



Southern Cross
Healthcare

your health is our business

Southern Cross Health Trust

Annual Report
For the Year Ended
30 June 2006

Our Mission To provide sustainable access to value for money quality healthcare

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Southern Cross Health Trust
Annual Report
For The Year Ended
30 June 2006



Board of Directors (from left) Jeff Todd, Dr Harley Gray, Dr John Mathews (Chairman), Carole Durbin, Dr Susan Macken, Phillip Meyer, David May

overview of performance

Southern Cross Health Trust consists of the nationwide Southern Cross Hospitals network and Southern Cross Travel Insurance. As a not-for-profit charitable trust, our surpluses are invested in medical technologies, professional development of our staff and hospital upgrades, ensuring that patients and specialists have access to the high quality facilities and service levels.

This has been a significant year for investment in our hospital network. Expansion projects have been undertaken in Hamilton and Christchurch and we have upgraded our Invercargill, New Plymouth and North Harbour hospitals. Construction commenced on our Tauranga hospital.

The Hamilton project involved an 18-bed extension to Southern Cross' hospital, new consulting suites and an increase to seven in the number of operating theatres available. The nine-month project, which is the second expansion project in five years, was

undertaken to meet steadily growing demand from patients and surgeons in the Waikato, King Country, Bay of Plenty and even Auckland regions.

Hamilton serves an increasingly large catchment area and demand continues to increase, not only from patients insured by Southern Cross Medical Care Society, but also those with other forms of cover, those opting for private surgery and patients being funded by ACC.

Our Christchurch expansion, also undertaken to meet growing demand, saw development undertaken on the site of the former Mary Potter Hospital, purchased by the Trust in 2004. Southern Cross Hospital Christchurch is the largest hospital in our network and is also one of the largest in the South Island with 91 beds and seven operating theatres.

Christchurch has been dealing with some 9,500 patients a year, but demand for high quality private hospital care in the greater Canterbury region is

growing rapidly and we have responded with this development.

In New Plymouth extensive modernisation of the hospital has been undertaken, including a new block with three theatres designed to accommodate future growth. The Trust also invested to replace theatre facilities in Invercargill, the city's only private hospital, and to refurbish the sterilisation supplies unit.

A new state-of-the-art theatre has opened in our 67-bed North Harbour Hospital, again to meet higher demand, while in Tauranga, Norfolk Southern Cross is developing a new \$30-million hospital at Oropi, Tauranga.

A side benefit of our programme to upgrade facilities this year was our ability to donate older equipment to a worthy cause. Two operating tables, theatre lights and an endoscopy tower were donated to Wellington Zoo, replacing equipment that was more than 50 years old.

Financial Review

The Trust (comprising Southern Cross Hospitals and Southern Cross Travel Insurance) has concluded another sound year of operation, generating a net surplus for the year ended June 30 2006 of \$14.9 million compared to \$15.9 million in the prior financial year. This was made up of an operating surplus of \$9 million and interest and other income of \$5.8 million. Operating revenue for the year, at \$142 million.

Southern Cross Hospitals produced total revenues of \$123.1 million and an operating surplus of \$12.1 million. Southern Cross Travel Insurance achieved total revenues of \$18.9 million and an operating surplus of \$2.8 million.

The Year's Highlights

In addition to investing in new hospital facilities, the Trust initiated a substantial multi hospital patient management project, awarding the contract to Australian company. IBA.

IbaPAS, IBA's enterprise wide web based patient management system is being implemented across the hospital group and will operate from a single data centre. The IBA system will provide enhanced functionality for theatre management, interfacing with other clinical systems and for contract management. Its implementation will form the basis of our network-wide strategy of improving the flow of administrative data and health information, giving nurses, medical specialists and allied health professionals greater flexibility in how they deliver information.

Southern Cross Hospitals continued as a major service provider to the Southern Cross Medical Care Society for the Affiliated Provider Programme. This programme provides Southern Cross members with an agreed price for their surgery covering surgeons,

anaesthetists and hospital fees. Significant progress was made with the Hospital supporting nationwide contracts for varicose veins and orthopaedic surgery in Wellington and Invercargill.

During the year, the ability of the Trust to provide very high quality hospital services at a competitive price was a major factor in our Christchurch hospital being chosen by Health Service Welfare Society (HSWS) as its preferred supplier for the region. HSWS provides health insurance for around 30,000 people – most of whom work in the health sector.

After reviewing the costs and services provided in a number of private hospitals HSWS decided Southern Cross Hospitals, with its not-for-profit status, offered the best value for HSWS members.

The Trust operates in a very competitive employment environment. By providing ongoing development opportunities for nursing staff, we increase our ability to attract skilled nurses while continually raising the professional standards in our facilities.

Our career development programme for Auckland operating room (OR) nurses this year proved so popular that an extra intake was added. There are plans to extend this training to other hospitals in our network.

The Perioperative Education and Development Programme (PEDP) is designed for both new graduate nurses planning a career in OR and for more experienced nurses who are new to theatre. It provides practical, supportive training, building and reinforcing the particular skills and capabilities OR nurses require.

The programme's first intake was in August 2005, with the first three nurses graduating in January 2006. There was a second intake of five nurses in February and a third, extra intake in March, also featuring five nurses.

The PEDP programme is in addition to Professional Development and Recognition Programme for nursing staff which provides our registered nurses with accredited on-site assessment for their annual practising certificate. The programme enables our nurses to amass evidence of their nursing competency and contributes to enhanced standards of patient care and safety in our facilities.

