



Southern Cross  
Healthcare

Your health is our business

**Southern Cross Health Trust**  
2008 Annual Report

2008

# contents

Overview of Performance	1
Statement of Corporate Governance	3
Board of Trustees	4
Financial Statements	6

Annual Report  
For The Year Ended  
30 June 2008



**Board of Trustees (L to R)** Dr Douglas Baird, Dr Harley Gray, Carole Durbin, Phillip Meyer, Jeff Todd (Chairman), David May, Dr Susan Macken.

## Overview of performance

The Southern Cross Health Trust achieved good revenue growth in the year to 30 June 2008 with operating income at \$189m compared with \$163.7m in the prior financial year. The Hospitals' income of \$169.5m (\$145m) and travel insurance income of \$20m (\$19m) both contributed to the higher revenue figure.

The operating surplus of \$12.4m (\$11.2m) and other income of \$5.8m (\$8.5m) contributed to a net surplus figure of \$18.2m (\$19.7m).

The travel insurance business contributed \$3.1m to the net surplus, up \$1.3m on the prior year. The underlying cash surplus from hospital operations also improved during 2008, but a substantial increase in depreciation (non cash) relating to investments in new and refurbished facilities, and a one off abnormal \$2m gain recorded in the 2007 results, contributed to a \$2.9m fall in hospitals net surplus to \$15m.

A reduction in interest and other income (including an unrealised market write-down on investments of \$0.3m) reflects the fact that during the financial year interest rates rose rapidly, leaving some of our longer term investments invested at less favourable rates. Because the Trust holds these investments to maturity, the write-down is expected to be reversed in future years.

During the year \$33.2m was invested in upgrades to our hospitals and the expansion of services offered to New Zealanders.

## Hospitals

We continue to invest in our not-for-profit hospitals network which comprises ten wholly owned hospitals and six joint venture facilities. Our investments in medical technologies and enhanced patient facilities come at a time when the private sector is shouldering an increasing share of New Zealand's total elective surgical procedures.

As Health Funds Association of New Zealand data shows, nearly 60% of the 260,900 elective surgical procedures undertaken in New Zealand in the year to 30 June 2007 were carried out in the private health sector. In the next 20 years, due largely to the ageing of the population, this demand is expected to rise to 500,000 procedures a year. Our investments will ensure our facilities keep pace with this demand, both in terms of patient care standards and medical technologies.

Southern Cross's Christchurch hospital, the largest in our network, provides a good example. A \$15m investment in facilities has grown capacity to eight operating theatres and enhanced the technology available to support highly precise surgery.

The hospital has also become the location of choice among Canterbury specialists following the development of stand-alone consulting facilities called Specialists at Nine (located at 9 Caledonia Road). The building accommodates a comprehensive range of medical disciplines including the new eight-member Christchurch Otolaryngology practice, which has co-located at the site, purchasing a floor of the building. The facilities accommodate one colorectal surgeon, two gastrointestinal surgeons, two orthopaedic surgeons, a physiotherapist, and three respiratory specialists, as well as CanSleep diagnostics and therapeutics and audiologists Hearing Advantage Ltd. Anaesthesia Associates, a gynaecologist and

an endocrinologist are also located within the wider hospital site, giving Canterbury residents access to a very comprehensive range of care in one location.

During the 2007-08 year the hospitals business also worked in partnership with Mercy Ascot in order to make private radiation therapy available to New Zealanders for the first time. The Auckland Radiation Oncology (ARO) joint venture opened for business on 28 October 2008.

## Travel Insurance

The speed with which New Zealanders have embraced the internet to make travel bookings is mirrored in the rapid growth in online sales of Southern Cross Travel Insurance policies. Five years ago, all of our policies were arranged through our call centre. Today, almost 90% are sold online.

New Zealanders continue to take advantage of technology to simplify the purchase process. For example, up to 30% of customers opt out of receiving policy documents by post, preferring to receive the information electronically. Our aim is to grow this electronic service to 80% of customers. The resulting savings in printing, paper and postage costs not only contributes to keeping overhead costs down but also benefits New Zealand's environment.

Total sales for all policies almost reached the 100,000 mark for the year under review and are expected to exceed that milestone in the coming year.

This good performance in a highly competitive market is supported by the strength of the Southern Cross Travel Insurance "Star Man" brand. Research indicates Southern Cross Travel Insurance is the leading leisure travel insurance brand in terms of both spontaneous and prompted awareness.

It is also pleasing to report that in a competitive market for employees, Southern Cross Travel Insurance ranked fifth in 2007 in the small workplaces category of the Unlimited/JRA Best Places to Work in New Zealand. This is a comprehensive survey that reveals the top organisations to work for in New Zealand.

## Acknowledgements

In conclusion, following another successful year of operation, the Health Trust thanks the Southern Cross Hospitals and Southern Cross Travel Insurance management teams for their commitment and high standard of performance.

We also thank the specialists who express confidence in us by choosing to operate in our facilities, the patients who chose our hospitals, and customers of the travel insurance business.

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

**Jeff Todd**  
**Chairman**  
**Southern Cross Health Trust**

**Dr Ian McPherson**  
**CEO**  
**Southern Cross Health Trust**

# 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 Hospital network. In all operational aspects, the hospitals exist within the Trust on a stand-alone basis. Southern Cross Travel Insurance is operated by Southern Cross Benefits Limited, a wholly owned subsidiary of the Southern Cross Health Trust.

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.

The Trustees in office as at 30 June 2008 were:

Jeff Todd CBE (Chairman)  
Dr Douglas Baird  
Carole Durbin  
Dr Harley Gray CNZM  
Dr Susan Macken  
David May  
Phillip 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 and its businesses is delegated by the Board to the Group Chief Executive, Chief Executive Officer - Hospitals, 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, Chief Executive Officer - Hospitals, and the senior management team.

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

## Board Meetings

The Board meets formally on a scheduled basis and follows guidelines that ensure 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 aspects of the business.

### (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 Trust Audit Committee consists of David May (Chairman), Dr Susan Macken and Jeff Todd.

### (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 the overview of staff remuneration policies in general, and making recommendations to the Board.

The Trust Remuneration Committee consists of Carole Durbin (Chairman), Phillip Meyer and Jeff Todd.

### (c) Board Clinical Risk Committee.

This committee assists the Board in discharging its obligations in relation to clinical medical risk. The Board Clinical Risk Committee consists of Dr Harley Gray (Chairman), Dr Douglas Baird, Jeff Todd and the Chief Executive Officer - Hospitals Terry Moore (ex officio, non-voting).

# board of trustees

## Jeff Todd CBE

BCom, FCA, FInstD

### Chairman

Mr Jeff Todd is a Company Director and Chartered Accountant. He has been a member of the Board since July 1998, Deputy Chairman from 2004, and was appointed Chairman in July 2007.

Mr Todd has a longstanding interest in health care and health research. He 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 was invited to join the Board after a career with Chartered Accountants, Price Waterhouse (now PricewaterhouseCoopers) where he was Managing Partner for New Zealand and the Pacific before retiring in 1998.

