



Southern Cross
Healthcare

Southern Cross Health Trust
2009 Annual Report

2009

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Annual Report
For The Year Ended
30 June 2009

Overview of performance

The Southern Cross Health Trust achieved good business growth in the year to 30 June 2009, with operating revenue at \$214.6m, up from \$189m in the previous year.

Both of the Trust's businesses made solid contributions: Hospitals' income grew to \$192.7m (\$169.5m) and travel insurance income was \$21.9m (\$19.6m).

The Trust's net surplus was \$15.3m (\$18.2m), made up of an operating surplus of \$8.2m (\$12.4m) and other income of \$7.1m (\$5.8m).

Broken down by subsidiary companies, the Hospitals contribution to net surplus was \$15.8m (\$15m) while the travel insurance business contributed \$0.7m (\$3.1m). Trust operating costs of \$1.2m accounted for the net \$15.3m outcome.

During the year \$46.8m (\$33.6m) was invested in the enhancement or expansion of services offered by the Trust's subsidiaries, including hospital upgrades and investments, and expansion of travel insurance services.

Hospitals

Meeting the current and future demand for private elective surgery remained the primary focus for the Southern Cross Hospitals business. Helping to establish New Zealand's first private radiotherapy service was a further feature of the year.

Key developments in the hospitals network during the year included:

- Opening of New Zealand's first private radiotherapy services at Auckland Radiation Oncology, in which Southern Cross Hospitals is a 50% joint venture partner
- Opening of Ormiston Hospital - South Auckland's first private elective surgical facility - in which Southern Cross Hospitals is a 47% shareholder
- Purchase of the land and buildings of the Northern Clinic and the business of the Northern

Surgical Centre on Auckland's North Shore, adjacent to Southern Cross Hospital North Harbour

- Agreement to purchase land in Silverdale, north of Auckland, for the site of a private elective surgical facility and medical centre
- Upgrading of the Southern Cross QE Hospital in Rotorua in which Southern Cross Hospitals is a 70% shareholder
- Opening of a new Intensive Care Unit at Southern Cross Hospital Hamilton.

During the year the ownership structures for the Trust's hospitals interests evolved to enhance its operational independence from other businesses in the broader Southern Cross Healthcare Group (which encompasses the Trust's businesses as well as those of the Southern Cross Medical Care Society).

In 2008 a new company - Southern Cross Hospitals Limited - was established as a wholly-owned subsidiary of the Trust, with its own Board of Directors. On 2 February 2009, all of the Trust's hospital-related assets were transferred to the subsidiary company.

Travel Insurance

During the year to 30 June 2009 the travel insurance business of Southern Cross Benefits Limited, trading as Southern Cross Travel Insurance (SCTI), continued to consolidate its position as one of New Zealand's leading online travel insurers.

It has continued to extend its business model from online sales to online claims and services, reducing costs and enabling the provision of market-leading premiums for many travellers.

The business has also enjoyed success in building a highly effective working culture, evidenced by its naming as the Unlimited/JRA Best Place to Work in New Zealand in late 2008.

SCTI has also recognised opportunities to open up new revenue streams by taking its very successful direct and online business model into the Australian market. It launched its services in April 2009, promoting SCTI leisure travel policies in Victoria and Queensland following APRA authorisation and licensing from ASIC. This initiative is one factor that has had an impact on SCTI's contribution to the Trust's surplus this year, but is seen by the Board as a worthy investment in future growth.

Indeed, indications of success in the Australian market have been quick to emerge. Sales volumes have been in line with SCTI's projections and its TravelCare product came out on top of an Australia-wide review of comprehensive travel insurance policies by independent financial services research company Canstar Cannex.

Significantly, SCTI has no employees in Australia. Its contact centre and claims services for Australian customers are provided entirely from SCTI's Auckland offices.

Acknowledgements

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

A special thanks, also, to Jeff Todd and Susan Macken who retired as Chairman and Trustee respectively at the end of the financial year after many years of contributing to the successful governance of the Southern Cross Health Trust.

Graeme Hawkins
Chairman

Ian McPherson
Chief Executive Officer

statement of corporate governance

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

Board of Trustees

The Southern Cross Health Trust is governed by a Board of Trustees that operates in accordance with the Board Charter and Trust Deed.

The Charter describes the Board's role and responsibilities and regulates internal Board procedure. The Board reviews its performance and that of all Trustees on a regular basis. The Board has also delegated a number of its responsibilities to Board Committees.

The Trustees in office as at 1 July 2009 are:

Graeme S Hawkins (Chairman)
Dr Douglas D Baird
Carole B Durbin
Dr Harley Gray
David J May
Phillip J Meyer
Mark J Verbiest

Board Responsibilities

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

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.

The Board has adopted a Risk Management Framework for managing the full spectrum of risks faced by the Trust. The Financial Statements contain further information on risk (refer to Note 23).

The Trustees ensure that any transactions between related parties are conducted at arms length and on normal commercial terms (refer to Note 26 to the Financial Statements).

All Trustees register, and formally record, any actual or potential

conflicts of interest. Should a conflict of interest arise during the course of Board business the particular Trustee involved takes no part in that discussion or the resulting decision.

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 team. The Board ensures that this group is appropriately qualified and experienced to discharge their responsibilities, and has in place procedures to assess the performance of the Group Chief Executive Officer and the management team. The Board oversees the implementation by management of operating plans and budgets, and monitors key performance indicators and progress against budget.

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.

Audit Committee

The objectives of the committee are to assist the Board in discharging its responsibilities to exercise due care, diligence and skill in relation to oversight of Governance (ensuring adequate internal controls are in place and that the Board makes informed decisions regarding accounting policies, practices and disclosures), Financial Reporting, Audit functions and Risk Management functions. The Audit Committee comprises David May (Chairman), Graeme Hawkins and Phillip Meyer.

