



PHOENIX HEALTH FUND

PHOENIX HEALTH FUND LIMITED

(A Company Limited By Guarantee)

ABN 93 000 124 863

**54th
ANNUAL REPORT
2007**

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The financial report covers Phoenix Health Fund Limited as an individual entity.

Phoenix Health Fund Limited is a company limited by guarantee, incorporated and domiciled in Australia.

A description of the nature of the Company's operations and its principal activities is included in the Directors' Report on pages 4 to 8, which is not part of this financial report.

**Phoenix Health Fund Limited
(A Company Limited by Guarantee)
ABN 93 000 124 863**

BOARD MEMBERS:

John Finch (Chairman),
Ross Harland (Vice Chairman),
Graeme Bell, Chris Higgins,
Hugh Macdonald, Brett Bancroft,
David Byrnes, Steve Cook,
Ian Waters

PUBLIC OFFICER/COMPANY SECRETARY/MANAGER

William Beaton

FINANCE MANAGER:

Paul Dyer

SYSTEMS MANAGER:

Janice Gleeson

STAFF:

Carolyn Jones,
Cathy Logue, Rosemary Yager,
Pamela Smith, Milly Dugomanov

AUDITORS:

PricewaterhouseCoopers
Chartered Accountants

ACTUARIES

KPMG Actuaries Pty Ltd

MEDICAL REFEREE:

Dr. R. Kisonas, M.B.,B.S.

BANKERS:

Phoenix (NSW) Credit Union Limited

REGISTERED OFFICE:

Industrial Drive, Mayfield
P.O. Box 156, Newcastle 2300
Phone: (02) 4935 5738, (02) 4935 5741
Toll Free: 1800 028817
Facsimile: (02) 4968 2229
Website: www.phoenixhealthfund.com.au

INCORPORATION

The Company is incorporated and
domiciled in Australia

Phoenix Health Fund Limited
(A Company Limited by Guarantee)
ABN 93 000 124 863

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Fifty-Fourth Annual General Meeting of the above Company will be held on Wednesday 31st October, 2007 commencing at 5.00 p.m. at the OneSteel Pipe & Tube Plant, Building 5, Training Room 2, Industrial Drive, Mayfield.

BUSINESS

Approval of previous minutes

1. Approval of Minutes of the Fifty-Third Annual General Meeting of Members held on 16 November 2006.

Financial report and directors' and audit report

2. Adoption of the Report of the Board and Accounts for the twelve months ended 30th June, 2007.

Appointment of directors

3. **Election of five (5) Board Members.** Messrs Bell, Finch, and Harland retire by rotation, and being eligible, offer themselves for re-election. Messrs Bancroft and Byrnes were elected to stand for casual vacancies during the year and offer themselves for re-election.

Other business

4. To transact any other business that may be brought forward in conformity with the Articles of Association of the Company and the Corporations Act 2001.

By Order of the Board
W.G. Beaton, Secretary

NOMINATION FOR BOARD MEMBER

Nominations for the position of Board Member must be lodged with the Secretary not less than three (3) and not more than seven (7) clear days prior to the Annual General Meeting. Nomination forms are available from the Secretary.

PROXIES

Members are entitled to appoint a proxy to attend and vote in their stead at the meeting and such proxy need not be a member of the Company.

The proxy form should reach the Company's registered office not less than forty-eight (48) hours before the time for holding the meeting.

Phoenix Health Fund Limited

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DIRECTORS' REPORT

We have much pleasure in presenting the Fifty-Fourth Annual and Financial Report of Phoenix Health Fund Limited covering the financial activities of the organisation for the year ended 30 June 2007.

Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report.

John Finch	Ross Harland	Graeme Bell
Chris Higgins	Hugh Macdonald	Ian Waters

J L Poile was a director from the beginning of the financial year until his resignation on 14th December 2006. S M Cook was appointed 21st August 2006 and continues in office at the date of this report. B Bancroft was appointed 16th November 2006 and continues in office at the date of this report. D Byrnes was appointed 5th June 2007 and continues in office at the date of this report.

Principal Activity

The Fund is a Registered Health Benefits Organisation providing a voluntary health insurance package for the employees and ex-employees, including their immediate families, of OneSteel and Associated Companies.

