

PHOENIX HEALTH FUND

PHOENIX HEALTH FUND LIMITED

(A Company Limited by Guarantee)

ABN 93 000 124 863

**55th
ANNUAL REPORT
2008**

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ABN 93 000 124 863

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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**

COMPANY PARTICULARS

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-fifth Annual General Meeting of the above Company will be held on Wednesday 22 October, 2008 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-fourth Annual General Meeting of members held on 31 October 2007.

Financial report and directors' and audit report

2. Adoption of the annual report for the board and the financial statements for the twelve months ended 30 June 2008.

Appointment of directors

3. Election of three (3) Board Members. Messrs Cook, Macdonald and Waters retire by rotation, and being eligible, 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-fifth Annual Report of Phoenix Health Fund Limited (the "Company") covering the financial activities of the organisation for the year ended 30 June 2008.

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 |
| Steve Cook | Brett Bancroft | David Byrnes |

Principal Activity

The Company 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

| | 2008 | 2007 |
|-------------------------------|-------------|-------------|
| | \$ | \$ |
| Operating result for the year | 1,873,765 | 1,905,122 |

Finance

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

| | 2008 | 2007 |
|--|-------------|-------------|
| | \$ | \$ |
| Contributions income | 18,613,158 | 17,462,066 |
| Net fund benefits paid plus ambulance levies | 16,148,730 | 14,856,891 |
| Administration expenses | 1,340,606 | 1,260,457 |
| Investment income | 730,171 | 541,694 |

Phoenix Health Fund Limited
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DIRECTORS' REPORT (continued)

Investments

Details of investments as at 30 June 2008 are listed below:

| | |
|---|-------------------------|
| Deposits with financial institutions: | \$ |
| Phoenix (NSW) Credit Union Ltd | 1,800,000 |
| Hunter United Employees' Credit Union Ltd | 900,000 |
| Adelaide Bank | 1,450,000 |
| St George Bank | 1,400,000 |
| Elders | 1,500,000 |
| Bankwest | 1,000,000 |
| Suncorp-Metway Ltd | 1,400,000 |
| | <u>9,450,000</u> |

Membership

Membership statistics as at 30 June 2008:

| | Single | Family | Coverage |
|-------------------------|---------------|---------------|-----------------|
| Basic (Public) Hospital | 179 | 215 | 868 |
| Top Hospital | 1,894 | 3,471 | 11,650 |
| Ancillary | 2,031 | 3,640 | 12,516 |

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 2008 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.

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.

Phoenix Health Fund Limited
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DIRECTORS' REPORT (continued)

Information on directors

| Director | Experience | Special Responsibilities |
|-----------------|-----------------------|--|
| John Finch | Director for 11 years | Chairman |
| Ross Harland | Director for 9 years | Vice Chairman, Chairman Audit and Compliance Committee |
| Graeme Bell | Director for 5 years | Member Marketing Committee |
| Chris Higgins | Director for 5 years | - |
| Hugh Macdonald | Director for 23 years | Member Audit and Compliance Committee |
| Ian Waters | Director for 4 years | Member Audit and Compliance Committee, Member Marketing Committee |
| Steve Cook | Director for 2 years | Member Marketing Committee |
| Brett Bancroft | Director for 1 year | Member Audit and Compliance Committee |
| David Byrnes | Director for 1 year | Chairman Marketing Committee |

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 Limited.

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 2008, and the numbers of meetings attended by each director were:

| | Full Meeting of Directors | | Audit & Compliance Committee | | Marketing Committee | |
|----------------|---------------------------|----|------------------------------|---|---------------------|---|
| | A | B | A | B | A | B |
| John Finch | 12 | 12 | * | * | * | * |
| Ross Harland | 9 | 12 | 6 | 6 | * | * |
| Graeme Bell | 10 | 12 | * | * | 5 | 5 |
| Chris Higgins | 9 | 12 | * | * | * | * |
| Hugh Macdonald | 9 | 12 | 5 | 6 | * | * |
| Ian Waters | 9 | 12 | 4 | 6 | 2 | 5 |
| Steve Cook | 7 | 12 | * | * | 5 | 5 |
| Brett Bancroft | 9 | 12 | 2 | 4 | * | * |
| David Byrnes | 11 | 12 | * | * | 4 | 5 |

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

* = Not a member of the relevant committee

Directors' benefits

Since 30 June 2007, 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 \$11,619 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 Auditor, PricewaterhouseCoopers, Chartered Accountants, continue in office in accordance with provisions of Section 327 of the Corporations Act 2001.