He is also Chairman of NZ Guardian Trust and the Dynasty Hotel Group, deputy Chairman of Sanfords and a Director of Watercare Services.

## Dr Douglas Baird

MBChB, DipObst, FRNZCGP

Dr Douglas Baird was appointed to the Board in July 2007.

He is the Chairman of Homecare Medical Ltd, a Director of Dr Ponsonby-White Cross Ltd, a Trustee of the Auckland Medical Benevolent Fund and Managing Director of Aotea Health Services.

Dr Baird is a past Chairman of the Independent Practitioners Association Council (IPAC), was a founding Director of ProCARE Health (an organisation which represents more than 500 GPs in Auckland) and of BPACnz, an organisation dedicated to effective use of resources by health providers.

He has served in elected and advisory roles with the Auckland District Health Board, the ACC Medical Misadventure Unit and the Office of the Health and Disability Commissioner.

Dr Baird has a Diploma of Obstetrics, is a Fellow of the Royal New Zealand College of General Practice and was in general practice from the late 1970s until 2007.

With extensive experience in successful commercial enterprises, Dr Baird brings to the Board an excellent understanding of the health industry, particularly General Practice, population health and the management of restricted resources.

## Carole Durbin

BCom, LLB(Hons), FAMINZ, FInstD

Ms Carole Durbin was appointed to the Board in August 2006.

Ms Durbin is the 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.

A consultant to Simpson Grierson, one of New Zealand's leading legal firms, Ms Durbin has also held a number of previous Board appointments including Simpson Grierson, Transpower NZ and software developer Synergy International (now Fronde). Ms Durbin has an LLB (Hons) and a BCom (Accountancy) from Auckland University. She is a Fellow of the Institute of Directors.

## Dr Harley Gray CNZM

ChM, MMedSc, FRACS

A member of the Southern Cross Board since July 2004, Dr Harley Gray was an eminent orthopaedic surgeon at Auckland's Middlemore Hospital until 2000.

Dr Gray, who was made a Companion of the New Zealand Order of Merit in 2003, says an important focus for him as a Trustee is the engagement of health professionals in quality assurance and cost containment in the private sector.

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 Capital Coast Health and Chair of the Clinical Board, and as Chief Medical Officer for South Auckland Health. Dr Gray is a member of the Institute of Directors.

## Dr Susan Macken

BSc, BCom, PhD

Dr Susan Macken is a company director and business consultant who has served on the Southern Cross Board since May 1997.

A Director of a number of companies including the Bank of New Zealand, Bosco Connect and leading reproductive services company, Fertility Associates, Dr Macken also advises on corporate strategy and governance with a broad range of industries and companies.

She has held senior executive positions in major New Zealand corporates including Fletcher Challenge and the Blue Star Group and her previous directorships include Landcare Research, NZ Racing Industry Board, Hutt Valley Health, and NZ Trade Development Board.

## David May

BSc (Hons), FIAA

Mr David May joined the Board in June 2002, attracted by the opportunity to contribute his management, insurance and financial experience to the health sector. He believes that a strong, adaptable private health sector will be vital in helping the public sector meet the enormous growth in demand over the next 20 years.

A qualified actuary, Mr May is Chairman of the Guardians of the New Zealand Superannuation Fund (NZSF), Deputy Chairman of the Government Superannuation Authority and a Director of Annuitas Management. He was the former Managing Director of the Colonial Group (NZ).

He says the most satisfying aspects of his role as Trustee have been overseeing growth in Southern Cross Hospitals operations and the major upgrading of the network's existing facilities.

## Phillip Meyer

FAIM, FNZIM, AF Inst D

Mr Phillip Meyer joined the Board in June 2002.

Mr Meyer is an experienced company director and investment banker. He is Chairman of Australian Financial Services Group and New Zealand Institute of Management Central Inc.; Deputy Chairman of Wellington Zoo Trust; Director of Kordia Group, Wellington Regional Orchestra Foundation Inc., New Zealand Institute of Management Inc.; Independent Director of the Institute of Financial Advisers; Trustee of Enterprise New Zealand Trust; member of the Disciplinary Tribunal of the New Zealand Institute of Chartered Accountants, NZX Discipline and the Institute of Directors National Council; and has served on the Development Council of the Heart Research Institute (Australia) and as Chairman of the Executive Business Council of the New South Wales Cancer Council.

Mr Meyer is also an Advisor to GPR Dehler (Australia) and was this year appointed as one of two Crown Monitors of the Whanganui District Health Board.

## Summary of Meetings for Year Ended 30 June 2008

	Trust Board Meetings	Strategic Workshops	Audit Committee	Remuneration Committee	Board Clinical Risk	Group Strategic Meetings
<b>JG Todd</b>	9	2	5	4	3	5
<b>Dr DD Baird</b>	9	2			3	4
<b>Ms CB Durbin</b>	9	2		4		5
<b>Dr DH Gray</b>	9	2			3	5
<b>Dr SC Macken</b>	9	2	5			5
<b>DJ May</b>	8	2	4			5
<b>PJ Meyer</b>	9	2		4		5

# financial statements

Consolidated Income Statement	7
Consolidated Statement of Changes in Trust Funds	7
Consolidated Balance Sheet	8
Consolidated Cash Flow Statement	9
Notes to the Financial Statements	10
Audit Report	40



## CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2008

	Note	Group		Parent	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Operating income</b>	2	189,044	163,742	169,476	145,017
Employee expenses		51,669	45,650	49,242	43,476
Net claims expenses		11,176	11,365	-	-
Hospital direct expenses		86,829	72,369	86,829	72,369
		149,674	129,384	136,071	115,845
<b>Gross profit</b>		39,370	34,358	33,405	29,172
Occupancy expenses		11,676	9,467	11,351	9,166
Communication and marketing expenses		3,702	4,161	1,147	1,756
Computer expenses		2,873	2,318	2,476	1,856
Finance expenses		1,728	1,605	1,088	986
Personnel expenses		1,422	1,018	1,282	896
Other expenses		5,582	4,568	4,201	2,891
		26,983	23,137	21,545	17,551
<b>Operating surplus</b>	3	12,387	11,221	11,860	11,621
Share of profit on equity accounted investments		1,300	1,868	-	-
Interest and other income	4	4,467	6,644	1,886	4,440
<b>Net surplus</b>		18,154	19,733	13,746	16,061

## CONSOLIDATED STATEMENT OF CHANGES IN TRUST FUNDS

For the year ended 30 June 2008

	Note	Group		Parent	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Net surplus for the year		18,154	19,733	13,746	16,061
Total recognised income & expenditure		18,154	19,733	13,746	16,061
Minority interest – contribution from owners		66	-	-	-
Trust funds at start of year		164,226	144,493	135,801	119,740
<b>Trust funds at end of year</b>	5	182,446	164,226	149,547	135,801