Review of operations

	2007	2006
	\$	\$
Operating Result for the Year	1,905,122	(105,993)

Finance

The major items of income and expenditure are summarised in the table below:

	2007	2006
	\$	\$
Contributions income	17,462,066	16,222,592
Net fund benefits paid plus ambulance levies	14,856,891	15,265,412
Administration expenses	1,260,457	1,175,545
Investment income	541,694	435,348

Phoenix Health Fund Limited
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DIRECTORS' REPORT (continued)

Investments

Details of investments as at 30th June 2007 are listed below.

	\$
Deposits in Financial Institutions	
Phoenix (NSW) Credit Union Ltd	2,400,000
Hunter United Employees' Credit Union Ltd	1,000,000
Adelaide Bank	450,000
St George Bank	1,400,000
Bankwest	1,000,000
Suncorp-Metway Ltd	1,400,000
	<u>7,650,000</u>

Membership

Membership Statistics as at 30th June 2007:

	Single	Family	Coverage
Basic (Public) Hospital	186	222	909
Top Hospital	1,776	3,476	11,587
Ancillary	1,912	3,657	12,513

Significant changes in the state of affairs

The Directors are not aware of any significant change in the state of affairs of the Company that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

- (a) the Company's operations in future financial years; or
- (b) the results of those operations in future financial years, or
- (c) the Company's state of affairs in future financial years.

Likely developments and expected results of operations

There are no likely developments in the operations of the Company at the date of this report.

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DIRECTORS' REPORT (continued)

Environmental regulation

The Company has assessed whether there are any particular or significant environmental regulations, which apply to it, and has determined that there are none.

Information on directors

Director	Experience	Special Responsibilities
John Finch	Director for 10 years	Chairman
Ross Harland	Director for 8 years	Vice Chairman, Chairman Audit and Compliance Committee
Graeme Bell	Director for 4 years	Member Audit and Compliance Committee
Chris Higgins	Director for 4 years	
Hugh Macdonald	Director for 22 years	Member Audit and Compliance Committee
Ian Waters	Director for 3 years	Member Audit and Compliance Committee
Steve Cook	Director for 1 year	
Brett Bancroft	(Appointed 16/11/2006)	Member Audit and Compliance Committee
David Byrnes	(Appointed 5/06/2007)	

Company Secretary

The Company Secretary is William Beaton MAICD. Mr Beaton was appointed to the position of Company Secretary in 1995, and is the Chief Executive Officer and Public Officer of Phoenix Health Fund Ltd.

Phoenix Health Fund Limited
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DIRECTORS' REPORT (continued)

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2007, and the numbers of meetings attended by each director were:

		Full Meeting of Directors		Audit & Compliance Committee	
		A	B	A	B
John Finch		14	12		
Ross Harland		13	8	5	5
Graeme Bell	Resigned Audit and Compliance Committee 13/11/2006	13	13	3	3
Chris Higgins		13	11		
Hugh Macdonald		13	11	5	3
Jason Poile	Resigned from Board 14/12/2006	6	3		
Ian Waters		13	11	5	4
Steve Cook	Appointed to the Board 21/08/2006	12	9		
Brett Bancroft	Appointed to the Board 16/11/2006 Appointed to the Audit and Compliance Committee 16/11/2006	8	7	2	2
David Byrnes	Appointed to the Board 5/06/2007	1	1		

A = Number of meetings held during the time the director held office

B = Number of meetings attended

Directors' benefits

Since 30 June 2006, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member or with a Company in which he has a substantial interest.

Insurance of officers

During the financial year, the Company paid a premium of \$12,136 to insure the directors, Company secretary and manager of the Company.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company.

**Phoenix Health Fund Limited
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DIRECTORS' REPORT (continued)

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Auditor

The Auditors, PricewaterhouseCoopers, Chartered Accountants, continue in office in accordance with provisions of Section 327 of the Corporations Act 2001.

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

Signed at Mayfield this 2nd day of October in accordance with a resolution of Board members.

For and on behalf of the Board



.....
J Finch – Director

PricewaterhouseCoopers
ABN 52 780 433 757

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26 Honeysuckle Drive
PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
www.pwc.com/au
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Facsimile +61 2 4925 1199

Auditor's Independence Declaration

As lead auditor for the audit of Phoenix Health Fund Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Phoenix Health Fund Limited.