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

This report is made in accordance with a resolution of directors.

J Finch
Director

Mayfield
24 September 2008

PricewaterhouseCoopers
ABN 52 780 433 757

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PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
Telephone +61 2 4925 1100
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 2008, 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 during the period.



Wayne Russell
Partner
PricewaterhouseCoopers

Newcastle
24 September 2008

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

Report on the financial report

We have audited the accompanying financial report of Phoenix Health Fund Limited (the company), which comprises the balance sheet as at 30 June 2008, 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 controls 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.

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

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 opinion.

Independence

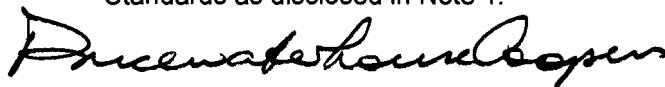
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

The Auditor's Independence Declaration would be in the same terms if it was given at the date of this report.

Auditor's opinion

In our opinion:

- (a) the financial report of Phoenix Health Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2008 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 company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



PricewaterhouseCoopers



Wayne Russell
Partner

Newcastle
25 September 2008

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 34 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 2008 and of its performance 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
24 September 2008

Phoenix Health Fund Limited
Income statement
For the year ended 30 June 2008

| | Notes | 2008 \$ | 2007 \$ |
|---|-----------|---------------------|--------------|
| Premium revenue | 5 | 18,613,158 | 17,462,066 |
| Member benefits | | (17,482,107) | (16,420,423) |
| Health Benefits Reinsurance Trust Fund levy / Risk Equalisation Trust Fund levy | | 1,546,319 | 1,767,712 |
| State levies | | (212,942) | (204,180) |
| Claims handling expense | 6 | (689,312) | (675,605) |
| Net claims incurred | | (16,838,042) | (15,532,496) |
| Net movement in unexpired risk liability | 14 | - | - |
| Underwriting expenses | 6 | (651,294) | (584,852) |
| Underwriting result | | 1,123,822 | 1,344,718 |
| Investment income | 5 | 730,171 | 541,694 |
| Other income | 5 | 19,772 | 18,710 |
| (Loss) / profit before income tax | | 1,873,765 | 1,905,122 |
| Income tax expense | | - | - |
| (Loss) / profit attributable to members | 16 | 1,873,765 | 1,905,122 |

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

Phoenix Health Fund Limited
Balance sheet
As at 30 June 2008

| | Notes | 2008 \$ | 2007 \$ |
|---|-------|-------------------|------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 2,701,552 | 2,617,877 |
| Receivables | 8 | 1,589,918 | 1,426,961 |
| Financial assets at fair value through profit or loss | 9 | 9,450,000 | 7,650,000 |
| | | <u>13,741,470</u> | 11,694,838 |
| Non-current assets | | | |
| Plant and equipment | 10 | 60,058 | 16,861 |
| | | <u>13,801,528</u> | 11,711,699 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | 11 | 165,330 | 158,495 |
| Outstanding claims liability | 12 | 1,383,770 | 1,383,770 |
| Unearned premium liability | 13 | 2,080,986 | 1,891,118 |
| Unexpired risk liability | 14 | 470,000 | 470,000 |
| Provisions for employee entitlements | 15 | 150,929 | 128,408 |
| | | <u>4,251,015</u> | 4,031,791 |
| Non-current liabilities | | | |
| Provisions for employee entitlements | 15 | 22,338 | 25,498 |
| | | <u>4,273,353</u> | 4,057,289 |
| Net assets | | <u>9,528,175</u> | 7,654,410 |
| Equity | | | |
| Retained profits | 16 | 9,528,175 | 7,654,410 |
| Total equity | | <u>9,528,175</u> | 7,654,410 |