The accompanying Notes form part of these Financial Statements



## CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	Group		Parent	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current assets</b>					
Cash and cash equivalents		8,602	15,249	7,974	13,737
Trade and other receivables	6	21,055	16,922	22,761	18,852
Financial assets	7	22,706	25,434	-	-
Inventories		2,155	2,203	2,155	2,203
<b>Total current assets</b>		<b>54,518</b>	<b>59,808</b>	<b>32,890</b>	<b>34,792</b>
<b>Non-current assets</b>					
Financial assets	7	10,956	3,506	-	-
Investments	8	13,983	11,164	3,670	1,400
Property, plant and equipment	9	125,421	110,861	124,660	110,615
Intangible assets	10	1,366	1	1,366	1
Goodwill	11	5,727	5,727	5,727	5,727
<b>Total non-current assets</b>		<b>157,453</b>	<b>131,259</b>	<b>135,423</b>	<b>117,743</b>
<b>Total assets</b>		<b>211,971</b>	<b>191,067</b>	<b>168,313</b>	<b>152,535</b>
<b>Current liabilities</b>					
Trade and other payables		16,742	14,025	15,983	12,960
Provisions		12,783	12,816	2,783	3,774
<b>Total current liabilities</b>	12	<b>29,525</b>	<b>26,841</b>	<b>18,766</b>	<b>16,734</b>
<b>Net assets</b>		<b>182,446</b>	<b>164,226</b>	<b>149,547</b>	<b>135,801</b>
<b>Trust funds</b>					
Retained earnings		182,130	163,976	149,297	135,551
Reserves		250	250	250	250
<b>Parent interest</b>		<b>182,380</b>	<b>164,226</b>	<b>149,547</b>	<b>135,801</b>
<b>Minority interest</b>		<b>66</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Trust funds</b>	5	<b>182,446</b>	<b>164,226</b>	<b>149,547</b>	<b>135,801</b>

The accompanying Notes form part of these Financial Statements



## CONSOLIDATED CASH FLOWS STATEMENT

For the year ended 30 June 2008

	Note	Group		Parent	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Cash flows from operating activities</b>					
Receipts from customers		185,090	162,023	164,578	142,957
Payments to suppliers and employees		(151,620)	(129,010)	(143,010)	(120,613)
Payment of direct claims		(10,798)	(10,384)	-	-
Interest received		3,829	3,433	926	1,472
Interest paid		(90)	(1)	(90)	(1)
Dividends received		184	161	184	158
Other income		886	954	776	810
<b>Net cash flows from/(used in) operating activities</b>	18	27,481	27,176	23,364	24,783
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		2,810	55	2,810	55
Distributions from hospital partnerships and associates		1,250	1,147	1,250	1,147
Effect of exchange rate movement on foreign currency balances		38	(115)	-	-
Purchase of investments		(5,000)	(851)	-	-
Purchase of property, plant and equipment		(30,458)	(28,021)	(30,419)	(28,001)
Investment in hospital partnerships and associates		(2,768)	(800)	(2,768)	(800)
<b>Net cash flows from/(used in) investing activities</b>		(34,128)	(28,585)	(29,127)	(27,599)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		3,000	-	3,000	-
Repayment of borrowings		(3,000)	-	(3,000)	-
<b>Net cash flows from/(used in) financing activities</b>		-	-	-	-
Net increase/(decrease) in cash and cash equivalents		(6,647)	(1,409)	(5,763)	(2,816)
Cash & cash equivalents at beginning of period		15,249	16,658	13,737	16,553
<b>Cash &amp; cash equivalents at end of period</b>		8,602	15,249	7,974	13,737

The accompanying Notes form part of these Financial Statements



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

### 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, Southern Cross Hospitals Radiotherapy Partnership Limited and Southern Cross QE Limited.

Southern Cross Health Trust is a charitable trust incorporated under the Charitable Trusts Act 1957. It is domiciled in New Zealand, operating 10 private surgical hospitals and has investments in a number of joint venture partnerships and through its subsidiary Southern Cross Benefits Limited provides a range of travel insurance products for inbound and outbound travellers.

#### Basis of preparation

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP"). They comply with New Zealand equivalents to international financial reporting standards ("NZ IFRS"), and other applicable financial reporting standards, as appropriate for public benefit entities. These are the Trust's first financial statements prepared in accordance with NZ IFRS and NZ IFRS 1 has been applied.

The balance sheet has been presented in the order of decreasing liquidity.

The financial statements were approved by the Board of Trustees on 30 September 2008.

An explanation of the effect of transition to NZ IFRS on the reported financial position and financial performance of the Parent and Group is provided in note 27.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and in preparing an opening NZ IFRS balance sheet at 1 July 2006 for the purposes of the transition to NZ IFRS.

#### Basis of measurement

The financial statements are prepared on the historical cost basis except that the following are stated at their fair value:

Financial assets at fair value through the income statement and insurance contract liabilities.

#### 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.

#### Functional and presentation currency

These financial statements are presented in New Zealand dollars, which is the functional and presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relate to insurance contract liabilities in note 13 and the valuation of financial assets in note 7.

The carrying value of goodwill is assessed at least annually to ensure that it is not impaired. Performing this assessment requires management to estimate future cash flows to be generated by cash generating units or groups of cash generating units to which goodwill has been allocated. Estimating future cash flows entails making judgements including the expected rate of growth of revenues, margins expected to be achieved, the level of future maintenance expenditure required to support these outcomes and the appropriate discount rate to apply when discounting future cash flows. Note 11 of these financial statements provides more information surrounding the assumptions management have made in this area.

On initial recognition of items of property, plant and equipment and finite-lived intangible assets, judgements must be made about whether costs incurred relate to bringing an asset to working condition for its intended use, and therefore are appropriate for capitalisation as part of the cost of the asset, or whether they should be expensed as incurred. Thereafter, judgement is required to assess whether subsequent expenditure increases the future economic benefits to be obtained from that asset and is therefore also appropriate for capitalisation or whether such expenditure should be treated as maintenance and expensed.

The determination of the appropriate useful life for a particular asset requires management to make judgements about, among other factors, the expected period of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances, and the likelihood of the group ceasing to use the asset in its business operations.

Assessing whether individual assets or a grouping of related assets are impaired may involve estimating the future cash flows that those assets are expected to generate. This will in turn involve assumptions, including rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current account balances and includes cash on call deposit for non-insurance related activities. Under NZ IFRS definitions of financial assets, cash and cash equivalents are classified as "financial assets at fair value through the income statement".

#### Trade and other receivables

Receivables are stated at their estimated realisable value. Insurance premium receivables are stated at their cost less impairment losses. Impairment losses for uncollectible premiums are written off against premium revenue in the year in which they are incurred. Under NZ IFRS definitions of financial assets, premium and other receivables are classified as "loans and receivables".



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments

Financial instruments are classified as financial assets at “fair value through the income statement” at inception. Financial instruments are purchased with the intention of being held until maturity.

Financial instruments designated as “fair value through the income statement” at inception are those that are held to match insurance contract liabilities. The designation of these assets to be at “fair value through income statement” eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from recognising any gains or losses through reserves.

Financial instruments are carried at fair value using the bid price with changes in fair value recognised in the income statement. Transaction costs are recognised in the income statement on the transaction date.

As financial instruments are held until maturity and proceeds then reinvested, only the net purchased or matured amount is disclosed in the statement of cash flows.

