



Chief Financial Officer's Report

The Group results for 2008/09 reflect HCF's policy of maximising benefits paid to members and firm control of management expenses. While HCF adopts sound, conservative investment strategies it was not immune to the world wide financial crisis which significantly affected the return on its investments for the year.

During the year HCF acquired ownership of Manchester Unity Ltd. The results of this business are included in the group result from the date of acquisition being 24 December 2008. Group for the purpose of this report means HCF Health, HCF Life and Manchester Unity.

Total revenue for the Group was \$1,319 million. This included revenues from the Manchester Unity business from the date of acquisition totalling \$129 million.

The surplus is 42% lower than the previous year. This is a direct result of the effects felt on our investment earnings in the current year from the Global Financial Crisis. HCF remains financially sound with total assets of \$1,141 million, and Guarantors' equity of \$580 million.

Income Statement

The income statement reflects the 12 month performance of HCF Health, HCF Life and the performance of Manchester Unity from 24 December 2008.

Surplus

The Group surplus was \$21.5 million after allowing for a donation of \$1 million to the HCF Medical and Health Research Foundation. It includes:

- \$22.0 million surplus from HCF;
- \$70,000 surplus from HCF Life;

- \$30,000 loss from Manchester Unity; and
- \$0.5 million amortisation of the MU customer list.

The Group result includes \$7.5 million of non recurring costs directly associated with the acquisition and integration of Manchester Unity Ltd. Of these \$2.4m is reflected in the books of HCF and \$5.1m in Manchester Unity.

This result represents a return on operating revenue of 1.8%.

Contribution/Premium Income

HCF health insurance business contribution income increased by \$110.7 million to \$1,192.1 million.

Net premiums on life insurance policies were \$17 million, an increase of 10%.

The contribution/premium income for Manchester Unity was \$116.4 million.

The income for the Retirement and Aged Care facilities was \$7.4 million.

(Refer to page 4 for more information)

Claims

Total claims payable for HCF Health and HCF Life were \$1,067.6 million, 9.4% higher than last year, including:

- \$1,065.1 million paid as health insurance benefits and
- \$2.5 million as life insurance claims.

Total claims payable for Manchester Unity was \$98.4 million.

Life Policies

Policyholders' liabilities decreased by \$1.5 million.

Management Expenses

The management expenses for HCF Health and HCF Life increased by 9.7% to \$104.6 million. Merger and acquisition costs related to the Manchester Unity business was the main factor.

The management expenses for Manchester Unity were \$30.6 million. Management expenses include \$5.1m of non recurring costs directly associated with the integration of Manchester Unity and HCF incurred since the date of acquisition.

Investment and Other Income

The investment and other income for HCF Health and HCF Life was a loss of \$18.4 million.

The investment and other income for Manchester Unity was \$5.4 million.

Tax

Income tax expense of \$100,000 was payable by HCF Life.

Income tax expense of \$35,000 was payable by Manchester Unity.

HCF health fund revenue increased by 10.2% to \$1,192 million.

We paid 9.4% more for our members in claims: \$1,067.6 million

HCF remains financially sound with total assets of \$1,141 million.

Cash Flow

Net cash flow from operating activities was \$65.4 million, an increase of \$19.8 million.

Cash flows from investing activities included \$7.1 million for purchases of plant and equipment and \$242.8 million for the purchase of Manchester Unity.

Balance Sheet

Guarantors' equity increased by \$17.2 million to \$579.8 million. (Refer to page 75 for more information)

Assets

Total assets are \$1,141.9 million; an increase of \$252.0 million. This increase mainly reflects the assets acquired through the purchase of Manchester Unity and its associated benefit funds.