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 20 June 2008

| | Notes | 2008 \$ | 2007 \$ |
|--|-----------|------------------|------------|
| Total equity at the beginning of the financial year | 16 | 7,654,410 | 5,749,288 |
| Profit for the year | 16 | 1,873,765 | 1,905,122 |
| Total equity at the end of the financial year | 16 | 9,528,175 | 7,654,410 |

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 2008

| | Notes | 2008 \$ | 2007 \$ |
|---|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Receipts from policyholders and customers (inclusive of goods and services tax) | | 18,789,913 | 17,535,847 |
| Payments to members, suppliers and employees (inclusive of goods and services tax) | | (18,985,344) | (17,881,683) |
| Reinsurance / Risk equalisation received | | 1,499,490 | 2,038,078 |
| | | <u>1,304,059</u> | <u>1,692,242</u> |
| Interest received | | 653,980 | 509,583 |
| <i>Net cash provided by operating activities</i> | 19 | <u>1,958,039</u> | <u>2,201,825</u> |
| Cash flows from investing activities | | | |
| Net movement in investment securities | | (1,800,000) | (1,000,000) |
| Payments for plant and equipment | | (74,364) | (9,278) |
| <i>Net cash used in investing activities</i> | | <u>(1,874,364)</u> | <u>(1,009,278)</u> |
| Net increase in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of the financial year | 7 | 2,617,877 | 1,425,329 |
| Cash and cash equivalents at end of the financial year | 7 | <u>2,701,552</u> | <u>2,617,877</u> |

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

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

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 Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

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

Historical cost convention

These financial statements have been prepared under 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, are disclosed in note 2.

Functional and presentation currency

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

(b) Segment reporting

A business segment is identified for 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 identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Revenue recognition

Revenue is measured 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.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below:

(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 or 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
Notes to the financial statements
For the year ended 30 June 2008

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 Risk Equalisation Trust Fund consequences and claims handling expenses.

(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) Risk equalisation and other recoveries receivable

Risk Equalisation Trust Fund receivables on paid claims are recognised as revenue.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

Note 1. Summary of significant accounting policies (continued)

(i) 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 at fair value through profit or loss

Financial assets are designated at fair value through profit or loss. Initial recognition is at fair value, being acquisition 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 adjustment 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.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Receivables other than those included in assets backing private health insurance liabilities

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment) is used where 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 impairment loss is recognised in the income statement. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in the income statement.

(l) 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.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

Note 1. Summary of significant accounting policies (continued)

(m) 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.

(n) 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.

(o) Employee benefits

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave expected to be settled within 12 months of the reporting date and superannuation are recognised in payables in respect of employees' services up to the reporting date and 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 approximating 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.

(p) 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
Notes to the financial statements
For the year ended 30 June 2008

Note 1. Summary of significant accounting policies (continued)

(q) New accounting standards and UIG interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Company's assessment of these new standards and interpretations is set out below.

- (i) *AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101.*

AASB 101 and AASB 2007-8 are effective for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity. If an entity made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet, this one being at the beginning of the comparative period. Application of the standards will not affect any of the amounts recognised in the financial statements. The Company intends to apply the standard from 1 July 2009.

- (ii) *AASB-8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8.*

AASB 8 and AASB 2007-3 is effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires the adoption of a 'management approach' to reporting on financial performance. The information being reported will be based in what key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Company currently does not have separate operating segments therefore AASB 8 and AASB 2007-3 will have no impact on the Company's financial statements. The Company intends to apply AASB 8 and AASB 2007-3 from 1 July 2009.

- (iii) *Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Company, as the Company currently does not have any borrowing costs. The Company intends to apply the standards from 1 July 2009.

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 Risk Equalisation Trust Fund (RETF) consequences and claims handling expenses.