Remuneration Committee

The Remuneration Committee's formal objectives are to:

- Assist the Board in the establishment of remuneration policies and practices for the Group Chief Executive Officer and other senior executives in subsidiary, associated and joint venture entities;
- Provide advice to the Board on the remuneration, employment conditions and performance management of the organisation's Group Chief Executive and senior executive;
- Assist the Board discharge its responsibilities relative to human resource management and

organisational continuity.

The Remuneration Committee comprises Carole Durbin (Chairman), Douglas Baird and Graeme Hawkins.

Nominations Committee

The Nominations Committee's formal objectives are 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 Nominations Committee comprises Graeme Hawkins (Chairman), Carole Durbin and David May.

Investment Committee

The Investment Committee's role is to assist the Board in fulfilling its oversight responsibility for the investment assets of the Trust. The Committee is responsible for formulating overall investment policies, subject to approval by the Board, and establishing investment guidelines. The Committee monitors the management of the portfolios for compliance with the investment policies and guidelines and for meeting performance objectives over time. The Investment Committee comprises Graeme Hawkins, Carole

Durbin, David May, Mark Verbiest and Phillip Meyer (Chairman).

Constitutional Committee

The Constitutional Committee meets on an ad-hoc basis. Its formal objectives include:

- Review all constitutional documentation, policies and procedures against current corporate governance best practice;
- Make recommendations to amend constitutional documentation (including Board and committee charters), policies and procedures where appropriate. The Constitutional Committee comprises Mark Verbiest (Chairman), Graeme Hawkins and Carole Durbin.

External audit independence

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

The Board is committed to auditor independence. The Audit Committee reviews the independence and objectivity of the external auditors. The Audit Committee has a policy, the Auditing and Non-auditing Services Policy, which defines the services that may be conducted by the external auditors and the associated approval process.

Loans to Trustees

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

board of trustees

Graeme Hawkins

(BSC, BCom, ACA, FlntSD)
Chairman

Graeme Hawkins has been a professional director for 16 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, Ballance Agri-Nutrients Co-Operative and Cavalier Corporation, and was an independent director of Fonterra Co-operative Group until 2007.

Earlier in his career he held a number of strategic and financial roles at Fletcher Challenge and is a former CEO of Dominion Breweries.

Mr Hawkins has Bachelor of Science and Commerce degrees and is an Associate Chartered Accountant.

Dr Douglas Baird

(MBChB, DipObst, FRNZCGP)

Dr Douglas Baird was appointed as a Trustee in July 2007. 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.

He is 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, FlntSD)

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 the Chair of electricity generator Mighty River Power and retailer Mercury Energy. She is also Chair of the Legal Services Agency and Damwatch Services, and a Director of New Zealand-owned Fidelity Life.

A consultant to law firm Simpson Grierson, 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 (retired April 2009).

Ms Durbin has an LLB (Hons) and a BCom (Accountancy) from Auckland University. 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. He 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 Medical Legal Society.

He was made a Companion of the New Zealand Order of Merit in 2003.

David May

(BSc(Hons), FIAA)

David May was appointed 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)

Phillip Meyer was appointed 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.

He is Chairman of Australian Financial Services Group, the New Zealand Institute of Management

Inc., and the New Zealand Institute of Management Central Inc.; Deputy Chairman of the Institute of Directors (Wellington Branch); Director of Kordia Group; Independent Director of the Institute of Financial Advisers; Trustee of the Enterprise New Zealand Trust; member of the Disciplinary Tribunal of the New Zealand Institute of Chartered Accountants, the NZ Markets Disciplinary Tribunal and the Institute of Directors National Council. Mr Meyer is also an Advisor to GPR Dehler (Australia) and in 2008 was

appointed as one of two Crown Monitors of the Whanganui District Health Board.

Mark Verbiest (LLB)

Mark Verbiest, a lawyer and professional director, was appointed as a Trustee on 1 January 2009.

He is a Director of the Southern Cross Medical Care Society, AMP Haumi Management Ltd (manager of NZX-listed AMP NZ Office Trust) and Bear Fund NZ, an Independent

Director of Gas Industry Company Ltd (which co-regulates the gas industry), Chairman of Apitimize, a small internet software company, and a consultant to law firm Simpson Grierson.

From late 2000 until June 2008 he was a member of Telecom New Zealand's senior executive team and Group General Counsel, overseeing several corporate units as well as being accountable for the International and Yellow Pages business units.

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CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2009

	Note	Group		Parent	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Revenue	2	214,623	189,044	-	-
Direct expenses	3	172,500	149,674	1,075	-
Gross surplus/(deficit)		42,123	39,370	(1,075)	-
Indirect expenses		33,944	26,983	855	-
Operating surplus/(deficit)	5	8,179	12,387	(1,930)	-
Share of profit on equity accounted investments	13	2,547	1,300	-	-
Interest and other income	6	4,572	4,467	8,321	-
Net surplus/(deficit) before tax		15,298	18,154	6,391	-
Taxation	7	6	-	-	-
Net surplus/(deficit) from continuing operations after tax		15,292	18,154	6,391	-
Discontinued operation					
Surplus from discontinued operations	8	-	-	21,744	13,746
Net surplus/(deficit) for the year		15,292	18,154	28,135	13,746
Attributable to:					
Trustees of the Trust		15,307	18,154	28,135	13,746
Minority Interests		(15)	-	-	-
Net surplus/(deficit) for the year		15,292	18,154	28,135	13,746