All purchases of financial instruments are recognised on the date of the trade. Financial instruments are de-recognised on the date of maturity or sale of the financial instrument.

#### Property, plant and equipment

Fixed assets are recorded at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight line basis on all fixed assets excluding land and capital work in progress. On completion, capital work in progress projects are transferred to the appropriate asset category and depreciated.

The depreciation rates in use are:

Buildings	3% - 6.60% per annum
Computer equipment	20% - 33% per annum
Furniture and fittings	10% - 20% per annum
Motor vehicles	20% per annum
Office equipment	15% - 20% per annum
Plant and medical equipment	15% - 25% per annum

Land is not depreciated.

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

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

#### Intangible assets

Computer software is recognised as an intangible asset when it is not an integral part of the computer hardware. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. All capitalised costs are deemed to have an expected useful life of 3-5 years unless it can be clearly demonstrated that the net benefits are to be generated over a longer period. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project at 33% per annum.

The recoverability of the carrying amount of the asset is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset to its carrying value. An impairment loss is recognised whenever the carrying value exceeds the recoverable amount. Impairment losses are recognised in the income statement and may be reversed where there has been a change in the estimates used to determine the recoverable amount.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### 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 arising on acquisition is impairment tested at balance date. Any impairment loss recognised is taken to the income statement.

#### Inventories

Inventories of medical and pharmaceutical supplies are valued at the lower of cost and net realisable value. Properties intended for sale are recognised at the lower of cost or net realisable value.

#### Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market rates and, where appropriate, the risks specific to the obligation.

#### Revenue recognition

Southern Cross Hospitals	Revenue is recognised when patients are invoiced on discharge.
Southern Cross Benefits Limited	Gross earned premiums from insurance contracts are recognised evenly over the travel period covered by the contract. Income is recognised on the date from which the travel period commences. Premium billed but unearned is recorded as unearned premiums. Premium ceded to reinsurers is recognised as reinsurers' share of the premium and excluded from net premium.
Investment Income	Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Transaction costs that are an integral part of the effective yield of the investment are recognised as an adjustment to the effective interest rate of the instrument.  Realised and unrealised gains and losses recorded in the income statement on investments include gains and losses on financial assets classified as fair value through the income statement. Gains and losses on the sale of investments are classified as the difference between net sales proceeds and the fair value recorded on occurrence of the sale transaction.
Other Income	Other income is recognised as income over the period in which the related services are performed.

#### Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

#### 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 and cash equivalents are considered to be cash on hand, current accounts in banks net of overdrafts and cash on call deposit for non-insurance related activities.
- As term investments are held to maturity, and then reinvested, only the net purchase or matured amount is disclosed in the statement of cash flows.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to NZD at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on their translation are recognised in the income statement.

#### Trade and other payables

Trade and other payables are stated at cost. Under NZ IFRS definitions, trade and other payables are classified as "other liabilities at amortised cost".

#### Employee entitlements

Employee entitlements represent the current obligation to employees in respect of outstanding salaries, leave entitlements and other short term benefits.

#### Goods and services tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

#### Taxation

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

#### Accounting policies relating to insurance contracts:

##### Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

It has been determined that all travel insurance policies provided to customers are insurance contracts.

##### Assets arising from reinsurance contracts

The component of claims expense relating to policies ceded to reinsurers is recognised as reinsurance recoveries in the balance sheet. The recoverability of these assets is assessed at balance date and impairment is recognised where there is objective evidence that the amounts due may not be received and these amounts can be reliably measured.

##### Acquisition costs

The costs incurred in acquiring and recording insurance contracts are deferred in recognition that they represent future benefits. Acquisition costs are initially recorded in the income statement.

Any amounts that give rise to premiums in subsequent reporting periods are deferred as an asset and amortised over the period covered by the insurance contract.

##### Net claims expense

The net claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions (as described below).

##### Outstanding claims provision

The liability for outstanding claims comprises claims incurred but not settled at the balance sheet date, whether reported or not. A central estimate is made of claims incurred but not paid. The central estimate includes expected claim payments plus associated claims handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimate of claims and claims handling costs.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

#### **Unexpired risk provision and liability adequacy test**

The liability for unearned premiums arises from premiums received for risks that have not yet expired. The provision is released evenly over the duration of the travel period and is recognised as premium income. A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. The test has been performed on the aggregate portfolio as risks are broadly similar and are managed together as a single portfolio.

The central estimate of claims and administration expenses is calculated. In addition, a risk margin is added to reflect the inherent uncertainty in the estimate of future claims. The total is compared with the unearned premium liability. Any deficiency is recognised in the income statement after first writing down any deferred acquisition costs. The deficiency (if any) in excess of deferred acquisition costs is recognised in the balance sheet as an unexpired risk liability.

#### **New financial reporting standards approved but not yet effective**

The following new or amended financial reporting standards and interpretations have been issued by the Financial Reporting Standards Board but are not yet effective:

NZ IFRS 3 – Business combinations

NZ IFRS 4 – Insurance contracts

NZ IFRS 8 – Operating segments

NZ IAS 1 – Presentation of financial statements

NZ IAS 27 – Consolidated and separate financial statements

NZ IFRIC 12 – Service concession arrangements

NZ IFRIC 13 – Customer loyalty programmes

NZ IFRIC 14 – The limit on a defined benefit asset, minimum funding requirements and their interaction.

NZ IFRS 3 and NZ IAS 27 are effective for annual reporting periods commencing on or after 1 July 2009 and will be adopted by the Group for the financial year commencing 1 July 2009. As these standards specify the accounting treatment of certain business combinations from 1 July 2009, it is not possible to determine the possible impact on future financial statements.

NZ IFRS 4 is effective for annual reporting periods commencing on or after 1 July 2009. The requirements of this standard are currently being complied with and changes are not expected to have any impact on future financial statements.

NZ IAS 1 is effective for annual reporting period commencing on or after 1 July 2009 and will be adopted for the financial year commencing 1 July 2009. This standard specifies the presentation of financial statements which will not have any financial impact on future financial statements.

NZ IFRS 8, NZ IFRIC 12, NZ IFRIC 13 and NZ IFRIC 14 are currently not applicable to the Group.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 2. OPERATING INCOME

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Hospital income	169,476	145,018	169,476	145,017
Travel insurance premium income	20,031	19,176	-	-
Reinsurers' share of income	(463)	(452)	-	-
	189,044	163,742	169,476	145,017

### 3. OPERATING SURPLUS

Operating surplus includes:

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Auditors' remuneration				
- External audit fees	91	90	66	55
- Other services	3	13	-	10
Bad debts written off	117	32	117	32
Depreciation (Note 9)	11,628	9,089	11,550	8,985
Amortisation (Note 10)	152	48	152	11
Interest expense	90	1	90	1
Loss on disposal of fixed assets	82	2	82	2
Rental of premises	1,010	808	697	553
Insurance acquisition costs	904	1,041	-	-

### 4. INTEREST AND OTHER INCOME

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Interest income on financial assets at fair value	3,747	3,584	926	1,472
Net unrealised market revaluation on investments	(278)	(52)	-	-
Settlement received	-	2,000	-	2,000
Dividends received	184	161	184	158
Unrealised foreign exchange movement	38	(115)	-	-
Other income	776	1,066	776	810
	4,467	6,644	1,886	4,440