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.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

Note 2. Critical accounting judgements and estimates (continued)

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 risk equalisation recoveries. A separate estimate is made of the amounts that will be recoverable from or payable to the RETF based upon the gross provision.

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

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 risk equalisation pool receipts, but after allowance for manual adjustments:

| Service month | 2008 | 2008 | 2008 | 2007 | 2007 | 2007 |
|-----------------------|----------|---------|-----------|----------|---------|-----------|
| | Hospital | Medical | Ancillary | Hospital | Medical | Ancillary |
| Current month | 70.6% | 68.4% | 22.5% | 76.1% | 71.3% | 26.8% |
| Current month less 1 | 17.4% | 17.0% | 7.1% | 14.3% | 16.4% | 9.1% |
| Current month less 2 | 8.8% | 7.0% | 5.4% | 3.7% | 5.8% | 5.3% |
| Current month less 3 | 5.4% | 3.8% | 3.7% | 2.0% | 2.8% | 3.6% |
| Current month less 4 | 2.5% | 2.3% | 2.8% | 1.3% | 1.1% | 2.6% |
| Current month less 5 | 0.8% | 1.6% | 2.1% | 1.0% | 0.4% | 2.1% |
| Current month less 6 | 0.3% | 1.0% | 1.6% | 0.4% | 0.1% | 1.7% |
| Current month less 7 | 0.2% | 0.7% | 1.2% | 0.2% | 0.0% | 1.3% |
| Current month less 8 | 0.2% | 0.6% | 0.9% | 0.2% | -0.1% | 1.0% |
| Current month less 9 | 0.1% | 0.5% | 0.7% | 0.1% | -0.2% | 0.8% |
| Current month less 10 | 0.0% | 0.4% | 0.6% | 0.0% | -0.3% | 0.6% |
| Current month less 11 | 0.0% | 0.2% | 0.5% | 0.0% | -0.3% | 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 | 2008 | 2008 | 2008 | 2007 | 2007 | 2007 |
|--------------------|----------|---------|-----------|-----------|---------|-----------|
| | Hospital | Medical | Ancillary | Hospital | Medical | Ancillary |
| | \$0 | \$0 | -\$30,000 | \$120,000 | \$0 | \$0 |

The risk margin of 10% (2007: 26.5%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 80% (2007: 95%).

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 4.7% (2007: 4.8%).

The business written by the Company is short tail in nature. Based on historic experience, approximately 75% of outstanding claims are paid within two months of balance date; for this reason, expected future payments are not discounted.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

Note 3. Actuarial assumptions and methods (continued)

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.

Sensitivity analysis – insurance contracts

j) Summary

The Company 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-07 | 1,214 | 50 | (170) | 290 | 1,384 |
| Sep-07 | 1,406 | 57 | (176) | 97 | 1,384 |
| Dec-07 | 1,212 | 51 | (133) | 254 | 1,384 |
| Mar-08 | 1,278 | 54 | (140) | 192 | 1,384 |
| Jun-08 | 1,340 | 56 | (138) | 126 | 1,384 |

Note 4. Private Health 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 below.

(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.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

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

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

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.

The solvency and capital adequacy standards are established under the Private Health Insurance Act 2007 (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 Private Health Insurance Act 2007 (The Act) which is premised on the fundamental principles of community rating and risk equalisation.

Community rating is the principle which prevents private health insurers from discriminating between people on the basis of their health status, age, race, sexuality, the frequency that a person needs treatment or claims history. 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

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to policyholders, Medicare Australia (Health Insurance Contribution (HIC) rebate), the Risk Equalisation Trust Fund pool, (RETF) and GST receivable.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

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

(d) Credit risk (continued)

The maximum exposure to credit risk at balance date is the carrying amount, net of any provisions for impairment loss, as disclosed in the balance sheet and notes to the financial statements. The Company does not have any material credit risk to any single debtor or group of debtors under financial instruments entered into.