Wayne Russell
Partner
PricewaterhouseCoopers

Newcastle
2 October 2007

**Independent auditor's report
to the members of the Phoenix Health Fund Limited**

Report on the financial report

We have audited the accompanying annual report of the Phoenix Health Fund Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Phoenix Health Fund Limited.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website
<http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

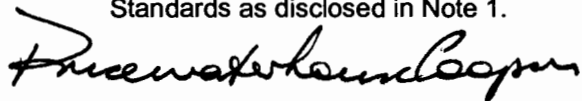
Independence

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

Auditor's opinion on the financial report

In our opinion:

- (a) the financial report of Phoenix Health Fund Limited is in accordance with the *Corporation Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.


PricewaterhouseCoopers



Wayne Russell
Partner

Newcastle
2 October 2007

**Phoenix Health Fund Limited
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DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 13 to 29 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



.....
J Finch – Director

Mayfield

2nd October 2007

Phoenix Health Fund Limited
Income statement
For the year ended 30 June 2007

	Notes	2007 \$	2006 \$
Premium revenue	5	17,462,066	16,222,592
Member benefits		(16,420,423)	(16,867,007)
Health Benefit Reinsurance Trust Fund Levy / Risk Equalisation Trust Fund		1,767,712	1,799,132
State levies		(204,180)	(197,537)
Claims handling expense	6	(675,605)	(654,207)
Net claims incurred		(15,532,496)	(15,919,619)
Net movement in unexpired risk liability	13	-	(340,000)
Underwriting expenses	6	(584,852)	(521,338)
Underwriting result		1,344,718	(558,365)
Investment income	5	541,694	435,348
Other income	5	18,710	17,024
(Loss) / profit before income tax		1,905,122	(105,993)
Income tax expense		-	-
(Loss) / profit attributable to members		1,905,122	(105,993)

The above income statement should be read in conjunction with the accompanying notes.

Phoenix Health Fund Limited
Balance sheet
As at 30 June 2007

	Notes	2007 \$	2006 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	2,617,877	1,425,329
Receivables	8	1,426,961	1,620,020
Financial assets at fair value through profit or loss	9	7,650,000	6,650,000
		<u>11,694,838</u>	<u>9,695,349</u>
Non-current assets			
Plant and equipment	10	16,861	25,481
Total assets		<u>11,711,699</u>	<u>9,720,830</u>
LIABILITIES			
Current liabilities			
Payables		79,216	74,160
Outstanding claims liability	11	1,383,770	1,383,770
Unearned premium liability	12	1,891,118	1,844,795
Unexpired risk liability	13	470,000	470,000
Provisions for employee entitlements	14	207,687	183,916
		<u>4,031,791</u>	<u>3,956,641</u>
Non-current liabilities			
Provisions for employee entitlements	14	25,498	14,901
Total liabilities		<u>4,057,289</u>	<u>3,971,542</u>
Net assets		<u>7,654,410</u>	<u>5,749,288</u>
Equity			
Retained profits	15	7,654,410	5,749,288
Total equity		<u>7,654,410</u>	<u>5,749,288</u>

The above balance sheet should be read in conjunction with the accompanying notes.

Phoenix Health Fund Limited
Statement of changes in equity
For the year ended 30 June 2007

	2007 \$	2006 \$
Total equity at the beginning of the financial year	<u>5,749,288</u>	<u>5,985,281</u>
Adjustment on adoption of AASB 1023 to:		
- Retained profits	-	(130,000)
Restated total equity at the beginning of the financial year	<u>5,749,288</u>	<u>5,855,281</u>
(Loss) / profit for the year	<u>1,905,122</u>	<u>(105,993)</u>
Total equity at the end of the financial year	<u><u>7,654,410</u></u>	<u><u>5,749,288</u></u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Phoenix Health Fund Limited
Cash flow statement
For the year ended 30 June 2007

	Notes	2007 \$	2006 \$
Cash flows from operating activities			
Receipts from policyholders and customers (inclusive of goods and services tax)		17,535,847	16,392,931
Payments to members, suppliers and employees (inclusive of goods and services tax)		(17,881,683)	(18,061,005)
Reinsurance received		<u>2,038,078</u>	<u>1,571,698</u>
		1,692,242	(96,376)
Interest received		509,583	432,986
<i>Net cash provided by operating activities</i>	18	<u>2,201,825</u>	<u>336,610</u>
Cash flows from investing activities			
Net movement in investment securities		(1,000,000)	-
Payments for plant and equipment		(9,278)	(25,630)
<i>Net cash used in investing activities</i>		<u>(1,009,278)</u>	<u>(25,630)</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the financial year		1,192,547	310,980
Cash and cash equivalents at end of the financial year		<u>1,425,329</u>	<u>1,114,349</u>
		<u>2,617,877</u>	<u>1,425,329</u>

The above cash flow statement should be read in conjunction with the accompanying notes.

