Healthscope Group

Aggregated Financial Report

For the half year
ended 31 December 2010

TABLE OF CONTENTS

Healthscope Group

RESPONSIBLE BODY'S REPORT

*The Responsible Body submits the financial report of the Healthscope Group for the half year ended 31 December 2010 ('**Report'**).*

PURPOSE

Healthscope Notes Limited ACN 147 250 780 ('Issuer') was incorporated on 8 November 2010 as a special purpose vehicle to issue publicly listed debt instruments and on-lend the net proceeds raised from the issue of the debt instruments to Healthscope Finance Pty Ltd ACN 145 126 067, a member of the Healthscope Group (as defined below). The Issuer raised $200 million by issuing 2 million $100 redeemable, exchangeable, secured but subordinated notes ('**Healthscope Notes'**) on 17 December 2010. The Issuer was admitted to the Official List of the Australian Securities Exchange ('**ASX**') (ASX code: HLN) on 17 December 2010. The Healthscope Notes have been quoted on the ASX from 20 December 2010. The ordinary shares of the Issuer are not quoted.

As a result of its listing on the ASX, the Issuer is required to lodge annual and half yearly financial reports in accordance with the ASX Listing Rules and the Corporations Act. In addition, the Issuer will lodge with the ASX annual and half yearly financial reports for the Healthscope Group, which aggregate the financial performance, the financial position and the cash flows of:

- APHG Holdings 2 Pty. Ltd ACN 146 342 832 and its controlled entities;
- APHG No 2 Holdings 2 Pty Ltd ACN 146 342 832 and its controlled entities; and
- CT HSP Holdings (Dutch) B.V. registration no. 34308383 and its controlled entities;

(together the **'Healthscope Group**') to provide the holders of Healthscope Notes with an understanding of the financial position of the Healthscope Group which was referred to in the Issuer's prospectus dated 24 November 2010 as the 'Security Group'.

INCORPORATION

The dates and places of incorporation of each of the parent entities within the Healthscope Group are as follows:

- APHG Holdings 2 Pty. Ltd., ACN.145 126 094
  incorporated in Australia on 9 July 2010.

- APHG No 2 Holdings 2 Pty. Ltd., ACN.146 342 832
  incorporated in Australia on 15 September 2010.

- CT HSP Holdings (Dutch) B.V. registration no. 34308383
  incorporated in The Netherlands on 29 July 2008

RESPONSIBLE BODY'S REPORT (cont'd)

DIRECTORS

For the purposes of this Report, the Responsible Body consists of the directors' of the following entities:

- Healthscope Hospitals Holdings Pty Ltd ACN 144 840 639;
- Healthscope Pathology Holdings Pty Ltd ACN 145 250 157;
- CT HSP Holdings (Dutch) B.V. registration no. 34308383.

The names of the directors of each of the above entities in office at any time during or since the end of the half year are:

Healthscope Hospitals Holdings Pty Ltd
Mr A. Adam appointed 25 June 2010 and resigned 14 July 2010
Mr S. S. Tan appointed 14 July 2010 and resigned 15 July 2010
Mr D.C. Reintjes appointed 14 July 2010 and resigned 14 December 2010
Mr S.C. Moore appointed 14 July 2010
Mr R.J. Cooke appointed 15 November 2010
Ms K.K. Bechtel appointed 14 December 2010
Mr D.A. Carroll appointed 14 December 2010
Mr M.D. Hunter appointed 14 December 2010
Mr S.J. Schneider appointed 14 December 2010
Mr A.J. Shastry appointed 14 December 2010
Mr T.B. Sisitsky appointed 14 December 2010
Mr S. Wise appointed 14 December 2010

Healthscope Pathology Holdings Pty Ltd
Mr B.C. Furphy appointed 16 July 2010 and resigned 21 September 2010
Mr D.C. Reintjes appointed 20 September 2010 and resigned 14 December 2010
Mr S.C. Moore appointed 20 September 2010
Mr R.J. Cooke appointed 15 November 2010
Ms K.K. Bechtel appointed 14 December 2010
Mr D.A. Carroll appointed 14 December 2010
Mr M.D. Hunter appointed 14 December 2010
Mr S.J. Schneider appointed 14 December 2010
Mr A.J. Shastry appointed 14 December 2010
Mr T.B. Sisitsky appointed 14 December 2010
Mr S. Wise appointed 14 December 2010

CT HSP Holdings (Dutch) B.V.