Credit risk arising from cash and cash equivalents and deposits with banks and financial institutions is managed in accordance with the Company's investment policy which is set and approved by the Board. Monies are only invested in recognised financial institutions, (Approved Deposit Institutions, "ADIs"). Only independently rated parties with a short term issuer credit rating of A-3 or higher, or long term issuer credit rating of BBB- or higher are accepted. The Company's investment policy imposes limits on the proportion of invested monies that may be invested with any one institution, thereby minimising concentration risk.

Credit risk for premium receivables is minimal due to the diversification of policyholders. The HIC rebate and GST receivable are due from government organisations under legislation. Credit risk for RETF recoveries ultimately relates to the risk of default from other private health insurance organisations that participate in the RETF pool. These organisations operate within the same regulatory environment as the Company.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

| | 2008 \$ | 2007 \$ |
|--|------------------|------------------|
| Other receivables | | |
| <i>Counterparties without external credit rating*</i> | | |
| Group 1 | - | - |
| Group 2 | 23,056 | 16,003 |
| Group 3 | - | - |
| Total other receivables | 23,056 | 16,003 |
| *Group 1 – new debtors (less than 6 months) | | |
| Group 2 – existing debtors (more than 6 months) with no defaults in the past | | |
| Group 3 – existing debtors (more than 6 months) with some defaults in the past | | |
| Cash and cash equivalents | | |
| A | 777,550 | 1,438,108 |
| Unclassified | 1,924,002 | 1,179,769 |
| Total cash and cash equivalents | 2,701,552 | 2,617,877 |
| Financial assets at fair value through profit or loss | | |
| AA | 1,000,000 | 1,000,000 |
| A | 2,800,000 | 2,800,000 |
| BBB | 2,950,000 | 450,000 |
| Unclassified | 2,700,000 | 3,400,000 |
| Total financial assets at fair value through profit or loss | 9,450,000 | 7,650,000 |

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

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

(e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and holds a high percentage of highly liquid investments.

The Company does not have any borrowings or other debt obligations. There are no overdraft facilities.

Maturities of financial liabilities

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 3 months | 3 – 12 months | 1 – 5 years | Greater than 5 years | Total contractual cash flows | Carrying amount |
|---------------------------------|-----------------------|------------------|----------------|----------------------------|------------------------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| 30 June 2008 | | | | | | |
| Trade and other payables | 77,363 | - | - | - | 77,363 | 77,363 |
| 30 June 2007 | | | | | | |
| Trade and other payables | 79,216 | - | - | - | 79,216 | 79,216 |

(f) Market risk

The Company's exposure to market risk arises from interest rate risk. The Company does not have borrowings. The Company's interest rate risks arise from cash and cash equivalents and financial assets at fair value through profit or loss. Receivables are non-interest bearing. The cash balance is subject to a floating interest rate. Interest rate risk arising from cash and cash equivalents is managed through the regular monitoring of cash balances and the investment of surplus funds in other permitted investments. Interest rate risk arising from financial assets at fair value through profit or loss is managed in accordance with the Company's investment policy which establishes exposure limits for each type of financial asset and which permits investment only in term deposits, reflecting the Board's risk averse approach to market risk.

Summarised sensitivity analysis

The table below summarises the sensitivity of the Company's financial assets and financial liabilities to interest rate risk.

Methods and assumptions used in preparing sensitivity analysis:

The post-tax effect on profit and equity of movements in interest rate has been calculated using 'reasonably possible' changes in the risk variables, based on recent interest rate and market movements.

Interest rate and price change assumptions

An interest rate change of 100 basis points will directly affect interest received on cash and cash equivalents. The financial assets at fair value through profit or loss comprise term deposits with fixed rates of interest applying for the duration of the deposit. Therefore the Company is exposed to interest rate risk to the extent that the term deposits will mature and be re-invested at rates prevailing at the maturity dates.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