Phoenix Health Fund Limited
Cash flow statement
For the year ended 30 June 2007

Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group interpretations and the *Corporations Act 2001*.

Compliance with International Financial Reporting Standards

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the financial statements and notes of Phoenix Health Fund Limited comply with International Financial Reporting Standards (IFRS).

Historical cost convention

This financial report is prepared in accordance with the historical cost convention with certain exceptions as described in the accounting policies below.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been disclosed in note 2.

Functional and presentation currency

Items included in the financial statements of Phoenix Health Fund Limited are measured using the currency of the primary economic environment in which the entity operates (the "functional" currency). The financial report is presented in Australian dollars, which is Phoenix Health Fund Limited's functional and presentation currency.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Revenue recognition

Revenues are recognised at the fair value of the consideration received or receivable, net of the amount of goods and services tax (GST) payable to the taxation authority.

(i) Premium revenue

Premium revenue comprises premiums from private health insurance contracts held by policyholders.

Premium revenue is recognised in the income statement when it has been earned. Premium revenue is recognised in the income statement from the attachment date over the period of the contract. The attachment date is from when the insurer accepts the risk from the insured under the insurance contract. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

The proportion of the premium received or receivable not earned in the income statement at the reporting date is recognised in the balance sheet as unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the policyholder.

(ii) Investment income

Net fair value gains or losses on financial assets classified as at fair value through profit and loss is recognised in the income statement of the period.

(iii) Other revenue

Revenue from the sale of goods is net of returns, discounts and other allowances and is recognised when control of the goods passes to the customer.

Phoenix Health Fund Limited
Cash flow statement
For the year ended 30 June 2007

Note 1. Summary of significant accounting policies (continued)

(d) Unexpired risk liability

At each reporting date the adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims against current insurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The Company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, refer note 1(e).

The entire deficiency is recognised immediately in the income statement and recorded in the balance sheet as an unexpired risk liability.

(e) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for Health Benefit Reinsurance Trust Fund / Risk Equalisation Trust Fund consequences and claims handling expenses.

A risk margin is applied to the outstanding claims liability to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(f) Income tax

The Company is exempt from income tax under Section 50-30 of the Income Tax Assessment Act (1997) and as a result there is no income tax payable.

(g) Reinsurance and other recoveries receivable

Health Benefit Reinsurance Trust Fund / Risk Equalisation Trust Fund receivables on paid claims are recognised as revenue.

(h) Assets backing general insurance liabilities

As part of its investment strategy the Company actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

With the exception of plant and equipment, the Company has determined that all assets are held to back general insurance liabilities and their accounting treatment is described below:

(iv) Financial assets

Financial assets are designated at fair value through profit or loss. Initial recognition is at cost in the balance sheet and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in the income statement.

Details of fair value for the different types of financial assets are listed below:

- Cash and cash equivalents are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate to their fair value. For the purposes of the cash flow statement, cash includes cash on hand and deposits held at call with financial institutions;
- Fixed interest securities are initially recognised at cost and the subsequent fair value is taken as the quoted bid price of the instrument at the balance sheet date.

(v) Receivables

Amounts due from policyholders are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated to by taking the initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The impairment charge is recognised in the income statement.

Phoenix Health Fund Limited
Cash flow statement
For the year ended 30 June 2007

Note 1. Summary of significant accounting policies (continued)

(i) Depreciation

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of plant and equipment over its expected useful life to the Company. All plant and equipment assets having a cost of less than \$1,000 are depreciated in full in the year of purchase. All other items of plant and equipment are written off over a three year period.

(j) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount of the asset and are included in the income statement.

(k) Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. These amounts are usually paid within 30 days of recognition.

(l) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors and the current provision in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rate paid or payable.

(ii) Long service leave

The liability for long service leave is the amount of the future benefit that employees have earned in return for their service in the current and prior periods. The liability is calculated using expected future increases in wage and salary rates and expected settlement dates, and is discounted using the rates attached to Commonwealth Government Bonds at the balance sheet date which have the maturity dates approximately to the terms of the Company's obligations.

(iii) Employee benefit on-costs

Employee on-costs are recognised and included in payables and employee costs when the employee benefits to which they relate are recognised.