Southern Cross Travel Insurance total revenue was \$18.8 million in the period under review. Continued growth has been experienced in the Travelcare Product covering New Zealanders seeking cover for overseas travel.

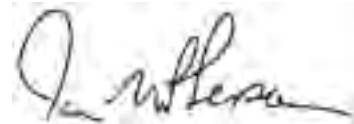
Acknowledgements

Following another successful year of operation, the Trust thanks the management team and our administrative and nursing staff for their commitment and their high standard of performance. We also thank the specialists who express confidence in us by choosing to operate in our facilities and the patients who also chose our hospitals. We also thank those who supported our travel insurance business during the year.

Our appreciation is also extended to our Trustees whom we thank for their commitment to good governance.



Dr John Matthews, Chairman



Dr Ian McPherson,
Group Chief Executive

statement of corporate governance

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

The Southern Cross Health Trust administers the activities of the Southern Cross Hospitals network. In all operational aspects, the hospitals exist within the Trust on a stand-alone basis.

The Trust is a financially and administratively independent entity which is run at “arms length” from the operations of the Southern Cross Medical Care Society and produces separate audited annual financial statements. The Southern Cross Health Trust has a Board of Trustees who, for reasons of efficient governance, cost containment and convenience, are also the directors of the Southern Cross Medical Care Society at this time.

The Trustees in office as at the date of this statement were: -

Dr John R D Matthews
(Chairman)

Jeff G Todd CBE
(Deputy Chairman)

Bruce N Davidson
(retired 1 August 2006)

Carole Durbin
(appointed 15 August 2006)

Dr D Harley Gray

Dr Susan C Macken

David J May

Phillip J Meyer

Board Responsibilities

The Board guides and monitors the business affairs of the Trust on behalf of all New Zealanders.

The Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. In addition, the Board ensures that the

affairs of the Trust meet regulatory obligations and comply with high ethical standards.

All Trustees register and formally record any conflicts of interest. Should a conflict of interest arise during the course of Board business, the particular Trustee takes no part in that discussion or the resulting decision.

Delegation Framework

The responsibility for the day-to-day operation and administration of the Trust is delegated by the Board to the Group Chief Executive and the senior management team. The Board ensures that this group is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Group Chief Executive and the management team.

The Board oversees the implementation by management of operating plans and budgets and monitors key performance indicators and progress against budget.

Board Meetings

The Board meets formally on a monthly basis and follows guidelines to ensure that all Trustees have available the necessary information to participate in an informed discussion of all agenda items. Separate strategic planning meetings are held in conjunction with the senior management team.

Committees

The Board has established a number of committees that meet at predetermined intervals to oversee specific business aspects.

(a) **Audit Committee.** This committee operates under a charter approved by the Board. The committee is accountable to the Board for recommending the appointment of the external and internal auditors, directing and monitoring the audit function and reviewing the adequacy and quality of an annual audit process.

The Audit Committee is also responsible for ensuring that requirements of the Trust’s Auditors are met, that the Trust has an effective internal control framework, ascertaining that adequate procedures are in place to keep records in a manner which will enable them to be properly audited and that appropriate ethical standards are maintained.

The Audit Committee consists of Jeff G Todd (Chairman), Dr John R D Matthews and David J May.:

(b) **Remuneration Committee.** This committee operates under a charter approved by the Board. It is responsible for reviewing the remuneration and compensation of Trustees and senior management of the Trust, for overseeing staff remuneration policies in general and making recommendations to the Board.

The Remuneration Committee consists of Dr Susan C Macken (Chairperson), Bruce N Davidson, Dr John R D Matthews and Phillip J Meyer.

(c) **Hospital Audit Review Committee.** This committee monitors the clinical and ethical standards applicable to the operations of the Southern Cross Health Trust’s group of hospitals. The committee is made up of representatives from senior nursing and administrative personnel and is chaired by orthopaedic surgeon Dr John Cullen. Dr Harley Gray represents the Trust on the committee.

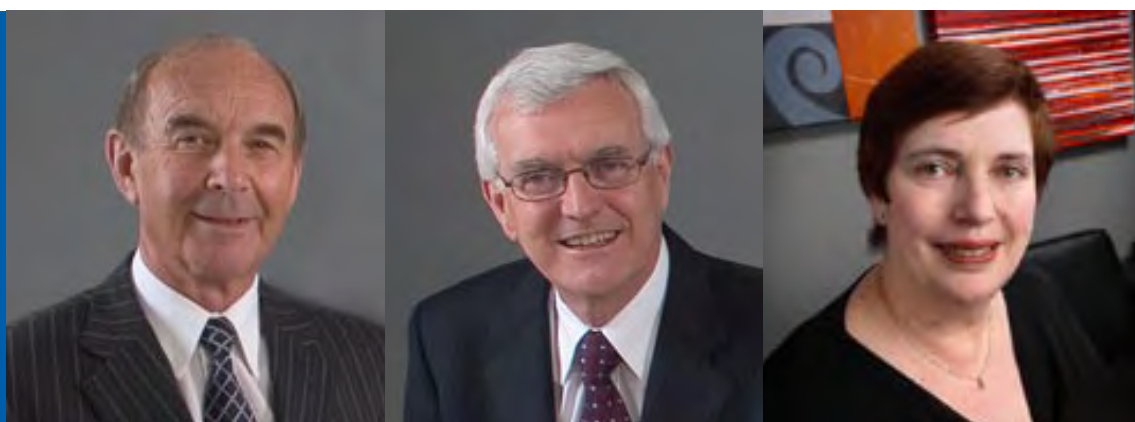
Summary of Meetings for the Year Ended 30 June 2006