The accompanying Notes form part of these Financial Statements



CONSOLIDATED STATEMENT OF CHANGES IN TRUST FUNDS

For the year ended 30 June 2009

	Note	Group		Parent	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Transfer to foreign currency translation reserve		715	-	-	-
Net gain recognised directly in trust funds		715	-	-	-
Net surplus for the year		15,292	18,154	28,135	13,746
Total recognised income and expenses		16,007	18,154	28,135	13,746
Minority interests contribution		329	66	-	-
Trust funds at the start of the year		182,446	164,226	149,547	135,801
Trust funds at the end of the year	9	198,782	182,446	177,682	149,547
Total recognised income and expenses attributable to:					
Trustees of the Trust		16,022	18,154	28,135	13,746
Minority Interests		(15)	-	-	-
Total recognised income and expenses		16,007	18,154	28,135	13,746
Trust funds at the end of the year represented by:					
Retained earnings		197,437	182,130	177,432	149,297
Capital reserve		250	250	250	250
Foreign currency translation reserve		715	-	-	-
Trustees funds		198,402	182,380	177,682	149,547
Minority interests		380	66	-	-
Trust funds at the end of the year	9	198,782	182,446	177,682	149,547

The accompanying Notes form part of these Financial Statements



CONSOLIDATED BALANCE SHEET

As at 30 June 2009

	Note	Group		Parent	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current assets					
Cash and cash equivalents	10	17,472	9,102	1,315	7,974
Trade and other receivables	11	22,123	21,055	224	22,761
Financial assets	12	6,258	22,206	-	-
Inventories		2,432	2,155	-	2,155
Total current assets		48,285	54,518	1,539	32,890
Non-current assets					
Financial assets	12	19,550	10,956	-	-
Investments	13	20,441	13,983	147,600	3,670
Advance to subsidiary	14	-	-	28,683	-
Property, plant and equipment	15	150,979	125,421	-	124,660
Intangible assets	16	1,868	1,366	-	1,366
Goodwill	17	9,304	5,727	-	5,727
Total non-current assets		202,142	157,453	176,283	135,423
Total assets		250,427	211,971	177,822	168,313
Liabilities					
Payables	18	17,954	16,742	137	15,983
Provisions	19	840	-	-	-
Employee entitlements	20	5,006	3,060	3	2,783
Insurance contract liabilities	21	12,281	9,723	-	-
Interest bearing loans & borrowings	22	15,564	-	-	-
Total current liabilities		51,645	29,525	140	18,766
Net assets		198,782	182,446	177,682	149,547
Trust funds					
Retained earnings		197,437	182,130	177,432	149,297
Capital reserve		250	250	250	250
Foreign currency translation reserve		715	-	-	-
Parent interest		198,402	182,380	177,682	149,547
Minority interest		380	66	-	-
Trust funds	9	198,782	182,446	177,682	149,547

The accompanying Notes form part of these Financial Statements



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2009

	Note	Group		Parent	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Cash flows from operating activities					
Receipts from customers		213,555	185,090	(224)	-
Payments to suppliers and employees		(166,996)	(151,620)	(1,782)	-
Payments of direct claims		(12,787)	(10,798)	-	-
Interest received		2,548	3,829	821	-
Interest paid		(122)	(90)	-	-
Dividends received		316	184	7,500	-
Other income		3,102	886	-	-
Income from discontinued operations		-	-	-	-
Net cash flows from operating activities	27	39,616	27,481	6,315	-
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		40	2,810	-	-
Distributions from hospital partnerships and associates		1,750	1,250	-	-
Purchase of investments		-	(4,500)	(5,000)	-
Purchase of property, plant and equipment		(38,720)	(30,420)	-	-
Purchase of intangible assets		(719)	-	-	-
Investment in hospital partnerships and associates		(5,661)	(2,768)	-	-
Acquisition of Northern Surgical Centre		(3,500)	-	-	-
Net cash flows from investing activities		(46,810)	(33,628)	(5,000)	-
Cash flows from financing activities					
Proceeds from borrowings		15,564	3,000	-	-
Payments of borrowings		-	(3,000)	-	-
Net cash flows from financing activities		15,564	-	-	-
Net increase/(decrease) in cash and cash equivalents		8,370	(6,147)	1,315	-
Cash & cash equivalents at beginning of period		9,102	15,249	-	-
Cash & cash equivalents at end of period		17,472	9,102	1,315	-



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2009

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 consists 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 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 associate assets and liabilities to Southern Cross Hospitals Limited. Hence, for the period 1 February 2009 to 30 June 2009, the Trust's 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 and in accordance with the relevant accounting standards are treated as a discontinued activity.

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

Southern Cross Health Trust is domiciled in New Zealand. It operates through two subsidiaries. Southern Cross Hospitals Limited operates 10 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.

During the year, Southern Cross Benefits Limited began to conduct travel insurance business in Australia. 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.

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 balance sheet has been presented in the order of decreasing liquidity.

The financial statements were approved by the Board of Trustees on 3 November 2009.

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 income statement 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.

Restatement of comparative information

In this year's Group statutory accounts, the 2008 presentation of a call account balance of \$500,000 has been reclassified from financial assets to cash and cash equivalents.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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.

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 12. 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current account balances and cash on call deposits. Under NZ IFRS definitions of financial assets, cash and cash equivalents are classified as "financial assets at fair value through the income statement".



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

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 definitions of financial assets, premium and other receivables are classified as "loans and receivables".

Financial assets

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

Financial assets designated as "fair value through the income statement" at inception are those that are held to match insurance contract liabilities. The designation of these assets to be at "fair value through income statement" eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from recognising any gains or losses through reserves.

Financial assets are carried at fair value using the bid price with changes in fair value recognised in the income statement. Transaction costs are recognised in the income statement on the transaction date.

As financial assets are held until maturity and proceeds 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 the income statement.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

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 the income statement 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 is recognised in the income statement.

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 when patients are invoiced on discharge.

Investment income

Interest income is recognised in the income statement 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 the income statement on investments include gains and losses on financial assets classified as fair value through the income statement. 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 the income statement on a straight-line basis over the term of the lease.