(m) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense recognised in the income statement.

Receivables and payables are stated inclusive of the amount of GST recoverable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented inclusive of the amount of GST. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flow.

Phoenix Health Fund Limited
Cash flow statement
For the year ended 30 June 2007

Note 1. Summary of significant accounting policies (continued)

(n) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company's assessment of these new standards and interpretations is set out below:

- (i) *AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038].*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

- (ii) *AASB 2007-4 Amendments to Accounting Standards arising from ED 151 and other amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 and 1038].*

AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007. The company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements.

Note 2. Critical accounting judgements and estimates

No critical accounting judgements have been made in the year.

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

The ultimate liability arising from claims made under insurance contracts

Provision is made at the year end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under insurance contracts issued by the Company. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for Health Benefits Reinsurance Trust Fund (HBRTF) / Risk Equalisation Trust Fund (RETF) consequences and claims handling expense.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

In calculating the estimated cost of unpaid claims the Company uses estimation techniques based upon statistical analysis of historical experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Company processes which might accelerate or slow down the development and / or recording of paid or incurred claims, compared with the statistics from previous years.

The calculation did not take account of any actual post balance date claims.

The risk margin has been based on an analysis of the past experience of the Company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility.

The central estimate is calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from or payable to the HBRTF based upon the gross provision.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

Phoenix Health Fund Limited
Cash flow statement
For the year ended 30 June 2007

Note 3. Actuarial assumptions and methods

Actuarial methods

The outstanding claims estimate is derived based on three valuation classes, namely Hospital services, Medical services, and Ancillary services.

In calculating the estimated cost of unpaid claims a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. Where deemed necessary, manual adjustments were made to the outstanding claims by service month to produce an appropriate estimate of incurred claims for the service month.

Actuarial assumptions

The following is the assumed outstanding claims by service month as a percentage of total incurred claims by service month, before allowance for expenses and reinsurance pool receipts, but after allowance for manual adjustments:

Service month	2007			2006		
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
Current month	76.1%	71.3%	26.8%	75.7%	68.6%	28.6%
Current month less 1	14.3%	16.4%	9.1%	18.3%	19.7%	9.6%
Current month less 2	3.7%	5.8%	5.3%	5.7%	8.0%	5.4%
Current month less 3	2.0%	2.8%	3.6%	2.1%	3.7%	3.5%
Current month less 4	1.3%	1.1%	2.6%	0.8%	2.2%	2.6%
Current month less 5	1.0%	0.4%	2.1%	0.3%	1.5%	2.0%
Current month less 6	0.4%	0.1%	1.7%	0.2%	1.0%	1.5%
Current month less 7	0.2%	0.0%	1.3%	0.2%	0.9%	1.2%
Current month less 8	0.2%	-0.1%	1.0%	0.2%	0.7%	0.9%
Current month less 9	0.1%	-0.2%	0.8%	0.1%	0.7%	0.8%
Current month less 10	0.0%	-0.3%	0.6%	0.1%	0.6%	0.6%
Current month less 11	0.0%	-0.3%	0.5%	0.1%	0.4%	0.5%

The following is the assumed manual adjustments which are incorporated in the Current month and Current month less 1 results in the above table.

Manual adjustments	2007			2006		
	Hospital	Medical	Ancillary	Hospital	Medical	Ancillary
	\$120,000	\$0	\$0	\$150,000	-\$40,000	\$0

The risk margin of 26.5% (2006: 5.8%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 95% (2006: 75%).

Claims handling expenses were calculated by reference to past experience of total management expenses as a percentage of past payments with the assumption that 50% of total management expenses relate to claims handling expenses. The adopted rate was 4.79% (2006: 3.78%).

The business written by the Company is short tail in nature. Based on historic experience, approximately 76% of outstanding claims are paid within two months of balance date; for this reason, expected future payments are not discounted.

In determining the outstanding claims by service month as a percentage of total incurred claims by service month, the chain ladder method was applied to cumulative paid development separately by hospital, medical and ancillary benefits.

Manual adjustments are then made for reasonableness, (where necessary), to the Current month and Current month less 1 results. These adjustments are made by calculating the average incurred benefit per Single Equivalent Unit, (SEU), per working day for each month and graphing the results for the past four years. The seasonality exhibited by the table is reasonably consistent from year to year, with each year's table showing an increase in incurred benefits from the previous year. Based on these tables, manual adjustments were made to the chain ladder results to derive the total monthly incurred benefits and hence the outstanding claims provision.