Capital Expenditure

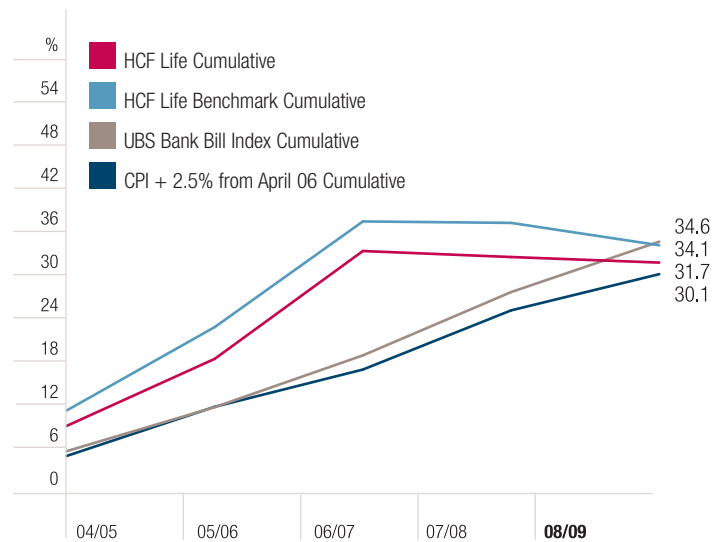
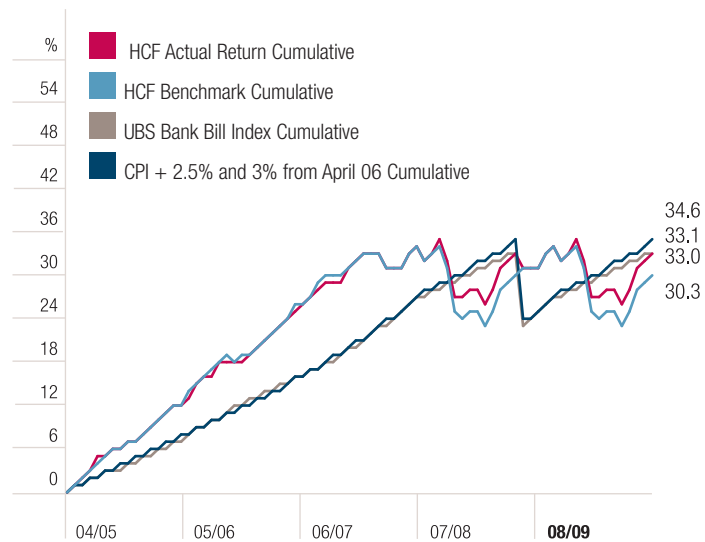
Significant items of capital expenditure during the year include:

- Improvements to software systems: \$2.3 million;
- Improvements to branches: \$1.9 million;
- Equipment: \$1.6 million; and
- HCF House refurbishment: \$0.4 million.

Liabilities

Total liabilities rose by \$234.8 million to \$562.1 million. The major components of liabilities were:

- Liabilities acquired through the purchase of Manchester Unity \$131.0 million;
- Net Manchester Unity benefit fund member liabilities: \$110.7 million;
- Net life insurance policyholders' liabilities: \$18.8 million, a decrease of \$3.0 million;
- Claims liabilities: \$122.2 million, an increase of \$0.2 million;
- Unearned premium liabilities: \$172.7 million, an increase of \$15.6 million; and
- Provisions: \$16.1 million, an increase of \$0.9 million.



Investment performance (cumulative) compared with benchmark and other general indicators

Borrowings

HCF Group has no borrowings

Investments

In the 2008/09 financial year, the HCF Group investment portfolio (including managed investments, cash and property) increased by \$104.3 million (12.9%) to \$913.1 million. This included investments held by Manchester Unity at the date of acquisition totalling \$330.5 million, which included \$117.1 million of benefit fund member investments.

Health Fund

Investment Management

The HCF managed investment portfolio decreased by \$249.5 million (38%) to \$406.3 million at 30 June 2009. This was mainly due to the Manchester Unity acquisition. Gross investment returns from financial markets were (1.6%) for 2008/09, down from last year's 1.5%.

Investment markets were in turmoil during the year as a result of the Global Financial Crisis. The conditions created by this had a significant impact on the returns on HCF investments for the year. Conditions in the investment markets improved in the latter half of the year.

Property

Fourteen percent of the total HCF investment portfolio is in property. The property portfolio includes HCF House, the head office building in Sydney, and six retail sites within NSW and the ACT. These properties are predominately offices/ branches for HCF Group staff.

This allocation is an appropriate diversification of risk and weighting of an asset class with considerable capital gain potential. Following the valuer's advice, the valuation of freehold properties at 30 June 2009 was decreased by \$7.3 million to \$72.1 million (a loss of 10.5%). This devaluation also reflected the effects of the world wide economic down turn. All properties are well maintained to ensure that both rental income and capital values are maximised.