Impairment policy

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



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 the Income Statement 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 the income Statement. 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 Company's investment in each of its business lines, which are its 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 Company'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 the Income Statement, 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.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Foreign currency transactions

Transactions in foreign currencies that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the balance sheet date, 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 the income statement.

Foreign operations

Activities of the Australian branch are recorded in Australian dollars, its functional currency. Income statement 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 balance date, all the assets and liabilities are re-translated at the exchange rate ruling on that date. Foreign exchange differences arising from this translation are recognised through equity, as a foreign currency translation reserve.

Trade and other payables

Trade and other payables are stated at cost. 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 income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net 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 income statement.

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 balance sheet when the contract is agreed with the reinsurer and a deferred reinsurance asset is recognised in the balance sheet at balance date.

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



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Reinsurance recoveries

The component of claims expense relating to policies ceded to reinsurers is recognised as reinsurance recoveries in the income statement and as a reinsurance receivable in the balance sheet. The recoverability of these assets is assessed at balance 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 the income statement.

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 balance sheet 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 the income statement after first writing down any deferred acquisition costs. The deficiency (if any) in excess of deferred acquisition costs is recognised in the balance sheet as an unexpired risk liability.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

New financial reporting standards approved but not yet effective

The following new or amended financial reporting standards and interpretations have been issued by the Financial Reporting Standards Board but are not yet effective:

NZ IFRS 1 – First time adoption of New Zealand equivalents to IFRS's (restructured)

NZ IFRS 3 – Business combinations

NZ IFRS 7 – Amendment: Improve disclosure about financial instruments

NZ IAS 1 – Presentation of financial statements

NZ IAS 23 – Borrowing costs (revised)

NZ IAS 27 – Consolidated and separate financial statements

NZ IFRS 1, NZ IFRS 3, NZ IFRS 7 and NZ IAS 27 are effective for annual reporting periods commencing on or after 1 July 2009 and will be adopted by the Group for the financial year commencing 1 July 2009. As these standards specify the accounting treatment of certain business combinations from 1 July 2009, it is not possible to determine the possible impact on future financial statements.

NZ IAS 1 is effective for annual reporting period commencing on or after 1 July 2009 and will be adopted for the financial year commencing 1 July 2009. This standard specifies the presentation of financial statements which will not have any financial impact on future financial statements.

NZ IAS 23 is effective for annual reporting period commencing on or after 1 January 2009 and will be adopted for the financial year commencing 1 July 2009. The main change from the previous version is the removal of the option to expense borrowing costs incurred in respect of "qualifying assets" for full reporting entities.

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 income statement in the period of the change and future periods, as applicable.

The method of calculating the unearned premium and deferred acquisition costs has been amended as at 30 June 2009. Previously the unearned premium and deferred acquisition costs were calculated on the basis of complete outstanding months, with no liability or asset being held for the final part-month of travel. The calculation is now based on the actual number of days outstanding on the trip, relative to the total duration of the trip (in days). The impact of this change on unearned premium is \$850,000, being a higher unearned premium provision, and lower earned premiums in the income statement. The impact on deferred acquisition costs is \$106,000, being a higher deferred acquisition cost asset, and lower acquisition cost expense in the income statement.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

2. REVENUE

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Hospital income	192,742	169,476	-	-
Travel insurance premium income	22,629	20,031	-	-
Reinsurers' share of income	(748)	(463)	-	-
	214,623	189,044	-	-

3. DIRECT EXPENSES

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Employee expenses	60,624	51,669	1,075	-
Travel insurance net claims expense (refer note 4)	13,291	11,176	-	-
Hospital direct expenses	98,585	86,829	-	-
	172,500	149,674	1,075	-

4. TRAVEL INSURANCE NET CLAIMS EXPENSE

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Claims incurred relating to risk borne in the current financial year	13,484	11,081	-	-
Claims incurred relating to risk borne in previous financial years	(287)	19	-	-
Movement in provision for claims handling cost	61	58	-	-
Movement in risk margin	33	18	-	-
Net claims expense	13,291	11,176	-	-



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

5. OPERATING SURPLUS/(DEFICIT)

Operating surplus/(deficit) includes:

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Auditor's remuneration				
– External audit fees	148	91	38	-
– Other services	37	3	-	-
Bad debts written off	179	117	-	-
Depreciation (Note 15)	12,998	11,628	-	-
Amortisation (Note 16)	217	152	-	-
Employee benefits expense	60,624	51,669	1,075	-
Interest expense	122	90	-	-
Loss on disposal of fixed assets	631	82	-	-
Rental of premises	1,292	1,010	-	-
Insurance acquisition costs	861	904	-	-

6. INTEREST AND OTHER INCOME

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Interest income on financial assets at fair value through income statement	2,548	3,747	821	-
Net unrealised market revaluation of financial assets	680	(278)	-	-
Dividends received	316	184	7,500	-
Unrealised foreign exchange movement	(84)	38	-	-
Other income	1,112	776	-	-
	4,572	4,467	8,321	-

7. TAXATION

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Australian income taxes	6	-	-	-

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



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

8. SURPLUS FROM DISCONTINUED OPERATIONS

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

	Parent	
	2009	2008
	\$000	\$000
Results from discontinued operations		
Revenue	106,970	169,476
Direct expenses	85,595	136,071
Indirect expenses	14,179	21,545
Operating surplus	7,196	11,860
Interest and other income	1,126	1,886
	8,322	13,746
Gain on sale of hospital assets and liabilities	13,422	-
Surplus from discontinued operations	21,744	13,746

	Parent	
	2009	2008
	\$000	\$000
Cash flows from discontinued operations		
Net cash flow from operating activities	12,623	23,364
Net cash flow used in investing activities	(11,615)	(29,127)
Net cash flow from financing activities	-	-
Net cash flow from discontinued operation	1,008	(5,763)
Cash and cash equivalents at the beginning of the period	7,974	13,737
Cash and cash equivalents at the end of the period	8,982	7,974