Phoenix Health Fund Limited
Cash flow statement
For the year ended 30 June 2007

Note 3. Actuarial assumptions and methods (continued)

Sensitivity analysis – insurance contracts

i) Summary

The Fund has not revised the total provision for outstanding claims to reflect the underlying experience. Accordingly, any changes to the underlying variable in determining the provision for outstanding claims does not flow through to profit but is instead absorbed by the risk margin. The following table shows that as the gross component decreases the Fund has maintained the same total provision by increasing the risk margin to offset the decrease in the benefit component.

Provision for Outstanding Claims (\$'000)

	Gross	Admin	Reins	Risk Margin	Total
Jun-06	1,419	48	(159)	76	1,384
Sep-06	1,341	51	(166)	158	1,384
Dec-06	1,158	42	(168)	352	1,384
Mar-07	1,100	41	(156)	399	1,384
Jun-07	1,214	50	(170)	290	1,384

Note 4. Insurance contracts - risk management policies and procedures

The financial condition and operation of the Company is affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Company's policies and procedures in respect of managing these risks are set out in this note.

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Company manages risk by:

- establishing an Audit and Compliance Committee to assist the Board in the execution of its responsibilities;
- maintaining a robust risk management framework;
- the application of standards for solvency and capital adequacy legislated under division 140 and 143 of the Private Health Insurance Act 2007; and
- the Company's internal policies and procedures designed to mitigate such risks.

The responsibilities of the Audit and Compliance Committee include:

- reviewing the annual reports and other financial information distributed externally;
- assisting the Board to review the effectiveness of the Company's system of internal control;
- monitoring the risk management system;
- monitoring the activities of the internal audit function; and
- reviewing the nomination and performance of the external auditor.

The Board, both directly and through the Audit and Compliance Committee, and senior management of the Company have developed, implemented and maintain a sound and prudent Risk Management Framework (RMF). The RMF identifies the Company's policies, procedures and controls that comprise its risk management and control systems. These systems address all material risks, financial and non financial, likely to be faced by the Company.

Annually, the Company, as a Registered Health Benefits Organisation certifies to the Private Health Insurance Administration Council (PHIAC) that;

- the organisation has referred to the Australian Standard for Risk Management (AS/NZ 4360) as an accepted measure of appropriate risk management processes;
- the Board has approved the risk management system in place and understands its contents;
- the risk management system in place has been formulated from a framework for establishing the context, identification, analysis, evaluation treatment, monitoring and communication of risk;
- the system in place includes comprehensive written policies and procedures and adequate control systems to measure, monitor and manage risk;
- the Board reviews the policies and procedures, at least annually, to assess their implementation, effectiveness, and to endorse them;
- the Board receives regular reports on the operation of the risk management system and is satisfied with the level of adherence to those policies and procedures; and
- the Board has ensured that there has been, at all times, appropriate Director's and Officer's insurance cover in place.

Phoenix Health Fund Limited
Cash flow statement
For the year ended 30 June 2007

Note 4. Insurance contracts – risk management policies and procedures (continued)

The solvency and capital adequacy standards are established under The National Health Act 1953 (The Act), and are an integral component of the prudential reporting and management regime for registered health benefits organisations under the Act.

These standards impose a two tier capital requirement on private health insurers with each tier considering the capital requirements in a different set of circumstances.

The first tier – solvency – is intended to ensure the basic solvency of the fund (that is, the unlikely event of a wind-up); at any time on a run-off view, the fund's financial position is such that the insurer will be able to meet out of the fund's assets, all liabilities incurred for the purposes of the fund, as those liabilities fall due.

The second tier – capital adequacy – is intended to ensure the financial soundness of the health benefits fund on a going concern basis, in particular its ability to remain solvent for at least the upcoming three years. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the minimum solvency requirement.

(b) Insurance risk

The provision of private health insurance in Australia is governed by The National Health Act 1953 (The Act) which is premised on the fundamental principles of community rating and risk equalisation.

Community rating is the system by which premiums for Australian Private Health Insurance (PHI) are set. In principle, this is a system where the premium charged for a particular group of people does not depend on the risk profile of that particular group. The intention is to achieve one premium rate irrespective of age, gender, occupation, health status, smoking status, number of dependents, pre-existing illness or other common risk-rating factors. The 'principles of community rating' are referred to in The Act.