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 5. RECONCILIATION OF CHANGES IN TRUST FUNDS

<b>Group 2008</b>	<b>Retained Earnings</b>	<b>Capital Reserve</b>	<b>Parent Interest</b>	<b>Minority Interest</b>	<b>Total Trust Funds</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Balance at 1 July 2007	163,976	250	164,226	-	164,226
Total recognised income and expense	18,154	-	18,154	-	18,154
Issue of ordinary shares in Southern Cross QE Limited	-	-	-	66	66
Balance at 30 June 2008	182,130	250	182,380	66	182,446

<b>Group 2007</b>	<b>Retained Earnings</b>	<b>Capital Reserve</b>	<b>Parent Interest</b>	<b>Minority Interest</b>	<b>Total Trust Funds</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Balance at 1 July 2006	144,243	250	144,493	-	144,493
Total recognised income and expense	19,733	-	19,733	-	19,733
Balance at 30 June 2007	163,976	250	164,226	-	164,226

<b>Parent 2008</b>	<b>Retained Earnings</b>	<b>Capital Reserve</b>	<b>Parent Interest</b>	<b>Minority Interest</b>	<b>Total Trust Funds</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Balance at 1 July 2007	135,551	250	135,801	-	135,801
Total recognised income and expense	13,746	-	13,746	-	13,746
Balance at 30 June 2008	149,297	250	149,547	-	149,547

<b>Parent 2007</b>	<b>Retained Earnings</b>	<b>Capital Reserve</b>	<b>Parent Interest</b>	<b>Minority Interest</b>	<b>Total Trust Funds</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Balance at 1 July 2006	119,490	250	119,740	-	119,740
Total recognised income and expense	16,061	-	16,061	-	16,061
Balance at 30 June 2007	135,551	250	135,801	-	135,801

The Parent's interest in its subsidiary Southern Cross QE Limited is 70% resulting in a minority interest of 30%.

Capital Reserves and Retained Earnings are available for distribution for charitable purpose within New Zealand at the discretion of the Board of Trustees.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 6. TRADE AND OTHER RECEIVABLES

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Accounts receivable – related party	78	84	2,813	3,048
Accounts receivable – other	20,220	16,759	19,760	15,726
Prepayments	757	79	188	78
	21,055	16,922	22,761	18,852

### 7. FINANCIAL ASSETS

#### At fair value through the Income Statement

	Group		Parent	
	2008	2007	2008	2007
At valuation	\$000	\$000	\$000	\$000
New Zealand Government Stock	500	506	-	-
Other bonds	10,429	5,994	-	-
Bank deposits, commercial paper and floating rate notes	22,733	22,440	-	-
	33,662	28,940	-	-
Current assets	22,706	25,434	-	-
Non-current assets	10,956	3,506	-	-
	33,662	28,940	-	-

New Zealand Government Stock is held by the Public Trustee as a deposit required under the Insurance Companies' Deposits Act 1953.

### 8. INVESTMENTS

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000

#### Shares in subsidiaries:

##### Southern Cross Benefits Limited (100%)

Carrying value at start of year	-	-	600	600
Carrying value at end of year	-	-	600	600

##### Southern Cross QE Limited (70%)

Investment on 9 April 2008	-	-	434	-
Carrying value at end of year	-	-	434	-

Carrying value of shares in subsidiaries at end of year	-	-	1,034	600
--	---	---	-------	-----



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 8. INVESTMENTS (CONTINUED)

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
<b>Hospital Partnerships:</b>				
<u>Gillies Hospital Partnership (50%)</u>				
Carrying value at start of year	1,000	853	-	-
Equity accounted earnings	875	737	-	-
Distributions received	(820)	(590)	-	-
Carrying value at end of year	1,055	1,000	-	-
<u>Oxford Clinic Hospital Partnership (50%)</u>				
Carrying value at start of year	2,766	2,720	-	-
Equity accounted earnings	383	371	-	-
Distributions received	(430)	(325)	-	-
Carrying value at end of year	2,719	2,766	-	-
<u>Norfolk Southern Cross Partnership (40%)</u>				
Carrying value at start of year	6,598	5,270	-	-
Investment during year	-	800	-	-
Equity accounted earnings	50	760	-	-
Distributions received	-	(232)	-	-
Carrying value at end of year	6,648	6,598	-	-
<u>Waitemata Endoscopy Limited (50%)</u>				
Investment on 4 December 2007	120	-	-	-
Equity accounted earnings	(8)	-	-	-
Carrying value at end of year	112	-	-	-
<u>Auckland Radiotherapy Partnership (50%)</u>				
Investment on 8 April 2008	813	-	-	-
Carrying value at end of year	813	-	-	-
Carrying value of hospital partnerships at end of year	11,347	10,364	-	-
<b>Associate Companies:</b>				
<u>Mercy Angiography Limited (33%)</u>				
Carrying value at start of year	800	800	800	800
Carrying value at end of year	800	800	800	800
<u>Ormiston Surgical &amp; Endoscopy Limited (33%)</u>				
Investment on 28 April 2008	1,836	-	1,836	-
Carrying value at end of year	1,836	-	1,836	-
Carrying value of associate companies at end of year	2,636	800	2,636	800
Total carrying value of investments	13,983	11,164	3,670	1,400

The investments with March rather than June balance dates are Waitemata Endoscopy Limited, Mercy Angiography Limited and Ormiston Surgical and Endoscopy Limited. For Southern Cross Health Trust to be a recipient of a distribution of cash from one of its investments a resolution needs to be passed by the directors of each respective investment vehicle.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 9. PROPERTY, PLANT AND EQUIPMENT

Group 2008	Land	Buildings	Work In Progress	Computer Equipment	Furniture, Fittings & Office Equipment	Plant & Medical Equipment	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost	23,184	82,543	3,871	3,363	4,661	69,684	67	187,373
Accumulated depreciation	-	(14,872)	-	(2,145)	(3,488)	(41,424)	(23)	(61,952)
Closing book value	23,184	67,671	3,871	1,218	1,173	28,260	44	125,421

Group 2008	Land	Buildings	Work In Progress	Computer Equipment	Furniture, Fittings & Office Equipment	Plant & Medical Equipment	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Opening book value	23,267	44,295	19,032	672	908	22,631	56	110,861
Additions/ disposals	(83)	27,133	(15,161)	1,059	496	12,744	-	26,188
Depreciation	-	(3,757)	-	(513)	(231)	(7,115)	(12)	(11,628)
Closing book value	23,184	67,671	3,871	1,218	1,173	28,260	44	125,421

Group 2007	Land	Buildings	Work In Progress	Computer Equipment	Furniture, Fittings & Office Equipment	Plant & Medical Equipment	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost	23,267	55,410	19,032	2,304	4,165	56,940	67	161,185
Accumulated depreciation	-	(11,115)	-	(1,632)	(3,257)	(34,309)	(11)	(50,324)
Closing book value	23,267	44,295	19,032	672	908	22,631	56	110,861