	Trust Board	Strategic Workshop	Audit Committee	Remuneration Committee	HARC
Dr J R D Matthews	8	1	3	5	
J G Todd	8	1	4		
B N Davidson	8	1		6	
Dr D H Gray	8	1			5
Dr S C Macken	8	1		6	
D J May	8	1	4		
P J Meyer	8	1		6	

board of trustees

Board of Trustees (from left):

Dr John Matthews (Chairman),
 Jeff Todd CBE, Carole Durbin,
 Harley Gray, Dr Susan Macken,
 David May, Phillip Meyer



Dr John Matthews

(BAGSC, MB, ChB, FRACP, FRCPA)

Chairman

Dr John Matthews joined the Board in 1994. Dr Matthews is a founding trustee and current Chairman of the University of Auckland School of Medicine Foundation Trust and is also a trustee of the University of Auckland Foundation. He is a past Chairman of the biotech company, Proacta, which is involved in the development of anti-cancer drugs. Dr Matthews is a past President of the Auckland Division of the New Zealand Medical Association and Auckland

Medico-Legal Society and past Chairman of the Management Committee of the Association of Community Laboratories. He is also a former Director of Clinical Services of Diagnostic Medlab Limited and served as a Director of Auckland UniServices, as well as on the University of Auckland Council.

Jeff Todd

CBE (BCom, FCA)

Deputy Chairman

Jeff Todd, who is a Chartered Accountant, has been a member of the Board since 1998. He has had a longstanding and broad interest in

healthcare and health research and currently also serves on the Boards of the Auckland Medical Research Foundation, the Goodfellow Foundation, Christian Healthcare Trust and the National Research Centre for Growth and Development based at the Liggins Institute.

He is currently chairman of NZ Guardian Trust, Gullivers Travel Group and Dynasty Hotel Group. He is a director of Sanfords. He has also served on the boards of the Reserve Bank of New Zealand, the ANZ Banking Group in New Zealand, the Earthquake Commission and on the Council of Massey University.

Carole Durbin

Ms Carole Durbin was appointed as a Director of Southern Cross Board on 15 August 2006, filling a vacancy created by the retirement of Mr Bruce Davidson.

Ms Durbin is the current Chair of electricity generator Mighty River Power and retailer Mercury Energy which supplies over 600,000 people. She is also Chair of the Legal Services Agency. She is a Commissioner for the Earthquake Commission and since 2004 has been a director of Fidelity Life, the largest New Zealand-owned life, personal protection and business assurance operation in the country. She believes that her governance experience will be of value to Southern Cross in its endeavours to protect and improve the health of so many New Zealanders.

A consultant to Simpson Grierson, one of New Zealand's leading legal firms, Carole Durbin has also held a number of previous Board appointments including Simpson Grierson, Transpower NZ Ltd and software developer Synergy International Ltd.

Capital Coast Health and Chair of the Clinical Board and as Chief Medical Officer for South Auckland Health. He is current Secretary of South Kaipara Landcare and a member of the Institute of Directors. Dr Gray, who was made a Companion of the New Zealand Order of Merit in 2003

Dr Susan Macken

(BSc, BCom, PhD)

Dr Susan Macken, company director and business consultant, has served on the Board of Southern Cross since 1997.

She is a non-executive director of a number of companies including the Bank of New Zealand and Fertility Associates Limited. She has held senior executive positions in major New Zealand corporates including Fletcher Challenge and the Blue Star Group. Her directorships have included Landcare Research, NZ Racing Industry Board, Hutt Valley Health and NZ Trade Development Board.

investment policy for the funds which were established by the Government to ensure the sustainability of national superannuation.

Philip Meyer

(FAIM, FNZIM, AF Inst D)

Philip Meyer joined the Board in 2002. An experienced investment banker and company Director, he has served on the Development Council of the Heart Research Institute and the Executive Business Council of the New South Wales Cancer Council.

His governance experience includes directorships of a number of Australian companies and he is a member of the Disciplinary Tribunal of the Institute of Chartered Accountants in New Zealand, as well as the NZX Discipline committee. A Fellow of the Australian Institute of Management and the New Zealand Institute of Management, Mr Meyer holds a certificate in Company Direction (NZ) and is a former financial advisor to Australian state governments on the growth of economic



Dr Harley Gray

(CNZM, ChM, MMedSc, FRACS)

Dr Gray joined the Board in 2004. An eminent orthopaedic surgeon at Auckland's Middlemore Hospital until 2000, he was the Sir William Stevenson Professor of Orthopaedics at the University of Auckland from 1975 to 1993, training many of the country's orthopaedic specialists.

Dr Gray is a former President of the New Zealand Orthopaedic Association and the Auckland Medico Legal Society. He has served as Vice President of the Royal Australasian College of Surgeons, as a Director of

David May

(BSc (Hons), FIA, FIAA)

Mr May joined the Board in 2002.