Hujori Vastgoed Holding B.V. appointed 29 July 2009 and resigned on 20 September 2010
Mr. D.J. Jaarsma appointed 20 September 2010
Mr. T.B Mayrhofer appointed 20 September 2010
Mr. J.E. Viola appointed 20 September 2010
Mr. G.A.R. Warris appointed 20 September 2010

REPORTING PERIOD

The half year financial report covers the period from 9 July 2010 to 31 December 2010 for APHG Holdings 2 Pty. Ltd, from 15 September 2010 to 31 December 2010 for APHG No 2 Holdings 2 Pty. Ltd and from 1 July 2010 to 31 December 2010 for CT HSP Holdings (Dutch) B.V.

Healthscope Limited ACN 006 405 152 and its controlled entities were acquired by funds advised and managed by Carlyle and TPG on 12 October 2010 hence their financial results are included in this Report from the period 12 October 2010 to 31 December 2010.

RESPONSIBLE BODY'S REPORT (cont'd)

PRINCIPAL ACTIVITIES

The principal activities of the Healthscope Group during the half year ended 31 December 2010, were the provision of healthcare services through the ownership and management of hospitals, medical centres and the provision of diagnostic services (pathology).

COMPARATIVE INFORMATION

No comparative information has been provided in this Report as this is the first reporting period for the Healthscope Group.

OPERATING RESULTS

The aggregated loss of the Healthscope Group for the half year, after income tax expense, amounted to $57.3 million.

DIVIDENDS

No dividend has been declared during or since the end of the half year by any of APHG Holdings 2 Pty Ltd, APHG No 2 Holdings 2 Pty Ltd or CT HSP Holdings (Dutch) B.V.

SUBSEQUENT EVENTS

Since the end of the half year, Clinical Laboratories Pty Ltd (a member of the Healthscope Group) acquired 100% of the share capital of Healthbridge Diagnostics Holdings Pty Ltd, a specialist pathology business operating in Australia. The acquisition was completed on 31 January 2011.

Other than this, to the best of the knowledge of the Responsible Body, there has been no matter or circumstance that has arisen since the end of the half year that has significantly affected or may affect the Healthscope Group's operations or state of affairs in future periods.

ROUNDING OFF OF AMOUNTS

For the benefits of clarity and ease of understanding, the Responsible Body has chosen to round off amounts shown in the Report to the nearest thousand ($'000) dollars, unless otherwise stated.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration prepared in compliance with the requirements of section 307C of the Corporations Act 2001 is set out on page 4 of the half year financial report.

Signed in accordance with resolutions of the directors' of Healthscope Hospitals Holdings Pty Ltd, Healthscope Pathology Holdings Pty Ltd and CT HSP Holdings (Dutch) B.V.

On behalf of the Responsible Body

R. Cooke
Executive Chairman and Managing Director
Melbourne, 25 February 2011

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

Responsible Body
Healthscope Group
Level 1
312 St Kilda Road
Melbourne VIC 3004

25 February 2011

Dear members of the Responsible Body

Healthscope Group

In compliance with the independence requirements of section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Responsible Body of the Healthscope Group.