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

8. SURPLUS FROM DISCONTINUED OPERATIONS (CONTINUED)

Effect of disposal on the financial position of the Parent	Parent	
	2009	2008
	\$000	\$000
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. RECONCILIATION OF CHANGES IN TRUST FUNDS

Group	Retained earnings	Capital reserve	Foreign currency translation	Minority interest	Total trust funds
2009	\$000	\$000	\$000	\$000	\$000
Balance as at 1 July 2008	182,130	250	-	66	182,446
Total recognised income and expenses	15,307	-	715	(15)	16,007
Issue of ordinary shares in Southern Cross QE Limited	-	-	-	329	329
Balance as at 30 June 2009	197,437	250	715	380	198,782



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

9. RECONCILIATION OF CHANGES IN TRUST FUNDS (CONTINUED)

Group 2008	Retained earnings	Capital reserve	Foreign currency translation	Minority interest	Total trust funds
	\$000	\$000	\$000	\$000	\$000
Balance as at 1 July 2007	163,976	250	-	-	164,226
Total recognised income and expenses	18,154	-	-	-	18,154
Issue of ordinary shares in Southern Cross QE Limited	-	-	-	66	66
Balance as at 30 June 2008	182,130	250	-	66	182,446

Parent 2009	Retained earnings	Capital reserve	Parent interest
	\$000	\$000	\$000
Balance as at 1 July 2008	149,297	250	149,547
Total recognised income and expenses	28,135	-	28,135
Balance as at 30 June 2009	177,432	250	177,682

Parent 2008	Retained earnings	Capital reserve	Parent interest
	\$000	\$000	\$000
Balance as at 1 July 2007	135,551	250	135,801
Total recognised income and expenses	13,746	-	13,746
Balance as at 30 June 2008	149,297	250	149,547

Southern Cross Hospitals Limited's interest in its subsidiary Southern Cross QE Limited is 70%, resulting in a minority interest of 30%.

Capital reserves and retained earnings are available for distribution for charitable purpose within New Zealand, at the discretion of the Board of Trustees.

10. CASH AND CASH EQUIVALENTS

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Bank balances	6,740	1,694	1,315	1,066
Call deposits	10,732	7,408	-	6,908
	17,472	9,102	1,315	7,974



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

11. TRADE AND OTHER RECEIVABLES

	Group		Parent	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Premium accounts receivable	205	169	-	-
Deferred acquisition costs	532	345	-	-
Reinsurance recoveries	-	258	-	-
Deferred reinsurance expense	91	-	-	-
Accounts receivable	21,050	19,513	224	22,558
Accounts receivable - related party (refer Note 26)	127	13	-	15
Prepayments	118	757	-	188
	<u>22,123</u>	<u>21,055</u>	<u>224</u>	<u>22,761</u>

12. FINANCIAL ASSETS

At fair value through the income statement:

	Group		Parent	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
New Zealand Government stock	501	500	-	-
Local body stock	2,142	10,429	-	-
Other bonds	8,712	-	-	-
Bank deposits, commercial paper and floating rates notes	13,683	22,233	-	-
Surety sum held in trust	635	-	-	-
Deposit on purchase of land	135	-	-	-
	<u>25,808</u>	<u>33,162</u>	<u>-</u>	<u>-</u>
Current assets	6,258	22,206	-	-
Non-current assets	19,550	10,956	-	-
	<u>25,808</u>	<u>33,162</u>	<u>-</u>	<u>-</u>

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 balance date, \$8,695,000 of floating rate notes were held in this category (30 June 2008: \$Nil).



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

13. INVESTMENTS

	Group		Parent	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Shares in subsidiaries:				
<i>Southern Cross Benefits Limited (100%)</i>				
Carrying value at start of year	-	-	600	600
Carrying value at end of year	-	-	600	600
<i>Southern Cross Hospitals Limited (100%)</i>				
Carrying value at start of year	-	-	-	-
Investment during the year	-	-	147,000	-
Carrying value at end of year	-	-	147,000	-
<i>Southern Cross QE Limited (70%)</i>				
Carrying value at start of year	-	-	434	-
Investment during the year	-	-	2,170	434
Transfer to Southern Cross Hospitals Limited	-	-	(2,604)	-
Carrying value at end of year	-	-	-	434
Carrying value of shares in subsidiaries at end of year	-	-	147,600	1,034



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

13. INVESTMENTS (CONTINUED)

	Group		Parent	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Hospital Partnerships:				
<i>Gillies Hospital Partnership (50%)</i>				
Carrying value at start of year	1,055	1,000	-	-
Investment during year	2,245	-	-	-
Equity accounted earnings	1,328	875	-	-
Distributions received	(1,300)	(820)	-	-
Carrying value at end of year	3,328	1,055	-	-
<i>Oxford Clinic Hospital Partnership (50%)</i>				
Carrying value at start of year	2,719	2,766	-	-
Equity accounted earnings	397	383	-	-
Distributions received	(450)	(430)	-	-
Carrying value at end of year	2,666	2,719	-	-
<i>Norfolk Southern Cross Partnership (40%)</i>				
Carrying value at start of year	6,648	6,598	-	-
Equity accounted earnings	671	50	-	-
Carrying value at end of year	7,319	6,648	-	-
<i>Auckland Radiotherapy Partnership (50%)</i>				
Carrying value at start of year	813	-	-	-
Investment during year	-	813	-	-
Equity accounted earnings	78	-	-	-
Carrying value at end of year	891	813	-	-
Carrying value of hospital partnerships at end of year	14,204	11,235	-	-