Risk equalisation supports the principle of community rating. Private health insurance averages out the cost of hospital treatment across the industry. The risk equalisation scheme transfers money from private health insurers with lower average claims payments, to those insurers with higher average claim payments.

The Act also limits the types of treatments that private health insurers are able to offer as part of their health insurance business, and limits the volatility of premiums by allowing changes to premiums only with the approval of the Minister.

(c) Development of claims

The outstanding claims liability recognises that claims are fully developed within 12 months of being incurred.

(d) Credit risk

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date.

There are no significant concentrations of credit risk.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2007

Note 5. Revenue

	2007 \$	2006 \$
Premium revenue	17,462,066	16,222,592
Investment income		
- Net fair value gains on financial assets at fair value through profit or loss	541,694	435,348
Sundry income	18,710	17,024
	<u>18,022,470</u>	<u>16,674,964</u>

Note 6. Underwriting and other operating expenses

	2007 \$	2006 \$
Expenses by function		
Claims handling expenses	675,605	654,207
Underwriting expenses	584,852	521,338
Total expenses	<u>1,260,457</u>	<u>1,175,545</u>
Expenses by nature		
Depreciation	17,898	17,602
Employee costs	591,657	557,902
Other expenses	650,902	600,041
Total expenses	<u>1,260,457</u>	<u>1,175,545</u>

Note 7. Current assets – Cash and cash equivalents

	2007 \$	2006 \$
Cash at bank and on hand	952,739	973,525
Deposits at call	1,665,138	451,804
	<u>2,617,877</u>	<u>1,425,329</u>

Note 8. Current assets - Receivables

	2007 \$	2006 \$
Premiums receivable	185,858	186,978
30% rebate scheme	630,212	627,544
75% Medicare refund	59,160	47,945
Health Benefit Reinsurance Trust Fund / Risk Equalisation Trust Fund receivable	336,672	575,618
Accrued interest on investments	199,056	166,945
Other receivables	16,003	14,990
	<u>1,426,961</u>	<u>1,620,020</u>

Note 9. Current assets - Financial assets at fair value through profit or loss

	2007 \$	2006 \$
Interest-bearing securities	7,650,000	6,650,000

Deposits totalling \$100,000 are held as security for a guarantee provided by Phoenix (NSW) Credit Union Limited against direct credit payments for claims.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2007

Note 10. Non-current assets - Plant and equipment

	2007	2006
	\$	\$
Cost		
At 1 July	138,882	138,597
Additions	9,278	25,630
Disposals	<u>(7,325)</u>	<u>(25,345)</u>
At 30 June	<u>140,835</u>	<u>138,882</u>
Accumulated depreciation		
At 1 July	113,401	121,144
Disposals	<u>(7,325)</u>	<u>(25,345)</u>
Depreciation charge for the year	17,898	17,602
At 30 June	<u>123,974</u>	<u>113,401</u>
Carrying amount		
At 1 July	<u>25,481</u>	17,453
At 30 June	<u>16,861</u>	<u>25,481</u>

Note 11. Current liabilities - Outstanding claims liability

	2007	2006
	\$	\$
(a) Outstanding claims liability		
Outstanding claims liability	<u>1,383,770</u>	<u>1,383,770</u>

The outstanding claims liability comprises the following components:

	\$
	000's
Outstanding claims – central estimate of the expected future payments for claims incurred	1,214
Claims handling costs	50
Risk margin	<u>290</u>
Gross outstanding claims liability	<u>1,554</u>
Outstanding claims – expected receivable from the HBRTF in relation to the central estimate	(170)
Risk margin	
Net outstanding claims liability	<u>1,384</u>
Current	1,384
Non-current	-
Total	<u>1,384</u>

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2007

Note 11. Current liabilities - Outstanding claims liability (continued)

(b) Risk margin

The risk margin of 26.5% of the underlying liability has been estimated to equate to a probability of adequacy of 95%.

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered.

The outstanding claims estimate is derived based on 3 product classes, namely Hospital services, Medical services, and Ancillary services.

In calculating the estimated cost of unpaid claims a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. Where deemed necessary, manual adjustments were made to the outstanding claims by service month to produce an appropriate estimate of incurred claims for the service month. The calculation did not take account of any actual post balance date claims.

The business written by the Company is short tail in nature. Based on historic experience, approximately 76% of outstanding claims are paid within 2 months of balance date. For this reason, expected future payments are not discounted.