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

(f) Market risk (continued)

| | Carrying amount | Interest rate risk | | | |
|---|-------------------|--------------------|------------------|----------------|----------------|
| | | -100bps | | +100bps | |
| | | Profit | Equity | Profit | Equity |
| | \$ | \$ | \$ | \$ | \$ |
| 30 June 2008 | | | | | |
| Cash and cash equivalents | 2,701,552 | (27,016) | (27,016) | 27,016 | 27,016 |
| Financial assets at fair value through profit or loss | 9,450,000 | (94,500) | (94,500) | 94,500 | 94,500 |
| Total | 12,151,552 | (121,516) | (121,516) | 121,516 | 121,516 |
| 30 June 2007 | | | | | |
| Cash and cash equivalents | 2,617,877 | (26,179) | (26,179) | 26,179 | 26,179 |
| Financial assets at fair value through profit or loss | 7,650,000 | (76,500) | (76,500) | 76,500 | 76,500 |
| Total | 10,267,877 | (102,679) | (102,679) | 102,679 | 102,679 |

(g) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial assets at fair value through profit or loss is based on the maturity value of the instruments, discounted using the interest rate applicable to the specific instruments at reporting date.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short-term nature.

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

Note 5. Revenue

| | 2008 | 2007 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Premium revenue | 18,613,158 | 17,462,066 |
| Investment income | | |
| Net fair value gains on financial assets at fair value through profit or loss | 730,171 | 541,694 |
| Sundry income | 19,772 | 18,710 |
| | <u>19,363,101</u> | <u>18,022,470</u> |

Note 6. Underwriting and other operating expenses

| | 2008 | 2007 |
|---|------------------|------------------|
| | \$ | \$ |
| Expenses by function | | |
| Claims handling expenses | 689,312 | 675,605 |
| Underwriting expenses | 651,294 | 584,852 |
| Total expenses (excluding direct claims expense) | <u>1,340,606</u> | <u>1,260,457</u> |
| Expenses by nature | | |
| Depreciation | 31,167 | 17,898 |
| Employee costs | 588,078 | 591,657 |
| Other expenses | 721,361 | 650,902 |
| Total expenses (excluding direct claims expense) | <u>1,340,606</u> | <u>1,260,457</u> |

Note 7. Current assets – Cash and cash equivalents

| | 2008 | 2007 |
|--------------------------|------------------|------------------|
| | \$ | \$ |
| Cash at bank and on hand | 1,519,429 | 952,739 |
| Deposits at call | 1,182,123 | 1,665,138 |
| | <u>2,701,552</u> | <u>2,617,877</u> |

(a) Risk exposure

The Company's exposure to interest rate risk is discussed in note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

Note 8. Current assets - Receivables

| | 2008 | 2007 |
|---|------------------|------------------|
| | \$ | \$ |
| Premiums receivable | 185,217 | 185,858 |
| 30% rebate scheme | 689,122 | 630,212 |
| 75% Medicare refund | 33,776 | 59,160 |
| Risk Equalisation Trust Fund receivable | 383,500 | 336,672 |
| Accrued interest on investments | 275,247 | 199,056 |
| Other receivables | 23,056 | 16,003 |
| | <u>1,589,918</u> | <u>1,426,961</u> |

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

Note 8. Current assets - Receivables (continued)

(a) Impaired receivables

As at 30 June 2008 there were no current receivables which fall within the scope of AASB 7 and which were impaired.

(b) Past due but not impaired receivables

As at 30 June 2008 there were no current receivables which fall within the scope of AASB 7 and which were past due but not impaired.

(c) Interest rate risk

The Company's exposure to interest rate risk is discussed in note 4.

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 4 for more information on the risk management policy of the Company and the credit quality of the Company's receivables.

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

| | 2008 | 2007 |
|-----------------------------|------------------|------------------|
| | \$ | \$ |
| Interest-bearing securities | <u>9,450,000</u> | <u>7,650,000</u> |

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

(a) Risk exposure

The Company's exposure to interest rate risk is discussed in note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of interest-bearing securities mentioned above.