As lead audit partner for the review of the financial statements of Healthscope Group for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

T Imbesi
Partner
Chartered Accountants

CONDENSED AGGREGATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Half year ended 31 Dec 2010 $'000
Revenue	435,075
Share of profits of associates and joint ventures	653
Employee benefits expense	(196,929)
Medical and consumable supplies	(62,851)
Prosthetics expenses	(48,198)
Occupancy costs	(20,525)
Service costs	(44,048)
Profit before depreciation, amortisation, finance costs, income tax and non-recurring items (EBITDA)	**63,177**
Depreciation and amortisation	(17,843)
Profit before finance costs, income tax and non-recurring items (EBIT)	**45,334**
Net finance costs	(43,287)
Profit before income tax and non-recurring items	**2,047**
Restructuring and legal costs	(5,319)
Acquisition costs	(71,851)
Total non-recurring items	**(77,170)**
Loss before income tax benefit	**(75,123)**
Income tax benefit	17,819
Loss for the period	**(57,304)**
Other comprehensive income	
Exchange differences arising on translation of foreign operations	(2,787)
Gain on cash flow hedges taken directly to equity	2,454
Income tax expense relating to other comprehensive income	(736)
Other comprehensive income for the period (net of tax)	**(1,069)**
Total comprehensive income for the period	**(58,373)**

The accompanying notes numbered 1 to 9 form part of this half year financial report.

CONDENSED AGGREGATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	31 Dec 2010 $'000
CURRENT ASSETS		
Cash and cash equivalents		46,332
Trade and other receivables		82,659
Prepayments		13,040
Inventories		47,305
Other financial assets		490
TOTAL CURRENT ASSETS		**189,826**
NON CURRENT ASSETS		
Trade and other receivables		8,000
Investments accounted for using the equity method		706
Other financial assets		13,640
Property, plant and equipment		1,150,533
Intangible assets	7	1,776,167
Deferred tax assets		66,344
TOTAL NON CURRENT ASSETS		**3,015,390**
TOTAL ASSETS		**3,205,216**
CURRENT LIABILITIES		
Trade and other payables		186,302
Deferred purchase consideration		3,046
Deferred revenue		2,602
Borrowings	8	14,516
Current tax liabilities		5,630
Provisions		91,421
TOTAL CURRENT LIABILITIES		**303,517**
NON CURRENT LIABILITIES		
Borrowings	8	1,929,202
Deferred revenue		3,135
Deferred tax liabilities		50,540
Provisions		15,028
TOTAL NON CURRENT LIABILITIES		**1,997,905**
TOTAL LIABILITES		**2,301,422**
NET ASSETS		**903,794**
EQUITY		
Issued capital		962,167
Reserves		(1,069)
Accumulated losses		(57,304)
TOTAL EQUITY		**903,794**

The accompanying notes numbered 1 to 9 form part of this half year financial report.

CONDENSED AGGREGATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	Half year ended 31 Dec 2010 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		451,891
Payment to suppliers and employees		(401,154)
Cash generated from operations (pre non-recurring items)		**50,737**
Interest received		1,479
Interest and costs of finance paid		(11,987)
Income tax paid		(152)
Net cash provided by operating activities (pre non-recurring items)		**40,077**
Non-recurring items		(77,170)
Net cash used in operating activities		**(37,093)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment		206
Purchase of property, plant and equipment		(9,208)
Brownfield facility developments		(27,511)
Payments for practice management rights		(2,156)
Payments for business combinations	5	(2,742,341)
Net cash used in investing activities		**(2,781,010)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of equity securities		962,167
Proceeds from borrowings		2,179,069
Repayments of borrowings		(200,000)
Facility fees paid		(80,906)
Proceeds from receivables securitisation		8,874
Finance leasing		(4,623)
Net cash provided by financing activities		**2,864,581**
Net increase in cash and cash equivalents		**46,478**
Cash and cash equivalents at the beginning of the period		-
Effects of exchange rate changes on the balance of cash held in foreign currencies		(146)
Cash and cash equivalents at the end of the period		**46,332**

The accompanying notes numbered 1 to 9 form part of this half year financial report.

CONDENSED AGGREGATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Issued capital $'000	Accumulated losses $'000	Foreign currency translation reserve $'000	Hedging reserve $'000	Total equity $'000
Opening balance at respective incorporation dates	**-**	**-**	**-**	**-**	**-**
Loss for the period	-	(57,304)	-	-	(57,304)
Exchange differences arising on translation of foreign operations	-	-	(2,787)	-	(2,787)
Gain on cash flow hedges	-	-	-	2,454	2,454
Income tax relating to components of other comprehensive income	-	-	-	(736)	(736)
Total comprehensive income for the period	**-**	**(57,304)**	**(2,787)**	**1,718**	**(58,373)**
Issue of shares	962,167	-	-	-	962,167
Closing balance at 31 December 2010	**962,167**	**(57,304)**	**(2,787)**	**1,718**	**903,794**

The accompanying notes numbered 1 to 9 form part of this half year financial report.