Group 2007	Land	Buildings	Work In Progress	Computer Equipment	Furniture, Fittings & Office Equipment	Plant & Medical Equipment	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Opening book value	23,032	42,719	6,486	371	1,067	18,520	-	92,195
Additions/ disposals	235	4,521	12,546	561	119	9,706	67	27,755
Depreciation	-	(2,945)	-	(260)	(278)	(5,595)	(11)	(9,089)
Closing book value	23,267	44,295	19,032	672	908	22,631	56	110,861



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<b>Parent 2008</b>	<b>Land</b>	<b>Buildings</b>	<b>Work In Progress</b>	<b>Computer Equipment</b>	<b>Furniture, Fittings &amp; Office Equipment</b>	<b>Plant &amp; Medical Equipment</b>	<b>Motor Vehicles</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Cost	23,184	82,843	3,317	4,335	4,089	69,684	67	187,219
Accumulated depreciation	-	(14,872)	-	(3,145)	(3,095)	(41,424)	(23)	(62,559)
Closing book value	23,184	67,671	3,317	1,190	994	28,260	44	124,660

<b>Parent 2008</b>	<b>Land</b>	<b>Buildings</b>	<b>Work In Progress</b>	<b>Computer Equipment</b>	<b>Furniture, Fittings &amp; Office Equipment</b>	<b>Plant &amp; Medical Equipment</b>	<b>Motor Vehicles</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Opening book value	23,267	44,295	19,032	616	718	22,631	56	110,615
Additions/ disposals	(83)	27,133	(15,715)	1,052	464	12,744	-	25,595
Depreciation	-	(3,757)	-	(478)	(188)	(7,115)	(12)	(11,550)
Closing book value	23,184	67,671	3,317	1,190	994	28,260	44	124,660

<b>Parent 2007</b>	<b>Land</b>	<b>Buildings</b>	<b>Work In Progress</b>	<b>Computer Equipment</b>	<b>Furniture, Fittings &amp; Office Equipment</b>	<b>Plant &amp; Medical Equipment</b>	<b>Motor Vehicles</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Cost	23,267	55,410	19,032	1,972	3,626	56,940	67	160,314
Accumulated depreciation	-	(11,115)	-	(1,356)	(2,908)	(34,309)	(11)	(49,699)
Closing book value	23,267	44,295	19,032	616	718	22,631	56	110,615

<b>Parent 2007</b>	<b>Land</b>	<b>Buildings</b>	<b>Work In Progress</b>	<b>Computer Equipment</b>	<b>Furniture, Fittings &amp; Office Equipment</b>	<b>Plant &amp; Medical Equipment</b>	<b>Motor Vehicles</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Opening book value	23,032	42,719	6,486	274	825	18,520	-	91,856
Additions/ disposals	235	4,521	12,546	559	110	9,706	67	27,744
Depreciation	-	(2,945)	-	(217)	(217)	(5,595)	(11)	(8,985)
Closing book value	23,267	44,295	19,032	616	718	22,631	56	110,615



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 10. INTANGIBLE ASSETS

	Group		Parent	
	2008	2007	2008	2007
Computer software	\$000	\$000	\$000	\$000
Cost	5,316	3,799	2,833	1,316
Accumulated amortisation	(3,950)	(3,798)	(1,467)	(1,315)
Closing book value	1,366	1	1,366	1

	Group		Parent	
	2008	2007	2008	2007
Reconciliation of movement	\$000	\$000	\$000	\$000
Opening balance	1	52	1	15
Additions/disposals	1,517	(3)	1,517	(3)
Amortisation for the year	(152)	(48)	(152)	(11)
Closing balance	1,366	1	1,366	1

### 11. GOODWILL

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Carrying value at start of year	5,727	5,727	5,727	5,727
Amortisation/Impairment	-	-	-	-
Carrying value at end of year	5,727	5,727	5,727	5,727

Goodwill is allocated to the Group's cash-generating units (CGUs). The goodwill is related to the acquisition of the Auckland Surgical Centre in February 2005.

The recoverable amount of the goodwill is calculated on the basis of value-in-use using a discounted cash flow model.

Future cash flows are projected out 3 years, based on actual results and approved business plans.

A terminal growth rate of 0% is applied. A pre-tax discount rate of 11% is utilised. The recoverable amount exceeds the net assets plus goodwill allocated to Auckland Surgical Centre. Therefore, management has determined that no impairment to goodwill has occurred during the period. Accordingly, there are no accumulated impairment losses at 30 June 2008 or 30 June 2007.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 12. CURRENT LIABILITIES

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Trade and other payables				
- Accounts payable and accruals	16,742	14,025	15,983	12,960
Provisions				
- Provision for employee entitlements	3,060	3,992	2,783	3,774
- Provision for insurance contracts (refer note 13)	9,723	8,824	-	-
	12,783	12,816	2,783	3,774
Total current liabilities	29,525	26,841	18,766	16,734

### 13. PROVISION FOR INSURANCE CONTRACTS

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Provision for outstanding claims liability (refer note 13a)	3,989	3,611	-	-
Provision for unearned premium (refer note 13c)	5,734	5,213	-	-
	9,723	8,824	-	-

#### (a) Provision for outstanding claims liability

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Amounts provided during the year	3,130	2,828	-	-
Claims handling costs	609	551	-	-
Risk margin	250	232	-	-
Closing balance	3,989	3,611	-	-

Claims are predominantly short-term in nature, and are generally settled within twelve months of being incurred. Accordingly, amounts are not discounted

#### (b) Reconciliation of movements in provision for outstanding claims liability

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Opening balance	3,611	2,630	-	-
Amounts utilised during the year	(2,848)	(2,205)	-	-
Reversal of unused provision	19	144	-	-
Amounts provided during the year	3,131	2,829	-	-
Movement in claims handling costs	58	150	-	-
Movement in risk margin	18	63	-	-
Closing balance	3,989	3,611	-	-



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 13. PROVISION FOR INSURANCE CONTRACTS (CONTINUED)

(c) Reconciliation of movements in the provision for unearned premium	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Opening balance	5,213	5,306	-	-
Premiums written in the year	20,552	19,083	-	-
Premiums earned during the year	(20,031)	(19,176)	-	-
Closing balance	5,734	5,213	-	-

### 14. RISK MANAGEMENT

The Group and Parent are exposed to a number of risks in the normal course of business. Primarily there is the risk of conducting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (interest rate risk and foreign currency risk), and non-financial risks (operational risk and compliance risk). The Trustees and management recognise the importance of having an effective risk management policy in place. The risks and any objectives, policies and processes to manage the risks are described below.

#### A. Insurance risk

Southern Cross Benefits Limited assumes insurance risk through its travel insurance activities. The key risk arises in respect of claims costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

##### Risk management objectives, policies and processes for mitigating risk

The primary objective in managing risk is, as far as possible, to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the business if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

- Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- Strict claims management procedures to ensure the payment of claims in accordance with policy conditions.
- Maintaining a reinsurance programme which protects the Company against single large claims in excess of the Company's retention, and against a catastrophic event involving multiple claims.
- A long-term pricing strategy adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results and detailed investigations into the claims experience of the portfolio.
- A target capital adequacy standard / minimum capital requirement based on a number of industry benchmarks.