Note 10. Non-current assets - Plant and equipment

| | 2008 | 2007 |
|----------------------------------|----------------|----------------|
| | \$ | \$ |
| Cost | | |
| At 1 July | 140,835 | 138,882 |
| Additions | 74,364 | 9,278 |
| Disposals | (35,377) | (7,325) |
| At 30 June | <u>179,822</u> | <u>140,835</u> |
| Accumulated depreciation | | |
| At 1 July | 123,974 | 113,401 |
| Disposals | (35,377) | (7,325) |
| Depreciation charge for the year | 31,167 | 17,898 |
| At 30 June | <u>119,764</u> | <u>123,974</u> |
| Carrying amount | | |
| At 1 July | <u>16,861</u> | 25,481 |
| At 30 June | <u>60,058</u> | <u>16,861</u> |

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

Note 11. Current liabilities – Payables

| | 2008 | 2007 |
|--------------------------|----------------|----------------|
| | \$ | \$ |
| Trade and other payables | 77,363 | 79,216 |
| Annual leave payable | 87,967 | 79,279 |
| | 165,330 | 158,495 |

(a) Amounts not expected to be settled within the next 12 months

Annual leave payable is accrued annual leave. The entire amount is presented as current since the Company does not have an unconditional right to defer settlement. However, based on past experience, the Company does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken within the next 12 months.

| | 2008 | 2007 |
|--|--------|--------|
| | \$ | \$ |
| Annual leave obligation expected to be settled after 12 months | 44,863 | 40,432 |

Note 12. Current liabilities - Outstanding claims liability

| | 2008 | 2007 |
|--|------|------|
| | \$ | \$ |

(a) Outstanding claims liability

| | | |
|------------------------------|-----------|-----------|
| Outstanding claims liability | 1,383,770 | 1,383,770 |
|------------------------------|-----------|-----------|

The outstanding claims liability comprises the following components:

| | 2008 | 2007 |
|---|------------------|------|
| | \$ | \$ |
| Outstanding claims – central estimate of the expected future payments for claims incurred | 1,340,486 | |
| Claims handling costs | 56,258 | |
| Risk margin | 139,149 | |
| Gross outstanding claims liability | 1,535,893 | |

| | | |
|--|------------------|--|
| Outstanding claims – expected receivable from the RETF in relation to the central estimate | (138,294) | |
| Risk margin | (13,829) | |
| Net outstanding claims liability | 1,383,770 | |

| | | |
|--------------|------------------|--|
| Current | 1,383,770 | |
| Non-current | - | |
| Total | 1,383,770 | |

Phoenix Health Fund Limited
Notes to the financial statements
For the year ended 30 June 2008

Note 12. Current liabilities - Outstanding claims liability (continued)

(b) Risk margin

The risk margin of 10% of the underlying liability has been estimated to equate to a probability of adequacy of 80%.

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 75% of outstanding claims are paid within 2 months of balance date. For this reason, expected future payments are not discounted.

Note 13. Current liabilities - Unearned premium liability

| | 2008 | 2007 |
|---|-------------------------|-------------------------|
| | \$ | \$ |
| Unearned premium liability as at 1 July | 1,891,118 | 1,844,795 |
| Deferral of premiums on contracts written in the period | 2,080,986 | 1,891,118 |
| Earning of premiums written in previous periods | <u>(1,891,118)</u> | <u>(1,844,795)</u> |
| Unearned premium liability as at 30 June | <u>2,080,986</u> | <u>1,891,118</u> |

Note 14. Current liabilities - Unexpired risk liability

| | 2008 | 2007 |
|--|-----------------------|-----------------------|
| | \$ | \$ |
| (a) Unexpired risk liability | | |
| Unexpired risk liability as at 1 July | 470,000 | 470,000 |
| Recognition of additional unexpired risk liability in the period | - | - |
| Unexpired risk liability as at 30 June | <u>470,000</u> | <u>470,000</u> |

(b) Deficiency recognised in the Income Statement

| | | |
|---|-----------------|-----------------|
| Net movement in unexpired risk liability | <u>-</u> | <u>-</u> |
|---|-----------------|-----------------|

A risk margin of 5.3% has been applied in the calculation of the unexpired risk liability as at 30 June 2008. 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 80% probability of adequacy.