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

13. INVESTMENTS (CONTINUED)

	Group		Parent	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Associate Companies:				
<i>Mercy Angiography Limited (33%)</i>				
Carrying value at start of year	800	800	800	800
Transfer to Southern Cross Hospitals Limited	-	-	(800)	-
Carrying value at end of year	800	800	-	800
<i>Ormiston Surgical & Endoscopy Limited (49%)</i>				
Carrying value at start of year	1,836	-	1,836	-
Transfer to Southern Cross Hospitals Limited	-	-	(2,252)	-
Investment during period	3,416	1,836	416	1,836
Carrying value at end of year	5,252	1,836	-	1,836
<i>Waitemata Endoscopy Limited (50%)</i>				
Carrying value at start of year	112	-	-	-
Investment during period	-	120	-	-
Equity accounted earnings	73	(8)	-	-
Carrying value at end of year	185	112	-	-
Carrying value of associate companies at end of year	6,237	2,748	-	2,636
Total carrying value of investments	20,441	13,983	147,600	3,670

Gillies Hospital Partnership includes both Gillies Hospital Partnership and Gillies Hospital Property Partnership.

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.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

14. ADVANCE TO SUBSIDIARY

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Unsecured intra-group facility	-	-	28,683	-

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

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

15. PROPERTY, PLANT AND EQUIPMENT

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 34)	-	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



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2008	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Cost	23,184	82,543	3,871	69,684	8,091	187,373
Accumulated depreciation	-	(14,872)	-	(41,424)	(5,656)	(61,952)
Closing book value	23,184	67,671	3,871	28,260	2,435	125,421

Group 2008	Land \$000	Buildings \$000	Work in progress \$000	Plant & medical equipment \$000	Other fixed assets \$000	Total \$000
Opening book value	23,267	44,295	19,032	22,631	1,636	110,861
Additions/disposals	(83)	27,133	(15,161)	12,744	1,555	26,188
Depreciation	-	(3,757)	-	(7,115)	(756)	(11,628)
Closing book value	23,184	67,671	3,871	28,260	2,435	125,421

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	-	-	-	-	-	-



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Parent 2008	Land	Buildings	Work in progress	Plant & medical equipment	Other fixed assets	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost	23,184	82,543	3,317	69,684	8,491	187,219
Accumulated amortisation	-	(14,872)	-	(41,424)	(6,263)	(62,559)
Closing book value	23,184	67,671	3,317	28,260	2,228	124,660

Parent 2008	Land	Buildings	Work in progress	Plant & medical equipment	Other fixed assets	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Opening book value	23,267	44,295	19,032	22,631	1,390	110,615
Additions/disposals	(83)	27,133	(15,715)	12,744	1,516	25,595
Depreciation	-	(3,757)	-	(7,115)	(678)	(11,550)
Closing book value	23,184	67,671	3,317	28,260	2,228	124,660

At June 2009 a bank loan with a carrying value of \$5,564,000 was secured by work in progress with a carrying value of \$9,390,000 (2008: \$Nil).

16. INTANGIBLE ASSETS

Computer software	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Cost	4,566	5,316	-	2,833
Accumulated depreciation	(2,698)	(3,950)	-	(1,467)
Closing book value	1,868	1,366	-	1,366

Reconciliation of movement	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	1,366	1	1,366	1
Additions/disposals	719	1,517	163	1,517
Amortisation for the year	(217)	(152)	-	(152)
Transfer to Southern Cross Hospitals Limited	-	-	(1,529)	-
Closing balance	1,868	1,366	-	1,366



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

17. GOODWILL

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Auckland Surgical Centre	5,727	5,727	-	5,727
Goodwill from business acquisition	3,577	-	-	-
Closing book value	9,304	5,727	-	5,727

Reconciliation of movement	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Carrying value at start of year	5,727	5,727	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	5,727	-	5,727

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. Accordingly, there are no accumulated impairment losses at 30 June 2009.

18. PAYABLES

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Accounts payable and accruals	17,615	16,533	97	15,806
Reinsurance premium payable	234	50	-	-
Amounts owed to related parties	105	159	40	177
	17,954	16,742	137	15,983



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

19. PROVISIONS

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Provision for earn-out payment on acquisition	500	-	-	-
Other provision	340	-	-	-
	840	-	-	-

20. EMPLOYEE ENTITLEMENTS

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Employee entitlements	5,006	3,060	3	2,783

21. INSURANCE CONTRACT LIABILITIES

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Provision for outstanding claims (refer note 21a)	4,493	3,989	-	-
Provision for unearned premium (refer note 21c)	7,788	5,734	-	-
	12,281	9,723	-	-



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

21. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Provision for outstanding claims

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Central estimate of outstanding claims liability	3,540	3,130	-	-
Claims handling costs	670	609	-	-
Risk margin	283	250	-	-
Closing balance	4,493	3,989	-	-

Claims are predominantly short-term in nature, and are generally settled within twelve months of being incurred. Accordingly, amounts are not discounted.

(b) Reconciliation of movements in the provision for outstanding claims

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	3,989	3,611	-	-
Amounts utilised during the year	(2,843)	(2,848)	-	-
Additional provision required/(reversal of unused provision)	(287)	19	-	-
Amounts provided during the year	3,540	3,131	-	-
Movement in claims handling costs	61	58	-	-
Movement in risk margin	33	18	-	-
Closing balance	4,493	3,989	-	-

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

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	5,734	5,213	-	-
Premiums written in the year	24,683	20,552	-	-
Premiums earned during the year	(22,629)	(20,031)	-	-
Closing balance	7,788	5,734	-	-



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

22. INTEREST BEARING LOANS AND BORROWINGS

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Unsecured bank revolving credit facility	10,000	-	-	-
Secured construction loan	5,564	-	-	-
	15,564	-	-	-

The construction loan is secured against the fixed assets of Southern Cross QE Limited, comprising work in progress.