An actuary with 35 years of experience in the insurance and financial services industry, most recently as Managing Director of the Colonial Group in New Zealand, Mr May is the Current Chairman of the Guardians of the New Zealand Superannuation Fund (NZSF) and Deputy Chairman of the New Zealand Government Superannuation Fund (GSF) Authority. In his role on the Boards of the NZSF and GSF, he contributed to developing the management structure and

development opportunities arising from the Sydney Olympics, to which he was a financial advisor. Mr Meyer is also a member of the Wellington Mayoral Business Advisory Board and a Trustee of the Wellington Zoo Trust.

financial statements

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CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2006

	Note	Group		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Operating Revenue		141,968	98,122	123,129	76,046
Operating Expenses	2	132,919	88,345	114,902	70,142
Operating Surplus		9,049	9,777	8,227	5,904
Interest and Other Income	3	5,871	6,156	2,003	19,069
Net Surplus		\$14,920	\$15,933	\$10,230	\$24,973

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 June 2006

	Note	Group		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Net Surplus for the Year		14,920	15,933	10,230	24,973
Equity at Start of Year		129,623	113,690	109,115	84,142
Equity at End of Year		\$144,543	\$129,623	\$119,345	\$109,115

The accompanying Notes form part of these Financial Statements



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2006

	Note	Group		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Current Assets	4	55,154	56,564	32,856	33,692
Non-Current Assets:					
Investments	5	13,136	10,156	1,400	1,414
Fixed Assets	6	92,247	84,826	91,872	84,342
Goodwill	7	5,727	6,387	5,727	6,387
		111,110	101,369	98,999	92,143
Total Assets		166,264	157,933	131,855	125,835
Current Liabilities	8	21,721	28,310	12,510	16,720
Net Assets		\$144,543	\$129,623	\$119,345	\$109,115
Equity		\$144,543	\$129,623	\$119,345	\$109,115

The accompanying Notes form part of these Financial Statements



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2006

	Note	Group		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Cash Flows from Operating Activities					
Cash was provided from:					
Receipts From Customers		144,467	102,358	126,656	68,396
Interest Received		2,884	3,849	1,061	890
Dividends Received		171	273	213	17,750
Other Income		782	423	782	423
		148,304	106,903	128,712	87,459
Cash was applied to:					
Payment of Direct Claims		10,404	9,011	-	-
Payments to Employees		38,996	30,030	37,013	28,039
Payments to Suppliers		81,343	57,228	75,500	28,524
		130,743	96,269	112,513	56,563
Net Cash Flows from Operating Activities	12	17,561	10,634	16,199	30,896
Cash Flows from Investing Activities					
Cash was provided from:					
Sale of Fixed Assets		18	87	18	87
Sale of Investments		13	35,546	-	-
Distributions from Hospital Partnerships and Associates		909	545	-	-
Repayment of Related Party Loans		-	-	909	505
Return of Capital from Related Parties		-	-	14	11,886
		940	36,178	941	12,478
Cash was applied to:					
Purchase of Fixed Assets		15,119	31,359	15,080	31,022
Purchase of Goodwill		-	6,607	-	6,607
Loans advanced to Related Parties		-	-	-	2,800
Purchase of Investments		5,361	8,100	3,711	1,300
		20,480	46,066	18,791	41,729
Net Cash Flows from Investing Activities		(19,540)	(9,888)	(17,850)	(29,251)
Net Increase/(Decrease) in Cash Held		(1,979)	746	(1,651)	1,645
Opening Cash Balance		3,026	2,280	2,593	948
Closing Cash Balance	4	\$1,047	\$3,026	\$942	\$2,593

The accompanying Notes form part of these Financial Statements



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The reporting entity is the Southern Cross Health Trust. The Group consists of Southern Cross Health Trust ("Parent"), its subsidiaries Southern Cross Benefits Limited, Southern Cross Health Trust Gillies Partnership Limited, Southern Cross Hospitals Oxford Partnership Limited, Southern Cross Health Trust Tauranga Partnership Limited and GMV Associates Limited.

Statutory Base

Southern Cross Health Trust is a charitable trust incorporated under the Charitable Trusts Act 1957.

Measurement Base

The measurement base adopted is historical cost, except that investments are stated at net market value.

Basis of Consolidation

The consolidated financial statements include the Parent, its subsidiaries accounted for using the purchase method and its interests in its associates and joint venture partnerships using the equity method. All material transactions between subsidiaries or between the Parent and subsidiaries are eliminated on consolidation. In the Parent financial statements investments in subsidiaries and associates are stated at cost.

Financial Instruments

Financial instruments carried on the Statement of Financial Position include cash and bank balances, accounts receivable, accounts payable and investments. These instruments are carried at their estimated fair value. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Fixed Assets and Depreciation

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided on a straight line basis on all fixed assets excluding land and capital work in progress. Capital work in progress projects are depreciated from the date that the item is brought into service.

The depreciation rates in use are:

Buildings	3% - 6.60% per annum
Leasehold Improvements	15% - 20% per annum
Computer Equipment	20% - 33% per annum
Computer Software	33% per annum
Furniture and Fittings	10% - 20% per annum
Motor Vehicles	20% per annum
Office Equipment	15% - 20% per annum
Plant and Equipment	15% - 25% per annum

Assets valued at less than \$1,000 are expensed in the year of acquisition.

The accompanying Notes form part of these Financial Statements



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Impairment

The carrying value of each asset is assessed annually. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised in the Statement of Financial Performance.