Note 12. Current liabilities - Unearned premium liability

	2007	2006
	\$	\$
Unearned premium liability as at 1 July	1,844,795	1,594,405
Deferral of premiums on contracts written in the period	1,891,118	1,844,795
Earning of premiums written in previous periods	(1,844,795)	(1,594,405)
Unearned premium liability as at 30 June	1,891,118	1,844,795

Note 13. Unexpired risk liability

(a) Unexpired risk liability

	2007	2006
	\$	\$
Unexpired risk liability as at 1 July	470,000	130,000
Recognition of additional unexpired risk liability in the period	-	340,000
Unexpired risk liability as at 30 June	470,000	470,000

(b) Deficiency recognised in the income statement

Net movement in unexpired risk liability	-	340,000
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A risk margin of 8.5% has been applied in the calculation of the unexpired risk liability as at 30 June 2007. The process for determining the overall risk margin is discussed in Note 3. As with outstanding claims, the overall risk margin is intended to achieve a 95% probability of adequacy.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2007

Note 14. Provisions for employee entitlements

	2007	2006
	\$	\$
Current		
Annual leave	79,279	71,453
Long service leave	122,500	109,853
Directors' benefits	5,908	2,610
	207,687	183,916
Non-current		
Long service leave	25,498	14,901
	25,498	14,901

Note 15. Retained profits

	2007	2006
	\$	\$
Balance at the beginning of the financial year	5,749,288	5,985,281
Adjustment on adoption of AASB 1023 to retained profits	-	(130,000)
Net (loss) / profit	1,905,122	(105,993)
Balance at the end of the financial year	7,654,410	5,749,288

Note 16. Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

	2007	2006
	\$	\$
Guarantees		
Performance / bond guarantee to Cash Card Australia against direct credit payments of claims	100,000	100,000

Note 17. Remuneration of auditors

	2007	2006
	\$	\$
Audit services – PricewaterhouseCoopers		
Audit and review of the financial report and other audit work under the Corporations Act 2001 and audit of regulatory returns	35,325	42,340
Other non-audit services	5,100	4,900
	40,425	47,240

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2007

Note 18. Reconciliation of net cash provided by operating activities to profit or loss

	2007 \$	2006 \$
(Loss) / profit for the year	1,905,122	(105,993)
Adjustments for:		
Depreciation	17,898	17,602
	1,923,020	(88,391)
(Increase) / decrease in premiums receivable	1,120	(65,914)
(Increase) / decrease in 30% rebate scheme	(2,668)	(92,584)
(Increase) / decrease in 75% Medicare refund	(11,215)	1,669
(Increase) / decrease in HBRTF/RETF receivable	238,946	(227,437)
(Increase) / decrease in accrued interest on investments	(32,111)	(2,362)
(Increase) / decrease in other receivables	(1,014)	(3,794)
Increase / (decrease) in unearned premium liability	46,323	250,390
Increase / (decrease) in trade payables	5,056	(687)
Increase / (decrease) in provisions for employee benefits	34,368	28,747
Increase / (decrease) in provision for outstanding claims	-	196,973
Increase / (decrease) in provision for unexpired risk liability	-	340,000
	278,805	425,001
Cash flows from operating activities	2,201,825	336,610

Note 19. Financial reporting by segments

The Company operates predominantly in the health insurance industry and related activities in Australia.

Note 20. Events after the reporting date

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the economic entity, the results of those operations, or the state of affairs of the Company in future financial years.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2007

Note 21. Key management personnel disclosures

(a) Directors

The names of the directors of Phoenix Health Fund Limited are disclosed in the Directors' report.

(b) Other key management personnel

Key management personnel also include persons who had the authority and responsibility for planning, directing and controlling the activities of the Company.

(c) Key management personnel compensation

	2007	2006
	\$	\$
Short-term employee benefits	197,733	182,276
Post-employment benefits	35,198	32,095
Other long-term benefits	-	628
	<hr/>	<hr/>

Note 22. Solvency requirement

Phoenix Health Funds Solvency Reserve, as per the Solvency Standard in the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is \$1,685,000. Total Health Benefits Fund Assets are \$11,712,000 representing an excess of \$5,970,000 over the Solvency Reserve and Health Benefits Fund Liabilities.

The financial report was authorised for issue by the directors on 2 October 2007. The Company has the power to amend and reissue the financial report.