NOTES TO THE CONDENSED AGGREGATED FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

Healthscope Notes Limited ACN 147 250 780 ('**Issuer**') was incorporated on 8 November 2010 as a special purpose vehicle to issue publicly listed debt instruments and on-lend the net proceeds raised from the issue of the debt instruments to Healthscope Finance Pty Ltd ACN 145 126 067, a member of the Healthscope Group (as defined below). The Issuer raised $200 million by issuing 2 million $100 redeemable, exchangeable, secured but subordinated notes ('**Healthscope Notes**') on 17 December 2010. The Issuer was admitted to the Official List of the Australian Securities Exchange ('**ASX**') (ASX code: HLN) on 17 December 2010. The Healthscope Notes have been quoted on the ASX from 20 December 2010. The ordinary shares of the Issuer are not quoted.

As a result of its listing on the ASX, the Issuer is required to lodge annual and half yearly financial reports in accordance with the ASX Listing Rules and the Corporations Act. In addition, the Issuer will lodge with the ASX annual and half yearly financial reports for the Healthscope Group, which aggregate the financial performance, the financial position and the cash flows of:

- APHG Holdings 2 Pty. Ltd ACN 146 342 832 and its controlled entities;
- APHG No 2 Holdings 2 Pty Ltd ACN 146 342 832 and its controlled entities; and
- CT HSP Holdings (Dutch) B.V. registration no. 34308383 and its controlled entities;

(together the '**Healthscope Group**') to provide the holders of Healthscope Notes with an understanding of the financial position of the Healthscope Group which was referred to in the Issuer's prospectus dated 24 November 2010 as the 'Security Group'.

The principal place of business of the Group is:

Level 1
312 St Kilda Road
Melbourne VIC 3004
Tel: (03) 9926 7500

The principal activities of the Healthscope Group during the half year ended 31 December 2010, were the provision of healthcare services through the ownership and management of hospitals, medical centers and the provision of diagnostic services (pathology).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

This financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures that the financial statements and notes of the Group comply with International Financial Reporting Standard 134 *Interim Financial Reporting.*

The financial report has not been prepared as a consolidated financial report as envisaged by AASB 127 *Consolidated and Separate Financial Statements* as the Pillars that form the Healthscope Group do not form an "Economic Entity" as defined by AASB 127. Rather the financial report has been prepared using the principals outlined in Note 2(a).

The financial statements were authorised for issue by the Responsible Body on 18 February 2011. The Responsible Body comprises the directors of APHG Holdings 2 Pty Ltd, APHG No 2 Holdings 2 Pty Ltd and CT HSP Holdings (Dutch) B.V.

The half year financial report does not include notes of the type normally included in an annual financial report.

NOTES TO THE CONDENSED AGGREGATED FINANCIAL STATEMENTS (cont'd)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of preparation
The financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

For clarity and relevance, the entity has chosen to report amounts in the financial report rounded off to the nearest thousand dollars, unless otherwise indicated.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Healthscope Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions for accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Adoption of new and revised Accounting Standards
The Healthscope Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Healthscope Group include:

- Amendments to AASB 5, 8, 101, 107, 118, 136 and 139 as a consequence of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process.*

The adoption of these amendments has not resulted in any change to the Group's accounting policies and had no affect on the amounts reported for the current period.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(a) Basis of aggregation
The aggregated financial statements incorporate the consolidated financial information of each of the following Pillars

- APHG Holdings 2 Pty Limited and all of its controlled entities,
- APHG No 2 Holdings 2 Pty Ltd and all of its controlled entities and,
- CT HSP Holdings (Dutch) B.V. and all of its controlled entities,

Consistent accounting policies are employed by each Pillar in the presentation and preparation of their consolidated financial information.