Revenue Recognition

Southern Cross Hospitals	Revenue is recognised when patients are invoiced on discharge.
Southern Cross Benefits Limited	Revenue reported is gross earned premium. Revenue is earned on the date of attachment of risk in relation to each policy. The portion of unearned written premium at balance date is reported as a current liability.

Reinsurance

Reinsurance Expense

Premium ceded to reinsurers is recognised as a liability from the attachment date and as an expense in accordance with the pattern of reinsurance service received.

Reinsurance Recoveries

Reinsurance recoveries received or receivable on paid claims and on outstanding claims liabilities are recognised as income. Recoveries receivable on paid claims are presented as part of debtors net of any provision for impairment. All recoveries receivable on outstanding claims liabilities are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately in the statement of financial position.

Claims Recognition

Claims are recognised based on the actual cost of settling claims for the period, less any amount covered under reinsurance contracts, plus a provision for outstanding claims at balance date.

Outstanding Claims on Insurance Policies

A provision is made for unreported claims based on past history of claims, together with an assessment of the time taken to receive and settle claims not reported, and to settle claims in process at balance date.

Deferred Acquisition Costs

Acquisition costs incurred in obtaining insurance policies that will give rise to premium revenue in subsequent reporting periods are recognised as an asset. The asset is amortised systematically over the reporting periods expected to benefit from the policies acquired.

Where there is a premium deficiency, the balance of deferred acquisition costs are written down to their recoverable amount.



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are purchased with the intention of being held to maturity. In respect to all investments any differences between purchase price and face value are amortised over the term of the investment. Fixed interest investments are revalued to net market values at balance date. Changes in the value of investments are recognised in the statement of financial performance.

Goodwill Arising on Acquisition

Goodwill arising on acquisition represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is amortised to the Statement of Financial Performance on a straight-line basis over the period during which benefits are expected to arise to a maximum of 10 years.

Inventories

Inventories of medical and pharmaceutical supplies are valued at the lower of cost and net realisable value.

Operating Leases

Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the lease cost.

Receivables

Receivables are stated at their estimated realisable value.

Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash.
- Cash is considered to be cash on hand and current accounts in banks, net of overdrafts.



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Taxation

No income tax is payable by the Parent or the Group due to the charitable status of the entities.

Changes in Accounting Policies

Inventories

Inventories of consumable medical and pharmaceutical supplies that are intended for re-sale as part of the surgical hospital activities have been recognised as a current asset in the Statement of Financial Position in the current financial year. In prior periods, the cost of consumable medical and pharmaceutical supplies has been recognised as an expense in the period incurred. As at 30 June 2006 inventories have been valued on the basis of the lower of net realisable value and current replacement cost at \$1.5m.

Lead Provider

In the current period there has been a change in the accounting procedure adopted relating to lead provider work. The adopted procedure now records both revenue and cost on a gross basis. In prior periods such activity was treated on a net basis with profit recognition deferred until all revenue and costs associated with an individual case had been recorded. Revenue and costs associated with fixed price contracts are more appropriately matched under this change in procedure. The effect of this change is estimated to be an additional expense of \$0.9M in the year ended 30 June 2006.

Comparatives

Certain comparative figures have been reclassified to ensure consistency with the current year's classifications and disclosures. None of these reclassifications have had any impact on the previous year's result.



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

2. OPERATING EXPENSES

Operating Expenses include:

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Acquisition Cost Expense	4,026	5,516	-	-
Amortisation – Goodwill	660	220	660	220
Auditors Remuneration	73	112	51	61
Bad Debts Written Off	150	46	150	21
Change in Provision for Doubtful Debts	(111)	39	(111)	39
Depreciation – Buildings	2,930	2,540	2,930	2,540
Depreciation – Computer Equipment and Software	378	568	285	452
Depreciation – Furniture, Fittings and Office Equipment	499	479	440	450
Depreciation – Plant & Medical Equipment	3,890	3,108	3,890	3,108
Direct Claims Expense	10,030	9,017	-	-
Trustees / Directors Fees	238	240	198	160
Interest Expense	-	34	-	34
Loss on Disposal of Fixed Assets	33	5	33	5
Rental of Premises	772	414	409	218

3. INTEREST RECEIVED AND OTHER INCOME

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Interest Received	2,977	3,663	1,008	896
Dividends Received	171	273	213	17,750
Income from Partnerships & Associates	1,941	1,797	-	-
Other Income	782	423	782	423
	<u>\$5,871</u>	<u>\$6,156</u>	<u>\$2,003</u>	<u>\$19,069</u>

4. CURRENT ASSETS

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Cash at Bank	1,047	3,026	942	2,593
Accounts Receivable – Related Party	57	13	3,370	4,272
Accounts Receivable – Other	11,815	15,517	11,390	14,927
Investments	40,136	36,674	15,611	11,900
Reinsurance Recoveries	38	469	-	-
Deferred Acquisition Costs	518	865	-	-
Inventory	1,543	-	1,543	-
	<u>\$55,154</u>	<u>\$56,564</u>	<u>\$32,856</u>	<u>\$33,692</u>