##### Sensitivity to insurance risk

The financial results of Southern Cross Benefits Limited are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 23.

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit involves the reimbursement of losses during travel for medical and surgical expenses in addition to the losses relating to personal property, cancellation, personal accident and personal liability, and rental vehicle excesses. The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 14. RISK MANAGEMENT (CONTINUED)

#### Concentration of insurance risk

Southern Cross Benefits Limited transacts travel insurance business in New Zealand for inbound and outbound travellers. The nature of its business means that this concentration of risk cannot be avoided. Management defines concentration of risk by geographic region, specific destination, and unknown and unforeseen accumulations of insured on a single transport carrier. Southern Cross Benefits Limited is most at risk to the global commercial aviation industry and its ability to offer continuous operations given the impacts of oil prices, pandemics, and terrorism.

Concentration risks are mitigated by "per event" catastrophe reinsurance cover. Southern Cross Benefits Limited has a reinsurance arrangement through Munich Reinsurance Company Germany - New Zealand Branch, Allianz AG Reinsurance Branch Asia Pacific - Singapore Branch and HCC International Insurance Company plc, UK, to protect it from high-severity losses and catastrophic events. Reinsurance is placed to cover losses in excess of agreed retentions, using excess of loss reinsurance.

#### **B. Financial risks**

##### Credit risk

In the normal course of its business the Group and Parent incur credit risk from its hospital and travel insurance operations and from investment in financial assets. There are no significant concentrations of credit risk.

The Group and Parent maintain a credit policy which is used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis. The maximum exposure to credit risk at balance date is the amount of financial assets and receivables stated in the balance sheet. These exposures are net of any recognised provisions for impairment losses. The Group and Parent do not require any collateral or security to support financial assets due to the quality of the counter-party organisations.

##### Liquidity risk

The Group and Parent are exposed to daily calls on available cash resources from operations. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Trustees set limits on the minimum proportion of maturing funds available to meet such calls to cover claims and expenses at unexpected levels of demand.

The contractual maturities of financial assets are as follows:

	Group		Parent	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
On call	500	2,000	-	-
0 – 6 months	22,206	18,435	-	-
7 – 12 months	-	4,999	-	-
1 – 2 years	500	2,000	-	-
2 – 5 years	10,456	506	-	-
Beyond 5 years	-	1,000	-	-
	33,662	28,940	-	-

The cash and cash equivalents are available on call. All premiums receivable are due within one month of balance date. Substantially all liabilities are payable within one year of balance date.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 14. RISK MANAGEMENT (CONTINUED)

#### C. Market risks

##### Foreign currency risk

At 30 June 2008, Southern Cross Benefits Limited had assets of \$515,425 and liabilities of \$8,009 denominated in foreign currencies (30 June 2007 assets of \$1,352,298 and liabilities of \$2,284). Foreign currency bank balances are maintained to meet future claim expenses in these currencies thereby creating a natural hedge.

##### Interest rate risk

The Parent invests in on call deposits with banks. Southern Cross Benefits Limited invests in both fixed and variable rate financial instruments such as bonds, commercial paper and floating rate notes. There is a risk that the movement in interest rates can have an effect on the profitability and cash flows of Southern Cross Benefits Limited. It maintains a spread of types and maturities of investments to mitigate this risk.

##### Fair value risk

The fair value of financial assets held by Southern Cross Benefits Limited can fluctuate depending on changes in interest rates. Southern Cross Benefits Limited policy is to hold all investments until maturity. This eliminates any effects of fair value changes to the investments upon realisation; however unrealised fair value changes are recognised in the income statement for each period. The following analysis shows the impact of notional changes in interest rates on profitability :

	Group		Parent	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Impact of increase by 100 basis points on income statement	210	165	-	-
Impact of decrease by 100 basis points on income statement	(210)	(165)	-	-

##### Cash flow interest rate risk

The cash flows from investments of the Group and Parent in the short term are susceptible to changes in interest rates. However, as the majority of investments are fixed-rate, and these investments are held until maturity, this exposure is mitigated. The following analysis shows the impact of notional changes in interest rates on cash flows for Southern Cross Benefits Limited:

	Group		Parent	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Impact of increase by 100 basis points on income statement	141	134	-	-
Impact of decrease by 100 basis points on income statement	(141)	(134)	-	-

#### D. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the balance sheet are carried at amounts that approximate fair value.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 15. CREDIT RATING

On 21 February 2008 Standard & Poor's reaffirmed Southern Cross Benefits Limited's Insurer Financial Strength Rating of A+. This signifies the insurer "has strong financial security characteristics".

### 16. FINANCIAL SOUNDNESS

Southern Cross Health Trust is a not-for-profit organisation. The Trust's capital of \$182.4 million (2007: \$164.2 million) is equal to the funds as disclosed in the financial statements. The Group and Parent solvency and funds adequacy position is formally reviewed each year against a number of criteria, to establish whether there is sufficient capital to meet the commitments in the event of a major deviation in claims or investment experience. The ongoing position relative to these criteria is monitored monthly. The Trustees consider the current level of funds is sufficient for the requirement of maintaining financial soundness. There have been no material changes to the Trust's policy for the management of its funds during the financial year.

### 17. RELATED PARTIES

Identity and relationship of related parties:

#### Group

Southern Cross Health Trust ("Trust")	Parent
Southern Cross Benefits Limited ("Benefits")	100% subsidiary of Trust
Southern Cross Health Trust Gillies Partnership Limited	100% subsidiary of Trust
Southern Cross Hospitals Oxford Partnership Limited	100% subsidiary of Trust
Southern Cross Health Trust Tauranga Partnership Limited	100% subsidiary of Trust
Southern Cross Hospitals Radiotherapy Partnership Limited	100% subsidiary of Trust
Southern Cross QE Limited	70% subsidiary of Trust

#### Joint ventures and associates

Gillies Hospital Partnership ("Gillies")	Joint venture
Oxford Clinic Hospital Partnership ("Oxford")	Joint venture
Norfolk Southern Cross Partnership ("Norfolk")	Joint venture
Waitemata Endoscopy Limited ("Waitemata")	Joint venture
Auckland Radiotherapy Partnership	Joint venture
Mercy Angiography Limited	Associate
Ormiston Surgical & Endoscopy Limited	Associate

#### Other related parties

Southern Cross Medical Care Society ("Society")	Related party of Trust
Trustees of Southern Cross Health Trust	Directors of Southern Cross Medical Care Society

The Trust 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.

All Group entities provide their normal services to other Group entities on normal commercial terms.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 17. RELATED PARTIES (CONTINUED)

The value of transactions within the Group entities are:

	Purchases		Sales	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Benefits	12	12	-	-

The outstanding balances within the Group entities are:

	Payables		Receivables	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Benefits	-	4	2	-

The value of transactions with joint ventures and associates are:

	Purchases		Sales	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Gillies	264	291	274	274
Oxford	-	-	102	88
Norfolk	-	-	170	170
Waitemata	-	-	39	0

The outstanding balances with joint venture and associates are:

	Payables		Receivables	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Gillies	32	45	-	-
Oxford	-	-	-	-
Norfolk	-	-	13	16
Waitemata	-	-	-	-

Investments in and distributions to and from subsidiaries, joint ventures and associates are disclosed in note 8.