All inter-company balances and transactions between entities in the Healthscope Group, including any unrealised profits or losses, have been eliminated on aggregation.

NOTES TO THE CONDENSED AGGREGATED FINANCIAL STATEMENTS (cont'd)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Healthscope Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are re-measured to fair value at the acquisition date (i.e. the date the Healthscope Group attains control) and the resulting gain or loss, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;

- liabilities or equity instruments related to the replacement by the Reporting Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 *Share-based Payment*; and

- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Healthscope Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Healthscope Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Income Tax
Income tax expense or benefit represents the sum of the tax currently payable and deferred tax.

Current Tax
The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the condensed statement of comprehensive income because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Income Tax

Tax consolidation

The Group's wholly owned Australian resident entities formed a tax-consolidated group under Australian taxation law on 12 October 2010. Healthscope Hospital Holdings Pty Ltd is the head entity in the tax-consolidated group. All wholly owned Australian entities acquired by the Group during the half year ended 31 December 2010 joined the Healthscope Hospital Holdings Pty Ltd tax consolidated group.

Tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from the unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by Healthscope Hospital Holdings Pty Ltd (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivables by the company and each member of the group in relation to the tax contribution amounts paid or payable between the head entity and the other members of the tax-consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity partners.

(d) Inventories

Inventories are measured at the lower of cost, on a first in first out basis, and net realisable value. Net realisable value represents the estimated selling prices of inventories less all estimated costs of completion and costs necessary to make the sale.

(e) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.
Income is recognised on an effective interest rate basis for debt instruments other than those financial assets classified as 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- Has been acquired principally for the purpose of selling in the near future;
- Is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- Is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line item in the statement of comprehensive income.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Financial assets

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The contractual rights to receive cash flows from the asset have expired; or
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- The Group has transferred its rights to receive cash flows from the asset and either:
  - Has transferred substantially all the risks and rewards of the asset; or
  - Has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(f) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses.

- Freehold land and buildings are measured on the cost basis.
- Plant and equipment is measured on the cost basis.
- Leasehold improvements are measured on the cost basis.
- Finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments. Each is determined at the inception of the lease.

Depreciation

The depreciable amount of all fixed assets, including buildings and capitalised lease assets, but excluding freehold land is depreciated over their useful lives to the Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting period, with the effect of any changes recognised on a prospective basis.

NOTES TO THE CONDENSED AGGREGATED FINANCIAL STATEMENTS (cont'd)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Property, plant and equipment (cont'd)
Depreciation
The ranges of depreciation rates used for each class of depreciable assets are:

Class of property, plant and equipment	Depreciation rate
Buildings	2% to 2.5%
Leasehold improvements	2% to 33%
Plant & equipment	5% to 33%
Leased assets	8% to 33%

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in operating profit before income tax of the Group in the year of disposal.

(g) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is subsequently measured at its cost less any accumulated impairment losses. Goodwill is not amortised but is reviewed for impairment at least annually.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGU's), or groups of CGU's, expected to benefit from the synergies of the business combination. CGU's or groups of CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU or group of CGU's is less than the carrying amount of the CGU or groups of CGU's, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or groups of CGU's and then to the other assets of the CGU or groups of CGU's pro-rata on the basis of the carrying amount of each asset in the CGU or groups of CGU's.

An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(h) Intangible assets
Intangible assets acquired in a business combination
Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their value can be measured reliably.
Subsequent to initial recognition, intangible assets acquired in a business combination are reported at fair value (which is cost) less accumulated amortisation and accumulated impairment losses on the same basis as intangible assets that are acquired separately.

Intangible assets acquired separately
Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Research & development costs
Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Intangible assets (cont'd)
Research & development costs

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally generated intangible assets are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives of no longer than 5 years.