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

5. INVESTMENTS

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
New Zealand Government Stock				
Face Value	500	500	-	-
Revaluation	(4)	-	-	-
Premium/(Discount) on acquisition	15	21	-	-
	511	521	-	-
Other Bonds				
Face Value	4,000	2,000	-	-
Revaluation	(10)	9	-	-
Premium/(Discount) on acquisition	(7)	-	-	-
	3,983	2,009	-	-
Bank Deposits				
On Call	17,761	14,900	15,611	11,900
Term Deposits	21,500	21,000	-	-
Revaluation	6	(5)	-	-
Premium/(Discount) on acquisition	(132)	(218)	-	-
	39,135	35,677	15,611	11,900
Sub-total	43,629	38,207	15,611	11,900
Shares in Subsidiaries (Southern Cross Benefits Limited and First Health Limited)				
Carrying value at start of year	-	-	614	12,500
Disposal of First Health Limited	-	-	(14)	(11,886)
Carrying value at end of year	-	-	600	614
Hospital Partnerships				
Carrying value at start of year	7,811	3,759	-	-
Investment during year	-	2,800	-	-
Equity accounted earnings	1,941	1,757	-	-
Distributions received	(909)	(505)	-	-
Carrying value at end of year	8,843	7,811	-	-



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

5. INVESTMENTS (CONTINUED)

Associate Companies

(Mercy Angiography Limited and Prime Health Limited)

Carrying value at start of year	812	3,840	800	800
Equity accounted earnings	-	40	-	-
Disposal of Prime Health Limited	(12)	-	-	-
Distributions received	-	(3,068)	-	-
Carrying value at end of year	800	812	800	800
Total Investments	\$53,272	\$46,830	\$17,011	\$13,314
Current Assets	40,136	36,674	15,611	11,900
Non-Current Assets	13,136	10,156	1,400	1,414
Total Investments	\$53,272	\$46,830	\$17,011	\$13,314

Term deposits include commercial paper and floating rate notes. All fixed interest term investments at 30 June 2006 are stated at their net market value as determined by Bancorp Treasury Services Limited. Shares in subsidiaries at 30 June 2006 relate to the investment in Southern Cross Benefits Limited. On 10 October 2005 the Parent received final repatriation of capital invested in First Health Limited. The investment in Hospital Partnerships is held in the following subsidiaries: Southern Cross Health Trust Gillies Partnership Limited, Southern Cross Health Trust Tauranga Partnership Limited and Southern Cross Hospitals Oxford Partnership Limited. The Parent through its subsidiary Southern Cross Hospitals Oxford Partnership Limited entered into a 50% partnership to jointly own and operate the Oxford Clinic Hospital on 19 November 2004. During the year the Group disposed of its remaining interest in Prime Health Limited.



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

6. FIXED ASSETS

	Cost \$000	Accumulated Depreciation \$000	Book Value \$000
Land	23,032	-	23,032
Buildings	50,896	8,177	42,719
Work in Progress	6,486	-	6,486
Computer Equipment	2,565	2,194	371
Computer Software	4,477	4,426	51
Furniture, Fittings and Office Equipment	4,046	2,979	1,067
Plant & Equipment	47,375	28,854	18,521
	\$138,877	\$46,630	\$92,247
2005			
Land	17,225	-	17,225
Buildings	43,024	5,258	37,766
Work in Progress	14,709	-	14,709
Computer Equipment	2,299	2,042	257
Computer Software	4,477	4,198	279
Furniture, Fittings and Office Equipment	3,913	2,666	1,247
Plant & Equipment	38,152	24,809	13,343
	\$123,799	\$38,973	\$84,826
Parent			
2006			
Land	23,032	-	23,032
Buildings	50,896	8,177	42,719
Work in Progress	6,486	-	6,486
Computer Equipment	2,235	1,961	274
Computer Software	1,994	1,979	15
Furniture, Fittings and Office Equipment	3,516	2,691	825
Plant & Equipment	47,375	28,854	18,521
	\$135,534	\$43,662	\$91,872
Parent			
2005			
Land	17,225	-	17,225
Buildings	43,024	5,258	37,766
Work in Progress	14,709	-	14,709
Computer Equipment	1,983	1,862	121
Computer Software	1,994	1,791	203
Furniture Fittings and Office Equipment	3,409	2,434	975
Plant & Equipment	38,152	24,809	13,343
	\$120,496	\$36,154	\$84,342



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

7. GOODWILL

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Carrying value at start of year	6,387	-	6,387	-
Acquisition during year	-	6,607	-	6,607
Amortisation	(660)	(220)	(660)	(220)
Carrying value at end of year	\$5,727	\$6,387	\$5,727	\$6,387

Goodwill arose on the acquisition of the business of the Auckland Surgical Centre in February 2005 and is being amortised over a period of ten years from the date of acquisition.

8. CURRENT LIABILITIES

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Accounts Payable and Accruals	10,868	17,945	9,357	15,216
Accounts Payable – Related Party	131	-	6	-
Provision for Employee Entitlements	3,356	1,843	3,147	1,504
Provision for Advance Revenue	5,306	6,472	-	-
Provision for Outstanding Claims	2,060	2,050	-	-
	\$21,721	\$28,310	\$12,510	\$16,720

The movement within provisions other than insurance provisions is disclosed in the table below.

Employee Entitlements:

Carrying value at start of year	1,843	2,023	1,504	1,848
Additional provision made	39,454	29,850	37,577	27,694
Amount utilised	(37,941)	(30,030)	(35,934)	(28,038)
Carrying value at end of year	\$3,356	\$1,843	\$3,147	\$1,504

The provision for employee entitlements relates to employee benefits such as accrued annual leave and salary and wages outstanding. The provision is affected by a number of estimates, including the expected length of service of employees and the timing of benefits being taken. Most of the liability is expected to be incurred over the next two years.