Manchester Unity Group

Investment Management

Funds under management in the Manchester Unity group totalled \$199.4 million at 30 June 2009. This included \$111.4 million funds held in various benefit funds and managed by Manchester Unity.

The gross return on invested funds for Manchester Unity for the 2008/09 year was 6.0%. The return on investments managed through its benefit funds was 6.2%

Property

Forty one percent of the Manchester Unity group's total investment portfolio is in property. This includes the Manchester Unity offices at St Leonards and the land and buildings used in the operations of its aged care business.

HCF Life Fund

Investment Management

Total funds under management decreased by \$3.8 million to \$54.9 million at 30 June 2009, a decrease of 6.5%.

Non-superannuation retail funds under management also reduced by 7% to \$27.9 million.

Gross investment return from financial markets was (0.58%) for 2008/09 up on last year's (0.62%).

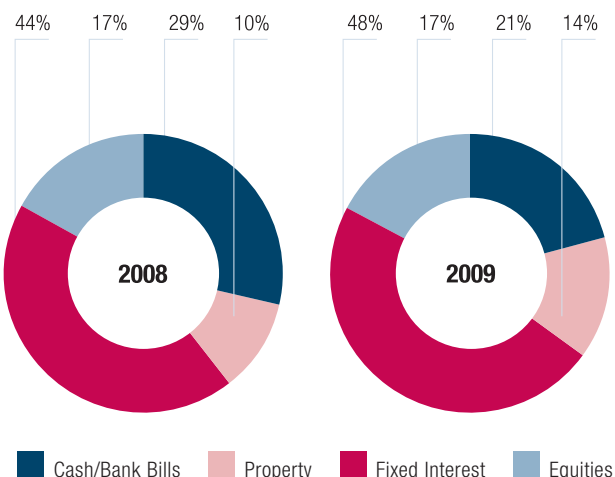


Sheena Jack
Chief Financial Officer

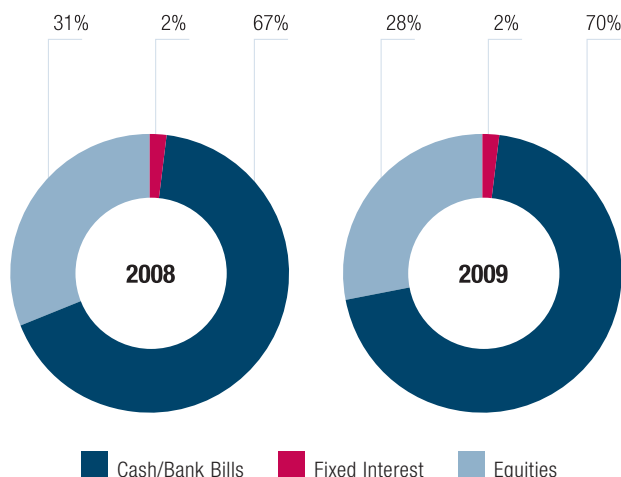
28 September 2009, Sydney

Investment Asset Mix

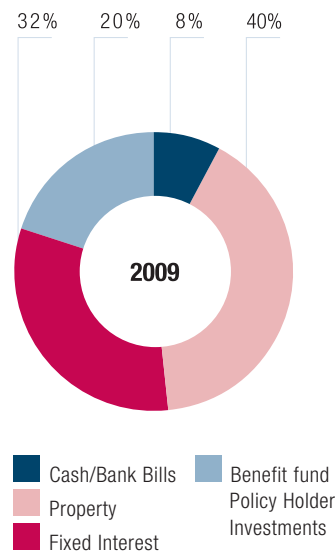
HCF



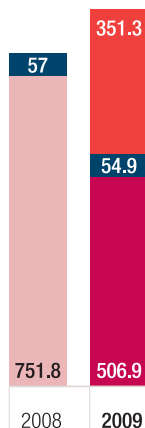
HCF Life



Manchester Unity



HCF Group Portfolio (\$m)



Segment Contribution to Group Net Profit

	2009 \$m	2008 \$m
Health Insurance	48.76	29.24
Investment Income	(23.84)	9.10
Life Insurance	(1.38)	(1.40)
Retirement and Aged Care	(1.59)	0.00
Other	0.06	0.00
Group Net Profit Before Tax	22.01	36.94
Group Tax (Expense) Benefit	(0.48)	0.38
Group Net Profit After Tax	21.53	37.32