cross Health Trust Gillies Partnership Limited	100% subsidiary of Hospitals
Southern Cross Health Trust Tauranga Partnership Limited	100% subsidiary of Hospitals
Southern Cross Hospitals Christchurch Endoscopy Partnership Limited	100% subsidiary of Hospitals
Southern Cross Hospitals Oxford Partnership Limited	100% subsidiary of Hospitals
Southern Cross Hospitals Radiotherapy Partnership Limited	100% subsidiary of Hospitals
Southern Cross Hospitals Silverdale Partnership Limited	100% subsidiary of Hospitals
Southern Cross QE Limited	70% subsidiary of Hospitals
Fusion Insurance Services Limited	50% joint venture of Benefits

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

28. RELATED PARTIES (CONTINUED)

Joint ventures and associates of Hospitals

Auckland Private Laundry Limited	50% associate of Hospitals
Auckland Radiotherapy Partnership	50% joint venture of Hospitals
Gillies Hospital Partnership ("Gillies")	50% joint venture of Hospitals
Gillies Hospital Property Partnership	50% joint venture of Hospitals
Mercy Angiography Limited ("Mercy")	33% associate of Hospitals
Norfolk Southern Cross Partnership ("Norfolk")	40% joint venture of Hospitals
Ormiston Surgical & Endoscopy Limited ("Ormiston")	46% associate of Hospitals
Oxford Clinic Hospital Partnership ("Oxford")	50% joint venture of Hospitals
Silverdale Medical Centre Property Partnership ("Silverdale")	50% joint venture of Hospitals
Southern Endoscopy Specialists Partnership	50% joint venture of Hospitals
Waitemata Endoscopy Limited ("Waitemata")	50% associate of Hospitals

Other related parties

Southern Cross Medical Care Society ("Society")	Related party
Trustees of Southern Cross Health Trust	Directors of Southern Cross Medical Care Society
Directors of Southern Cross Hospitals Limited	Trustees of Southern Cross Health Trust and Directors of Southern Cross Medical Care Society

The Trust and the Society are separate legal entities operating at "arm's length". They work together in certain areas such as information technology and human resources under fully costed service level agreements which dictate the expectations of each entity. Any costs incurred by one entity on behalf of another are reimbursed monthly on normal trading terms. The Society has purchased healthcare services from all providers, including the Trust, on a contestable and contractual basis. No related party balances have been written off or forgiven during the year.

All Group entities provide their normal services to other Group entities on normal commercial terms.

The amount of transactions with related parties are:

Purchases	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Hospitals	-	-	-	32
Gillies	-	-	-	-
Benefits	-	-	-	-
Society	3,405	3,072	797	714

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

28. RELATED PARTIES (CONTINUED)

Sales	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Gillies	324	114	-	-
Norfolk	350	71	-	-
Ormiston	188	-	-	-
Oxford	107	50	-	-
Waitemata	96	26	-	-
Society	98	92	-	-

The outstanding balances with related parties are:

Trade Payables	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Travel Insurance	79	-	79	-
Hospitals	-	-	14	32
Ormiston	-	36	-	-
Society	281	319	1	8
	360	355	94	40

Trade Receivables	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Gillies	-	44	-	-
Hospitals	-	-	174	-
Norfolk	-	16	-	-
Ormiston	-	8	-	-
Oxford	-	38	-	-
Society	18	21	-	-
	18	127	174	-

Investments in and distributions to and from subsidiaries, joint ventures and associates are disclosed in note 13.

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

29. RECONCILIATION OF NET SURPLUS WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Net Surplus	15,513	15,292	(568)	6,391
Adjustments for:				
Depreciation	14,464	12,998	-	-
Amortisation	571	217	-	-
Equity accounted earnings from hospital partnerships and associates	(3,406)	(2,547)	-	-
Foreign currency exchange movement	41	(84)	-	-
Foreign currency translation reserve movement	(101)	715	-	-
Movement in valuation of financial assets	(47)	7,354	-	-
Decrease in value of financial instrument	323	-	-	-
Loss on disposal of property, plant and equipment	19	631	-	-
Other income	(39)	330	-	-
Movement in provision for unearned premium	2,331	2,054	-	-
Movement in provision for outstanding claims	1,466	504	-	-
Movement in provision for employee benefits	275	1,946	(3)	3
Other provision	(340)	340	-	-
Deferred acquisition costs	81	(278)	-	-
Taxation	31	6	-	-
Changes in:				
Inventory	(810)	(277)	-	-
Accounts receivable	2,059	(790)	50	(224)
Accounts payable	162	1,205	59	145
Net cash inflow from operating activities	32,593	39,616	(462)	6,315

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

30. LEASE COMMITMENTS

The following amounts have been committed to by the Group, but are not recognised in the financial statements.

	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Less than one year	627	320	-	-
Between one and five years	2,485	1,280	-	-
More than five years	3,248	1,376	-	-
	6,360	2,976	-	-

The lease commitment relates to rental due on leasehold land occupied by Southern Cross Hospitals Limited. The rental sum disclosed is the best estimate of the future commitment at the date the financial statements were prepared.

The lease is perpetually renewable for 21 year terms. The next renewal date is October 2018. The next rent review is October 2014.

31. CAPITAL COMMITMENTS

The Group has capital commitments as at 30 June 2010 of \$2,600,000 relating to construction contracts underway and equipment purchases (2009: \$9,300,000).

32. CONTINGENT LIABILITIES

Southern Cross Benefits Limited has the following contingent liability at 30 June 2010. The Company has a standby letter of credit arrangement as a requirement of its merchant acquiring facility in Australia. The maximum value of this facility is \$200,000 Australian dollars. The letter of credit expires in January 2011 but has the ability to be extended annually (2009: \$200,000 Australian dollars).