(i) Impairment of tangible and intangible assets excluding goodwill
At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the impairment is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Leased assets
Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Leased assets (cont'd)
Lease incentives under operating leases are recognised as deferred income. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(k) Employee benefits
A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal value, using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans
Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(l) Joint venture arrangements
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Jointly controlled operations
Where the Group is a venturer and so it has joint control in a jointly controlled operation, the Group recognises the assets that it controls and the liabilities that it incurs, along with the expenses that it incurs and the Group's share of the income that it earns from the sale of goods or services by the joint venture.

Jointly controlled entities
Interests in jointly controlled entities are accounted for under the equity method in the aggregated financial statements.

(m) Investments in associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for under the equity method of accounting in the aggregated financial statements.

The financial statements of the associates are used by the Group to apply the equity method. The reporting dates of the associates and the Group are identical and both use consistent accounting policies.

The investment in the associates is carried in the aggregated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The aggregated statement of comprehensive income reflects the Group's share of the results of operations of the associates.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable in the aggregated statement of changes in equity.

NOTES TO THE CONDENSED AGGREGATED FINANCIAL STATEMENTS (cont'd)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(o) Financial liability and equity instruments issued by the company
Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

De-recognition of financial liabilities
The Group de-recognises financial liabilities when and only when, the Group's obligations are discharged, cancelled or they expire.

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(p) Foreign currency
Foreign currency transactions
All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are recognised in net profit or loss in the period in which they arise.

The individual financial information of each Group entity is presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the aggregated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('$'), which is the functional currency of the Group and the presentation currency for the aggregated financial statements.

In preparing the financial information of the individual entities, transactions in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONDENSED AGGREGATED FINANCIAL STATEMENTS (cont'd)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Foreign currency (cont'd)
On aggregation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive and accumulated in equity. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is exposed.

(q) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Insurance claims
The provision is based on the schedule of outstanding claims and the costs have been estimated based on currently available data where the Group has no related insurance policy. Provisions are determined by discounting expected future cash outflows at a pre-tax rate that reflects current market assessment of the time value of money and when appropriate, the risks specific to the liability. The provision is reviewed at the end of each reporting period and updated for additional information.

Restructuring
A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

(r) Revenue
Revenue is measured at the fair value of the consideration received or receivable. Revenue from the rendering of a service is recognised once the service has been provided.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Revenue from the sale of goods is recognised when the Group has transferred to the buyer, the significant risks and rewards of ownership of the goods.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates are accounted for in accordance with the equity method of accounting.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Revenue (cont'd)
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(s) Derivative financial instruments
The Group enters into interest rate swaps to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging Instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge Accounting
The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Movements in the hedging reserve in equity are detailed in the Condensed Statement of Changes in Equity.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, as part of other expenses or other income.

NOTES TO THE CONDENSED AGGREGATED FINANCIAL STATEMENTS (cont'd)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Derivative financial instruments (cont'd)
Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of comprehensive income as the recognised hedged item. However when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At the time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(t) Goods and services tax (GST)
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(u) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit or loss in the period in which they were incurred.

(v) Government grants
Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which it becomes receivable.

(w) Comparative figures
No comparative figures have been provided in this half year financial report as this is the first reporting period for the Healthscope Group.

NOTE 3: DIVIDENDS PAID ON ORDINARY SHARES

During the period the Healthscope Group did not make any dividend or distribution payments. Since the end of the current half year, the Group has not declared any dividends or distributions.

NOTE 4: CONTINGENT LIABILITIES

Details of the contingent liabilities of the Healthscope Group are as follows:

	Half year ended 31 Dec 2010 $'000
Retirement and termination benefits payable in certain circumstances to executive officers under service agreement.	1,385
The Group has given bank guarantees in respect of property leases.	11,712
The Group has given a bank guarantee to the Workcover Corporation of South Australia, in order to satisfy certain statutory agreements.	730

NOTES TO THE CONDENSED AGGREGATED FINANCIAL STATEMENTS (cont'd)

NOTE 5: CHANGES IN THE COMPOSITION OF THE AGGREGATED GROUP

During the half year, the following changes to the aggregated group were completed.