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

9. FINANCIAL INSTRUMENTS

Credit Risks

Credit risk is the risk that the counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group to incur financial loss. In the normal course of its business the Parent and Group incurred credit risk from its trading activities and from investment in securities. There are no significant concentrations of credit risk. The Parent and Group have a credit policy that is used to manage this exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis.

The maximum exposure to credit risk as at balance date is:

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Bank balances	1,047	3,026	942	2,593
Bank deposits on call	17,761	14,900	15,611	11,900
Investments in securities	25,868	23,307	-	-
Accounts receivable	11,910	15,999	14,760	19,199

The above maximum exposures are net of any recognised provisions for losses on these financial instruments. The Parent and Group do not require any collateral or security to support financial instruments due to the quality of the organisations dealt with.

Fair Values

The carrying values of cash at bank, accounts receivable and accounts payable are equivalent to fair value. The carrying value of term investments at 30 June 2006 are equivalent to fair value, that being net market values as supplied by Bancorp Treasury Services Limited.

Interest Rate Risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances and investments. As the Group holds investments to maturity there is no risk to the maturity value of the investment due to fluctuations in market interest rates.

Foreign Currency Risk

Foreign currency risk is the risk that the value of the Group's assets, liabilities and future earnings will fluctuate due to changes in foreign currency rates. The Group and Parent are exposed to currency risk as a result of transactions that are denominated in a currency other than New Zealand dollars. The Group and Parents' policy is not to hedge this risk. As at balance date there are no material contractual currency risks.



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

9. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity Risk

The maturity profile of the investments of the Group and Parent are as follows:

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
On Call	17,761	14,900	15,611	11,900
0-6 months	20,374	21,774	-	-
7-12 months	2,000	-	-	-
1-2 years	1,978	1,012	-	-
2-3 years	1,005	-	-	-
3-5 years	511	-	-	-
Beyond 5 years	-	521	-	-
	<u>\$43,629</u>	<u>\$38,207</u>	<u>\$15,611</u>	<u>\$11,900</u>

The net bank balance is available on call. All insurance premia receivable are due within one month of balance date. All liabilities are payable within one year of balance date.

10. GROUP INVESTMENTS

Name	Ownership Interest Held		Principal Activity
	2006	2005	
Southern Cross Benefits Limited	100%	100%	Travel insurance
GMV Associates Limited	100%	100%	Dormant
Southern Cross Health Trust Gillies Partnership Limited	100%	100%	Holding company
Southern Cross Health Trust Tauranga Partnership Limited	100%	100%	Holding company
Southern Cross Hospitals Oxford Partnership Limited	100%	100%	Holding company
Mercy Angiography Unit Limited	33.2%	33.2%	Angiography

The investment in Hospital Partnerships is held in the following subsidiaries: Southern Cross Health Trust Gillies Partnership Limited, Southern Cross Health Trust Tauranga Partnership Limited and Southern Cross Hospitals Oxford Partnership Limited.

First Health Limited was a 100% owned subsidiary. This investment was disposed of on 10 October 2005.



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

11. RELATED PARTIES

Parent

The Parent is the Southern Cross Health Trust.

Identity of related parties with whom transactions have occurred

Note 10 identifies all group entities as well as associates in which the Group has an interest. All of these entities are related parties of the Parent. Other related parties in whom no investment is held are as follows:

Southern Cross Medical Care Society ("Society")	Related Party of Parent
Southern Cross Health Services Limited	100% subsidiary of Society
Trustees of Southern Cross Health Trust	Directors of Society

Types of Related Party Transactions

The Parent and the Society are separate legal entities operating at "arm's length". They work together in certain areas such as information technology and human resources under fully costed service level agreements which dictate the expectations of each entity. Any costs incurred by one entity on behalf of another are reimbursed monthly on normal trading terms. The Society has purchased healthcare services from all providers, including the Trust, on a contestable and contractual basis. No related party balances have been written off or forgiven during the year.

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

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Net Surplus	14,920	15,933	10,230	24,973
Add/(less) non-cash items:				
Depreciation	7,694	6,695	7,545	6,550
Amortisation – Goodwill	660	220	660	220
Equity Accounted Earnings from Hospital Partnerships and Associates	(1,941)	(1,796)	-	-
Discount/Premium on investment	(61)	109	-	-
Add/(less) items classified as investing activities:				
Loss/(Surplus) on disposal of Fixed Assets	(13)	(45)	(13)	(16)
Add/(less) movements in insurance provisions				
Provision for Deferred Acquisition Cost	347	716	-	-
Provision for Outstanding Claims	(373)	(3)	-	-
Provision for Advance Revenue	(1,166)	(2,935)	-	-
Add/(less) movements in other working capital items:				
Inventory	(1,543)	-	(1,543)	-
Accounts Receivable	3,937	5,587	3,592	(7,640)
Accounts Payable	(4,900)	(13,847)	(4,272)	6,809
Net Cash Inflow from Operating Activities	\$17,561	\$10,634	\$16,199	\$30,896



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

13. DISCONTINUED OPERATIONS

Results from discontinued operations relate to First Health Limited prior to its cessation as a result of PCO contracts that terminated in December 2003

Financial Performance	2006	2005
	\$000	\$000
Operating Revenue	-	339
Net Surplus	12	1,305

14. CREDIT RATING

On 21 February 2006 Standard & Poor's affirmed the Parent's wholly owned company, Southern Cross Benefits Limited, Insurer Financial Strength Rating of A+. This signifies the Insurer "has strong financial security characteristics."