Terms and debt payment schedule

The terms and conditions of outstanding loans are as follows:

Group 2009	Nominal interest rate	Year of maturity	Carrying value \$000	Face value \$000	Maximum facility \$000
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

23. 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.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

23. RISK MANAGEMENT (CONTINUED)

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 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 32.

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.

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.

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. Reinsurance is placed to cover losses in excess of agreed retentions.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

23. RISK MANAGEMENT (CONTINUED)

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 a credit 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 balance sheet. 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	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
New Zealand Government rated : AAA	501	500	-	-
Local authorities rated : AA	2,142	3,001	-	-
Corporates rated :				
AAA	8,695	2,465	-	-
AA	12,702	17,344	-	-
A	998	9,852	-	-
	25,038	33,162	-	-

II. Liquidity risk

The Group is exposed to daily calls on available cash resources from operations. 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	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
0 - 6 months	5,488	22,206	-	-
7 - 12 months	-	-	-	-
1 - 2 years	5,340	500	-	-
2 - 5 years	14,210	10,456	-	-
	25,038	33,162	-	-

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



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

23. RISK MANAGEMENT (CONTINUED)

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 2009, Southern Cross Benefits Limited had assets of New Zealand dollars \$844,000 and no liabilities denominated in foreign currencies (30 June 2008: assets of \$515,000 and liabilities of \$8,000). 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 income statement.

The balances held in foreign currencies are:

	Foreign currency		New Zealand dollar equivalent	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Australian dollar	117	-	142	-
Canadian dollar	123	210	161	269
Euros	44	73	92	147
United States dollar	299	77	449	99
			844	515

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 balance date amounted to \$10,618,000 and \$1,193,000 respectively (30 June 2008: no assets or liabilities).

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 \$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 types and maturities of investments to mitigate this risk. Southern Cross Hospitals Limited has borrowings as detailed in note 22.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

23. RISK MANAGEMENT (CONTINUED)

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 the income statement for each period.

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

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Impact of increase by 100 basis points on income statement	(312)	(317)	-	-
Impact of decrease by 100 basis points on income statement	319	327	-	-

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	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Impact of increase by 100 basis points on cashflow statement	394	141	-	-
Impact of decrease by 100 basis points on cashflow statement	(394)	(141)	-	-

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 we 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 balance sheet are carried at amounts that approximate fair value.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

24. CREDIT RATING

On 21 February 2009 Standard & Poor's reaffirmed Southern Cross Benefits Limited's Insurer Financial Strength Rating of A+. This signifies the insurer "has strong financial security characteristics".

25. FINANCIAL SOUNDNESS

Southern Cross Health Trust is a not-for-profit organisation. The Trust's capital of \$198,782,000 (2008: \$182,400,000) 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 the New Zealand insurance market. As part of this process, the Reserve Bank of New Zealand (the proposed regulator) has published a draft solvency standard for non-life insurers. This regime is scheduled to take effect in 2010. 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.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

26. 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 Oxford Partnership Limited	100% subsidiary of Hospitals
Southern Cross Hospitals Radiotherapy Partnership Limited	100% subsidiary of Hospitals
Southern Cross QE Limited	70% subsidiary of Hospitals
Fusion Insurance Services Limited	50% joint venture of Benefits

Joint ventures and associates of Hospitals

Auckland Radiation Oncology Limited ("ARO")	50% joint venture of Hospitals
Gillies Hospital Partnership ("Gillies")	50% joint venture of Hospitals
Gillies Hospital Property Partnership	50% joint venture of Hospitals
Norfolk Southern Cross Partnership ("Norfolk")	40% joint venture of Hospitals
Oxford Clinic Hospital Partnership ("Oxford")	50% joint venture of Hospitals
Waitemata Endoscopy Limited ("Waitemata")	50% associate of Hospitals
Mercy Angiography Limited ("Mercy")	33% associate of Hospitals
Ormiston Surgical & Endoscopy Limited ("Ormiston")	49% 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.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

26. RELATED PARTIES (CONTINUED)

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	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Hospitals	-	-	32	-
Gillies	-	264	-	264
Benefits	-	-	-	12
Society	3,072	3,918	714	2,904

Sales	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Gillies	114	274	-	274
Norfolk	71	102	-	102
Oxford	50	170	-	170
Waitemata	26	39	-	39
Society	-	116	-	-

The outstanding balances with related parties are:

Trade Payables	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Hospitals	-	-	32	-
Gillies	-	32	-	32
Ormiston	36	-	-	-
Society	69	127	8	145



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

26. RELATED PARTIES (CONTINUED)

Trade Receivables	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Gillies	44	-	-	-
Norfolk	16	13	-	13
Ormiston	8	-	-	-
Oxford	38	-	-	-
Benefits	-	-	-	2
Society	21	-	-	-

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

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

	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Net Surplus	15,292	18,154	6,391	-
<i>Adjustments for:</i>				
Depreciation	12,998	11,628	-	-
Amortisation	217	152	-	-
Equity accounted earnings from hospital partnerships and associates	(2,547)	(1,300)	-	-
Foreign currency exchange movement	(84)	(38)	-	-
Foreign currency translation reserve movement	715	-	-	-
Movement in valuation of financial assets	7,354	278	-	-
Loss on disposal of property, plant and equipment	631	82	-	-
Movement in provision for unearned premium	2,054	521	-	-
Movement in provision for outstanding claims	504	378	-	-
Movement in provision for employee benefits	1,946	(1,043)	3	-
Other provision	340	-	-	-
Deferred acquisition costs/reinsurance expense	(278)	-	-	-
Minority interest	330	-	-	-
Taxation	6	-	-	-
<i>Changes in:</i>				
Inventory	(277)	48	-	-
Accounts receivable	(790)	(4,133)	(224)	-
Accounts payable	1,205	2,754	145	-
Net cash inflow from operating activities	39,616	27,481	6,315	-



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

28. SEGMENT REPORTING AND PRINCIPAL ACTIVITIES

Southern Cross Hospitals Limited operates 10 private surgical hospitals throughout New Zealand. In addition it has invested in a number of hospital joint venture partnerships and Associates.