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Note 15. Provisions for employee entitlements

| | 2008 | 2007 |
|---------------------|---------|---------|
| | \$ | \$ |
| Current | | |
| Long service leave | 143,969 | 122,500 |
| Directors' benefits | 6,960 | 5,908 |
| | 150,929 | 128,408 |

(a) Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current since the Company does not have an unconditional right to defer settlement. However, based on past experience, the Company does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken within the next 12 months.

| | 2008 | 2007 |
|--|---------|---------|
| | \$ | \$ |
| Long service leave / Directors' benefits obligation expected to be settled after 12 months | 150,929 | 128,408 |

Non-current

| | | |
|--------------------|--------|--------|
| Long service leave | 22,338 | 25,498 |
| | 22,338 | 25,498 |

Note 16. Retained profits

| | 2008 | 2007 |
|---|------------------|------------------|
| | \$ | \$ |
| Balance at the beginning of the financial year | 7,654,410 | 5,749,288 |
| Net profit | 1,873,765 | 1,905,122 |
| Balance at the end of the financial year | 9,528,175 | 7,654,410 |

Note 17. Contingent liabilities

| | 2008 | 2007 |
|--|------|------|
| | \$ | \$ |

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

| | | |
|--|---------|---------|
| Guarantees | | |
| Performance / bond guarantee to Cash Card Australia against direct credit payments of claims | 100,000 | 100,000 |
| | 100,000 | 100,000 |

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Note 18. Remuneration of auditors

| | 2008 | 2007 |
|--|---------------|---------------|
| | \$ | \$ |
| Audit services – PricewaterhouseCoopers | | |
| Audit and review of the financial report and other audit work under the Corporations Act 2001 and audit of regulatory returns | 42,445 | 35,325 |
| Other non-audit services | 5,400 | 5,100 |
| | <u>47,845</u> | <u>40,425</u> |

Note 19. Reconciliation of net cash provided by operating activities to profit or loss

| | 2008 | 2007 |
|---|-------------------------|-------------------------|
| | \$ | \$ |
| Profit for the year | 1,873,765 | 1,905,122 |
| Adjustments for: | | |
| Depreciation | 31,167 | 17,898 |
| | <u>1,904,932</u> | <u>1,923,020</u> |
| (Increase) / decrease in premiums receivable | 641 | 1,120 |
| (Increase) / decrease in 30% rebate scheme | (58,910) | (2,668) |
| (Increase) / decrease in 75% Medicare refund | 25,384 | (11,215) |
| (Increase) / decrease in HBRTF/RETF receivable | (46,828) | 238,946 |
| (Increase) / decrease in accrued interest on investments | (76,191) | (32,111) |
| (Increase) / decrease in other receivables | (7,053) | (1,014) |
| Increase / (decrease) in unearned premium liability | 189,868 | 46,323 |
| Increase / (decrease) in payables | 6,835 | 5,056 |
| Increase / (decrease) in provisions for employee benefits | 19,361 | 34,368 |
| | <u>53,107</u> | <u>278,805</u> |
| Cash flows from operating activities | <u>1,958,039</u> | <u>2,201,825</u> |

Note 20. Financial reporting by segments

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

Note 21. 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.

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Note 22. 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

| | 2008 | 2007 |
|------------------------------|-----------------------|----------------|
| | \$ | \$ |
| Short-term employee benefits | 203,337 | 197,733 |
| Post-employment benefits | 25,469 | 35,198 |
| Other long-term benefits | 8,482 | - |
| | <u>237,288</u> | <u>232,931</u> |

Note 23. Solvency requirement

Phoenix Health Funds Solvency Reserve, as per the Solvency Standard in the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is \$1,884,000. Total Health Benefits Fund Assets are \$13,801,000 representing an excess of \$7,644,000 over the Solvency Reserve and Health Benefits Fund Liabilities.

The financial report was authorised for issue by the directors on 24 September 2008. The Company has the power to amend and reissue the financial report.