33. ACTUARIAL INFORMATION

Estimates of the provision for outstanding claims for Southern Cross Benefits Limited as at 30 June 2010 have been determined by Peter Davies, B.Bus.Sc. FIA, a Fellow of the New Zealand Society of Actuaries. The calculation of the provision for outstanding claims complies with Appendix D of NZ IFRS 4 – Financial Reporting of Insurance Contracts, and Professional Standard No. 4 – General Insurance Business, of the New Zealand Society of Actuaries.

The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

Claims outstanding for two months or more are determined using a standard chain ladder method. Claims outstanding in respect of the most recent two months are determined by applying an estimated loss ratio to the earned premiums for the month. No additional provisions have been made for any exceptional large unpaid claims (2009: an adjustment was made for one large notified claim). Future claim payments are not discounted, as the expected duration to settlement is relatively short, and virtually all claims are settled within a year.

An additional margin of 8.0% (2009: 8.0%) has been added to the central estimate of the outstanding claim costs, to take account of the uncertainties inherent in the setting of claim provisions. The actuary has estimated that this margin provides a 75% (2009: 75%) likelihood of the sufficiency of the claim provisions.

A further provision of 11.0% (2009: 18.0%) of the central estimate of the outstanding claims has been made for direct and indirect claim management costs for the New Zealand business, and 9% for the Australian business.

The actuary has reviewed the adequacy of the unearned premium provision at 30 June 2010. In performing this test, an additional margin of 13.0% for New Zealand (2009: 16.0%) and 16.0% for Australia (2009: 16.0%) has been added to the central estimate of the future claim costs, to take account of the uncertainties inherent in the central estimate. The actuary has estimated that this margin provides a 75% (2009: 75%) likelihood of the sufficiency of the amount of future claims. A further allowance of 21.0% (2009: 18.0%) has been made for direct and indirect claim management costs and also policy administration costs in New Zealand, and 19.0% in Australia (2009: 19.0%).

In the actuary's view, there is no requirement to recognise any unexpired risk provision in respect of the unearned premium provision (2009: no provision required).

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

34. REMUNERATION OF TRUSTEES/DIRECTORS AND TRUSTEES OF THE PARENT

Trustees and Directors fees paid by the Group for the year ended 30 June 2010 were as follows:

Trustee/Director	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Dr D D Baird	54	56	11	35
C B Durbin	59	56	13	35
Dr D H Gray	95	89	10	53
G S Hawkins (Chairman) - appointed 1 October 2008	72	10	20	8
E M Hickey - appointed 1 October 2009	9	-	9	-
Dr P A T Leightley - appointed 1 July 2009	43	-	-	-
Dr S C Macken - retired 30 June 2009	-	54	-	34
D J May	60	55	14	34
P J Meyer	58	54	12	34
J G Todd - retired 30 June 2009	-	75	-	50
M J Verbiest - appointed 1 October 2008	10	5	10	5

The Group provides Trustees with directors' and officers' liability insurance cover for liabilities to other parties that may arise from their positions as Trustees.

Key management personnel	Group		Parent	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Salaries and other short term benefits	3,334	2,855	552	1,395

Southern Cross Health Trust

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (continued)

35. BUSINESS COMBINATIONS

On 28 February 2009, Southern Cross Hospitals Limited acquired the business assets of Harris Limited, trading as the Northern Surgical Centre.

	Recognised values on acquisition \$000
Inventories	85
Property, plant and equipment	338
	423
Goodwill	3,077
Total consideration paid	3,500

The Group agreed to pay a further earn-out payment to the vendors of the Northern Surgical Centre. This payment was contingent upon the level of revenue exceeding 2008 levels in the 12 months to 28 February 2010. The size of the payment was contingent upon the level that revenue exceeded historical levels up to a maximum payment of \$500,000.

The full amount of this earn-out payment of \$500,000 was paid in April 2010.

Pre-acquisition carrying amounts were determined based on applicable NZ IFRS's immediately before the acquisition at their estimated fair values.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business' workforce. No specific assets for brand awareness or existing contracts for services have been identified in the goodwill.

36. CAPITAL MANAGEMENT

The Group's capital includes reserves, retained earnings and non-controlling interests.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group is not subject to any externally imposed capital requirements.

The allocation of capital between its specific business segments' operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is undertaken independently for those responsible for the operation. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Trustees. There have been no material changes to the Group's management of capital during the period.

37. SUBSEQUENT EVENTS

There have been no events subsequent to balance date which would require a material adjustment to the financial statements and disclosure (2009: Nil).

Audit report

To the Trustees of Southern Cross Health Trust



We have audited the financial statements on pages 11 to 50. The financial statements provide information about the past financial performance of the Trust and Group and its financial position as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 16 to 23.

Trustees' responsibilities

The Trustees are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Trust and Group as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Trustees and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Trustees in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Trust and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the Trust and Group in relation to accounting advisory services. Partners and employees of our firm may also deal with the Trust and Group on normal terms within the ordinary course of trading activities of the business of the Trust and Group. These matters have not impaired our independence as auditors of the Trust and Group. The firm has no other relationship with, or interest in, the Trust or any of its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Trust and Group as far as appears from our examination of those records;
- the financial statements on pages 11 to 50:
 - o comply with New Zealand generally accepted accounting practice;
 - o give a true and fair view of the financial position of the Trust and Group as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 2 November 2010 and our unqualified opinion is expressed as at that date.

KPMG

Auckland

Southern Cross Health Trust

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Southern Cross
Healthcare Group