Business Acquired	**Acquisition cost $'000**
Healthscope Limited	2,753,832

On 12 October 2010, the Group acquired 100% of the share capital of Healthscope Limited. The acquisition comprised the hospital and diagnostic pathology businesses of Healthscope Limited in both Australia and overseas.

Details of the composition of the acquisition are:

Healthscope Limited:	**Book value $'000**
Net assets acquired	
Cash and cash equivalents	11,491
Trade and other receivables – current	107,600
Prepayments	15,114
Inventories	46,368
Tax refund receivable	8,175
Other financial assets – current	708
Trade and other payables	(171,725)
Deferred purchase consideration	(12,761)
Deferred revenue - current	(2,512)
Borrowings – current	(6,785)
Other financial liabilities – current	(8,723)
Provisions – current	(93,625)
Trade and other receivables – non current	8,000
Other financial assets – non current	11,310
Property, plant and equipment	1,117,946
Intangibles excluding goodwill	36,700
Deferred tax assets	45,304
Deferred revenue – non current	(3,668)
Borrowings – non current	(31,940)
Deferred tax liabilities	(45,939)
Provisions – non current	(15,491)
Book value of net assets acquired	1,015,547
Goodwill arising on acquisition	1,738,285
	2,753,832
Net cash outflow on acquisition of business	
Consideration paid in cash	2,753,832
Less: cash and cash equivalent balances acquired	(11,491)
	2,742,341

The initial accounting for this acquisition has only been provisionally determined at reporting date. For tax purposes, the tax values of the acquired operations assets are required to be reset based on market values and other factors. At the date of finalisation of this report, the necessary market valuations and other calculations have not been finalised and the adjustment to deferred tax liabilities and goodwill noted above has therefore only been provisionally determined based on tax values previously utilised by the Healthscope Limited Group. The market value for tax purposes may also impact the recognised fair values of the other assets acquired as part of the business combination.

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire these operations. In addition the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforces of the above operations. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

NOTES TO THE CONDENSED AGGREGATED FINANCIAL STATEMENTS (cont'd)

NOTE 6: SEGMENT INFORMATION

AASB 8 Operating Segments requires operating (and reporting) segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Accordingly the Group has determined the following operating segments

- Hospitals - the management and provision of surgical and non-surgical private hospitals
- Pathology Australia - the provision of pathology services
- Overseas - the provision of pathology services overseas
- Corporate - provision of central administrative costs

	Revenue (i)	**EBITDA**	**Depreciation and amortisation**	**Profit before finance costs, non-recurring items and income tax (ii)**
	2010	**2010**	**2010**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Hospitals	327,452	50,699	(11,252)	39,447
Pathology Australia	74,129	7,023	(4,649)	2,374
Overseas	33,494	7,333	(1,942)	5,391
Corporate	-	(1,878)	-	(1,878)
Total all segments before non-recurring items	**435,075**	**63,177**	**(17,843)**	**45,334**
Post acquisition restructuring and legal costs				(5,319)
Acquisition costs written off and provided against				(71,851)
Finance costs				(43,287)
Loss before income tax				**(75,123)**
Income tax benefit				17,819
Net loss				**(57,304)**

(i) The revenue reported above represents revenue generated from external customers. Any inter-segment sales are eliminated on consolidation of the Group's results.

(ii) Segment profit represents the profit earned by each segment without the allocation of central administrative costs and directors' salaries, investment revenue and finance costs, income tax expense, non-recurring items and gains or losses on the disposal of associates or discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Total assets by reportable segment	**31 Dec 2010**
	$'000
Hospitals	2,983,199
Pathology	73,617
Overseas	148,489
Eliminations	(89)
Total all segments	**3,205,216**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd).