Southern Cross Benefits Limited operates in one industry and three geographical segments, that is the provision of travel insurance in New Zealand for inbound and outbound travellers, and in Australia for outbound travellers.

The following table presents revenue and surplus information and certain asset and liability information regarding business segments.

	Healthcare sector		Travel insurance		Parent		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Income								
Income from external customers	192,742	169,476	21,881	19,568	-	-	214,623	189,044
Other income	1,087	1,776	2,664	2,691	821	-	4,572	4,467
Total consolidated income	193,829	171,252	24,545	22,259	821	-	219,195	193,511
Result								
Segment result	13,283	13,745	703	3,109	(1,241)	-	12,745	16,854
Share of surplus from joint ventures	2,547	1,300	-	-	-	-	2,547	1,300
Net surplus for the year	15,830	15,045	703	3,109	(1,241)	-	15,292	18,154
Assets and liabilities								
Segment assets	195,524	162,337	32,923	35,651	1,539	-	229,986	197,988
Investment in associates	6,237	2,636	-	-	-	-	6,237	2,636
Investments in joint ventures	14,204	11,347	-	-	-	-	14,204	11,347
Total assets	215,965	176,320	32,923	35,651	1,539	-	250,427	211,971
Segment liabilities	37,272	18,614	14,265	10,911	108	-	51,645	29,525
Total liabilities	37,272	18,614	14,265	10,911	108	-	51,645	29,525
Other segment information								
Depreciation and amortisation	13,118	11,702	97	78	-	-	13,215	11,780
Cash flow information								
Net cash flow from operating activities	29,271	23,364	4,030	4,117	6,315	-	39,616	27,481
Net cash flow from investing activities	(47,258)	(29,127)	5,448	(5,001)	(5,000)	-	(46,810)	(34,128)
Net cash flow from financing activities	23,064	-	(7,500)	-	-	-	15,564	-



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

29. LEASE COMMITMENTS

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

	Group		Parent	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Less than one year	320	320	-	320
Between one and five years	1,280	1,280	-	1,280
More than five years	1,376	416	-	416
	2,976	2,016	-	2,016

The lease commitment relates to rental due on leasehold land occupied by Southern Cross Hospitals Limited. At year end the lease was subject to rent review. 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.

30. CAPITAL COMMITMENTS

The Group has capital commitments as at 30 June 2009 of \$9,300,000 relating to construction contracts underway and equipment purchases (2008:\$522,000).

31. CONTINGENT LIABILITIES

Southern Cross Benefits Limited has the following contingent liability at 30 June 2009 (2008: Nil). 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 2010 but has the ability to be extended annually.

32. ACTUARIAL INFORMATION

Estimates of the provision for outstanding claims for Southern Cross Benefits Limited as at 30 June 2009 have been carried out 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. An additional provision has been made as there had been made for one large notified but unpaid claim in 2009 (2008: no adjustments were made as there had been no unusually large claims notified). Future claim payments are not discounted, as the expected duration to settlement is relatively short, and virtually all claims are settled within a year.



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

32. ACTUARIAL INFORMATION (CONTINUED)

An additional margin of 8.0% (2008: 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% (2008: 75%) likelihood of the sufficiency of the claim provisions.

A further provision of 18.0% (2008: 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 2009. In performing this test, an additional margin of 16.0% (2008: 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% (2008: 75%) likelihood of the sufficiency of the amount of future claims. A further allowance of 18.0% (2008: 18.0%) has been made for direct and indirect claim management costs in New Zealand, and 19% in Australia.

In the actuary's view, there is no requirement to recognise any unexpired risk provision in excess of the unearned premium provision (2008: no provision required).

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

Trustees and Directors fees paid by the Group for the year ended 30 June 2009 were as follows:

Trustee/Director	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Dr D D Baird	56	30	35	-
C B Durbin	56	30	35	-
Dr D H Gray	89	30	53	-
G S Hawkins (Chairman) - appointed 1 October 2008	10	-	8	-
Dr S C Macken - retired 30 June 2009	54	30	34	-
D J May	55	30	34	-
P J Meyer	54	30	34	-
J G Todd - retired 30 June 2009	75	55	50	-
M J Verbiest - appointed 1 January 2009	5	-	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. From 1 July 2008, remuneration of the Directors of Southern Cross Benefits Limited is borne by the subsidiary, whereas previously it was borne by the Parent.

Senior management	Group		Parent	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Annual remuneration	2,855	2,174	1,395	-



NOTES TO THE FINANCIAL STATEMENTS (CONT)

For the year ended 30 June 2009

34. 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
	<u>423</u>
Goodwill	3,077
Total consideration paid	<u><u>3,500</u></u>

The agreement includes an earn-out payment which is contingent upon the level of revenue achieved in the 12 months to 28 February 2010. The payment is restricted to a maximum amount of \$500,000. The full amount has been provided for in the financial statements.

Pre-acquisition carrying amounts were determined based on applicable NZ IFRS.

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.

35. SUBSEQUENT EVENTS

There have been no events subsequent to balance date which would require a material adjustment to the Financial Statements and disclosure (2008: Nil).



Audit Report to the Trustees of Southern Cross Health Trust

We have audited the financial statements on pages 7 to 46. The financial statements provide information about the past financial performance and financial position of the Trust and Group as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 11 to 19.

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 2009 and the results of their 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's 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 as far as appears from our examination of those records;
- the financial statements on pages 7 to 46:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Trust and Group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 3 November 2009 and our unqualified opinion is expressed as at that date.

KPMG
AUCKLAND

directory

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**Southern Cross
Healthcare**