15. SEGMENT REPORTING AND PRINCIPAL ACTIVITIES

Southern Cross Health Trust operates 10 hospitals and 3 hospital joint venture partnerships throughout New Zealand. Southern Cross Benefits Limited provides a range of travel insurance products. All revenue is generated in New Zealand.

	Total Revenue		Total Surplus		Total Assets	
	2006	2005	2006	2005	2006	2005
	\$000	\$000	\$000	\$000	\$000	\$000
Healthcare Sector	123,129	76,394	12,141	10,556	131,855	129,062
Travel Insurance	18,839	21,728	2,779	5,377	34,409	28,872
Total Consolidated	\$141,968	\$98,122	\$14,920	\$15,933	\$166,264	\$157,934

Southern Cross Benefits Limited total revenue is shown as gross premium earned before the deduction of \$442,000 in reinsurance premium expense (2005: \$440,000).



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

16. LEASE COMMITMENTS

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

	Group		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Within 1 year	118	152	118	148
Between 1 and 2 years	118	143	118	133
Between 2 and 5 years	-	-	-	-
Greater than 5 years	-	-	-	-
	<u>\$236</u>	<u>\$295</u>	<u>\$236</u>	<u>\$281</u>

17. CAPITAL COMMITMENTS

The Group and the Parent has capital commitments as at 30 June 2006 of \$255,000 (2005 \$754,000).

18. CONTINGENT LIABILITIES

The Group and the Parent had no contingent liabilities as at 30 June 2006 (2005 Nil).

19. ACTUARIAL INFORMATION

For the subsidiary company Southern Cross Benefits Limited estimates of the provision for outstanding claims as at 30 June 2006 have been carried out by Peter Davies B.Bus.Sc. FIA, a Fellow of the New Zealand Society of Actuaries. The calculation of the provision for outstanding claims complies with FRS-35: Financial Reporting of Insurance Activities and Professional Standard No. 4 of the New Zealand Society of Actuaries.

The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

Claims outstanding for two months or more are determined using a standard chain ladder method. Claims outstanding in respect of the most recent two months are determined by applying an estimated loss ratio to the earned premiums for the month.

Future claim payments are not discounted, as the expected duration to settlement is relatively short, and virtually all claims are settled within a year.

20. CAPITAL ADEQUACY

Solvency with regard to Southern Cross Benefits Limited travel insurance business is assessed regularly using accepted calculation standards. The Directors of Southern Cross Benefits Limited consider the current level of equity is sufficient for the requirement of maintaining financial soundness.



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2006

21. REMUNERATION OF TRUSTEES/DIRECTORS

Trustees/Directors fees paid by the Parent and Subsidiary for the year ended 30 June 2006 were as follows:

Trustee/Director	Group Amount (\$)	Subsidiary Amount (\$)
B N Davidson (retired 1 August 2006)	30,000	5,000
Ms C B Durbin (appointed 15 August 2006)	-	-
Dr D H Gray	30,000	5,000
Dr S C Macken	30,000	5,000
Dr J R D Matthews (Chairman)	57,500	10,000
D J May	30,000	5,000
P J Meyer	30,000	5,000
J G Todd	30,000	5,000

The Parent has taken and provides Trustees with Directors and Officers Liability Insurance cover for liabilities to other parties that may arise from their positions as Trustees.

22. TAXATION

No income tax is payable by the Parent or its subsidiaries due to their charitable status.

23. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand International Financial Reporting Standards ("NZ IFRS") will apply to all New Zealand reporting entities for reporting periods commencing on or after 1 January 2007. Entities have the option to adopt NZ IFRS for periods beginning on or after 1 January 2005.

The Group intends to implement NZ IFRS in its annual financial statements for the year ending 30 June 2008.

The Group has initiated a project to assess the key differences between NZ IFRS and the current accounting policies, determine the impact on the financial statements from transition, and implement processes to deal with any related business impacts.

The Group intends to provide further information, including a quantification of the impacts of transitioning to NZ IFRS, in the next annual financial statements.



audit report



TO THE TRUSTEES OF SOUTHERN CROSS HEALTH TRUST

We have audited the financial statements on pages 7 to 24. The financial statements provide information about the past financial performance and financial position of the Trust and Group as at 30 June 2006. This information is stated in accordance with the accounting policies set out on pages 10 to 13.

Trustees' Responsibilities

The trustees are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Trust and Group as at 30 June 2006 and the results of their operations and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Trustees and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- The significant estimates and judgements made by the Trustees in the preparation of the financial statements;
- Whether the accounting policies are appropriate to the Trust's and Group's circumstances, consistently applies and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has provided other services to the Trust in relation to general accounting services. Partners and employees of our firm may also deal with the Trust and Group on normal terms within the ordinary course of trading activities of the business of the Trust and Group. These matters have not impaired our independence as auditors of the Trust and Group. The firm has no other relationship with, or interest in, the Trust or any of its subsidiaries.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- Proper accounting records have been kept by the Trust as far as appears from our examination of those records;
- The financial statements on pages 7 to 24.
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Trust and Group as at 30 June 2006 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 5 September 2006 and our unqualified opinion is expressed as at that date.

AUCKLAND



directory

Southern Cross Hospitals

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**Southern Cross
Healthcare**