NOTE 7: INTANGIBLES

	31 Dec 2010 $'000
Goodwill	
Balance at the beginning of the half year reporting period	-
Goodwill recognised from the business combination occurring during the half year	1,738,285
Balance at the end of the half year	1,738,285
Other intangibles	
Balance at the beginning of the half year reporting period	-
Intangibles acquired as part of the business combination occurring during the half year	36,700
Other additions to intangibles	3,139
Amortisation of identifiable intangibles	(1,957)
Balance at the end of the half year	37,882
Total intangibles	1,776,167

NOTE 8: BORROWINGS

Secured – at amortised cost	
(i) Finance lease liabilities	18,627
(ii) Mortgage	30,000
(iii) Bank loans	1,233,000
Prepaid loan facility establishment fees	(74,670)
(iv) Retail notes	200,000
	1,406,957
Unsecured – at amortised cost	
(v) Loans related parties	536,761
	1,943,718
Current	14,516
Non-current	1,929,202
	1,943,718

Summary of borrowing arrangements

(i) the finance lease liabilities are secured by way of fixed charges over the leased assets to which they relate and have lease terms ranging from 1 to 7 years.

(ii) the obligation to pay the purchase price for the Newcastle Hospital site is secured by real property mortgages.

(iii) Bank loans are secured by all asset security (in the nature of fixed and floating charges, share and loan mortgages and real property mortgages over certain parcels of material real property interests held by certain Group members) from certain entities of the Group including the entities who own the key operating assets of the Group.

(iv) The retail notes are subordinated debt obligations of the Issuer which rank behind the Senior Debt as set out in the Intercreditor Deed, and rank equally without any preference among themselves. The notes are secured over the key operating assets of certain entities of the Group including the entities who own the key operating assets of the Group.

(v) Related party loans are unsecured and subordinated and have a maturity date from 7 to 10 years.

NOTE 9: EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the half year, the Group acquired 100% of the share capital of Healthbridge Diagnostics Holdings Pty Ltd, a specialist pathology business operating in Australia. The acquisition was completed by APHG No 2 Holdings 2 Pty Ltd, and was effective from 31 January 2011.

Other than this, to the best knowledge of the Responsible Body there has been no matter or circumstance that has arisen since the end of the half year that has significantly affected or may affect the Group's operations or state of affairs in future periods.

RESPONSIBLE BODY'S DECLARATION

The Directors of each of:

- Healthscope Hospitals Holdings Pty Ltd ACN 144 840 639;
- Healthscope Pathology Holdings Pty Ltd ACN 145 250 157; and
- CT HSP Holdings (Dutch) B.V. registration no. 34308383,

(together the '**Responsible Body'**) have agreed to appoint Mr Robert Cooke to act on their behalf for the purposes of making this Responsible Body's Declaration for the Healthscope Group.

The Responsible Body declares that in its opinion:

a) the attached financial statements and notes thereto are in accordance with accounting standards and give a true and fair view of the financial position and performance of the Healthscope Group; and

b) there are reasonable grounds to believe that the Healthscope Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with resolutions of the directors' of Healthscope Hospitals Holdings Pty Ltd, Healthscope Pathology Holdings Pty Ltd and CT HSP Holdings (Dutch) B.V.

On behalf of the Responsible Body

R Cooke
Executive Chairman and Managing Director
Melbourne, 25 February 2011

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

Independent Auditor's Review Report to the members of the Healthscope Group

We have reviewed the accompanying half year financial report of the Healthscope Group (as defined below), which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the declaration of the Responsible Body as set out on pages 5 to 26.

The Healthscope Group comprises the aggregation of:

- APHG Holdings 2 Pty Ltd and all of its controlled entities;
- APHG No 2 Holdings 2 Pty Ltd and all of its controlled entities; and
- CT HSP Holdings (Dutch) B.V. and all of its controlled entities

at the end of the half year period or from time to time during the half year period.

Responsible Body's Responsibility for the Half year Financial Report

The Responsible Body of the Healthscope Group are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards and for such internal control as the Responsible Body determine is necessary for the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half year financial report is not presented fairly, in all material respects, in accordance with Australian Accounting Standards. As the auditor of the Healthscope Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of the Healthscope Group does not present fairly, in all material respects, the Healthscope Group's financial position as at 31 December 2010 and of its financial performance for the period ended on that date in accordance with AASB 134 *Interim Financial Reporting.*

DELOITTE TOUCHE TOHMATSU

T Imbesi
Partner
Chartered Accountants
Melbourne, 25 February 2011