The value of transactions with other related parties are:

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Sale of services	-	-	116	227
Purchase of services	3,907	3,264	2,904	2,309

The outstanding balances with other related parties are:

	Group		Parent	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Balance outstanding on sales	-	123	-	123
Balance outstanding on purchases	145	-	145	-



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 18. RECONCILIATION OF NET SURPLUS WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Parent	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Net Surplus</b>	18,154	19,733	13,746	16,061
<i>Adjustments for:</i>				
Depreciation	11,628	9,089	11,550	8,985
Amortisation	152	48	152	11
Equity accounted earnings from hospital partnerships and associates	(1,300)	(1,868)	-	-
Foreign currency exchange movement	(38)	115	-	-
Movement in valuation of investments	278	52	-	-
Loss/(surplus) on disposal of property, plant and equipment	82	2	82	2
Provision for unearned premium	521	(93)	-	-
Provision for outstanding claims	378	981	-	-
Provision for employee benefits	(1,043)	681	(991)	672
<i>Changes in assets and liabilities:</i>				
Inventory	48	(660)	48	(660)
Accounts receivable	(4,133)	(3,759)	(3,909)	(3,696)
Accounts payable	2,754	2,855	2,686	3,408
<b>Net cash inflow from operating activities</b>	<b>27,481</b>	<b>27,176</b>	<b>23,364</b>	<b>24,783</b>

### 19. SEGMENT REPORTING AND PRINCIPAL ACTIVITIES

Southern Cross Health Trust operates 10 private surgical hospitals throughout New Zealand. In addition it has invested in a number of hospital joint venture partnerships and associates.

Southern Cross Benefits Limited provides a range of travel insurance products for inbound and outbound travellers.

The following table presents revenue and surplus information and certain asset and liability information regarding business segments for the years ended 30 June 2008 and 30 June 2007.

	Healthcare Sector		Travel Insurance	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Income</b>				
Income from external customers	169,476	145,018	19,568	18,724
Other income	3,076	6,423	2,691	2,089
Total consolidated income	172,552	151,441	22,259	20,813
<b>Result</b>				
Segment result	13,745	16,055	3,109	1,810
Share of surplus from joint ventures	1,300	1,868	-	-
Net surplus for the year	15,045	17,923	3,109	1,810



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 19. SEGMENT REPORTING AND PRINCIPAL ACTIVITIES (CONTINUED)

	Healthcare Sector		Travel Insurance	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Assets and liabilities</b>				
Segment assets	162,337	148,156	35,651	31,747
Investment in associates	2,636	800	-	-
Investments in joint ventures	11,347	10,364	-	-
Total assets	176,320	159,320	35,651	31,747
Segment liabilities	18,614	16,725	10,911	10,116
Total liabilities	18,614	16,725	10,911	10,116
<b>Other segment information</b>				
Depreciation and amortisation	11,702	8,996	78	141
<b>Cash flow information</b>				
Net cash flow from operating activities	23,364	24,783	4,117	2,390
Net cash flow from investing activities	(29,127)	(27,599)	(5,001)	(977)
Net cash flow from financing activities	-	-	-	-

### 20. LEASE COMMITMENTS

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

	Group		Parent	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Less than one year	320	118	320	118
Between one and five years	1,280	708	1,280	708
More than five years	416	35	416	35
	2,016	861	2,016	861

The lease commitment relates to rental due on leasehold land occupied by the Parent. The lease is subject to a rent review for the remaining six years of the lease term.

### 21. CAPITAL COMMITMENTS

The Group and the Parent has capital commitments as at 30 June 2008 of \$521,890 relating to construction contracts underway and equipment purchases (2007 \$8.5 million).

### 22. CONTINGENT LIABILITIES

The Group and the Parent had no contingent liabilities as at 30 June 2008 (2007 Nil).



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 23. ACTUARIAL INFORMATION

Estimates of the provision for outstanding claims as at 30 June 2008 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 Appendix D of NZ IFRS 4 – Financial Reporting of Insurance Contracts, 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. No adjustment for large claims has been made in 2008 (2007: an additional provision was established in respect of two unusually large claims reported but not paid).

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

An additional margin of 8.0% (2007: 8.2%) has been added to the central estimate of the outstanding claim costs, to take account of the uncertainties inherent in the setting of claim provisions. The actuary has estimated that this margin provides a 75% (2007: 75%) likelihood of the sufficiency of the claim provisions.

A further provision of 18.0% (2007: 18.0%) of the central estimate of the outstanding claims has been made for direct and indirect claim management costs.

The actuary has reviewed the adequacy of the unearned premium provision at 30 June 2008. In performing this test, an additional margin of 16.0% (2007: 16.4%) has been added to the central estimate of the future claim costs, to take account of the uncertainties inherent in the central estimate. The actuary has estimated that this margin provides a 75% (2007: 75%) likelihood of the sufficiency of the amount of future claims. A further allowance of 18.0% (2007: 18.0%) has been made for direct and indirect claim management costs.

In the actuary's view, there is no requirement to recognise any unexpired risk provision in excess of the unearned premium provision (2007: no provision required).

### 24. REMUNERATION OF TRUSTEES/DIRECTORS/SENIOR MANAGEMENT

Trustees/Directors fees paid by the Parent for the year ended 30 June 2008 were as follows:

Trustee/Director	Group Amount \$
J G Todd (Chairman)	55,000
Dr D Baird – appointed 1 July 2007	30,000
Ms C B Durbin	30,000
Dr D H Gray	30,000
Dr S C Macken	30,000
D J May	30,000
P J Meyer	30,000

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. From 1 January 2006 remuneration of Southern Cross Benefits Limited directors has been borne by the Parent.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 24. REMUNERATION OF TRUSTEES/DIRECTORS/SENIOR MANAGEMENT (CONTINUED)

Senior Management	Group		Parent	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Annual remuneration	2,174	2,051	1,718	1,644

### 25. TAXATION

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

### 26. SUBSEQUENT EVENTS

Investments entered into subsequent to balance date include:

Advance of \$1,845,000 to Gillies Hospital Property Partnership for the purchase of the property at 160 Gillies Avenue, Auckland.

Payment of a further call on shares of \$868,332 in Southern Cross QE Limited

### 27. IMPACT OF ADOPTION OF NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

#### I Reconciliation of financial statements

As stated in note 1, these are the Trust's first financial statements prepared in accordance with NZ IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2008, the comparative information presented in these financial statements for the year ended 30 June 2007 and in the preparation of an opening NZ IFRS balance sheet at 1 July 2006.

In preparing its opening NZ IFRS balance sheet, the Trust has adjusted amounts reported in previous financial statements prepared in accordance with its old basis of accounting (previous NZ GAAP). Some items have been reclassified to align with classifications adopted under NZ IFRS reporting. An explanation of the effects of the transition to NZ IFRS on the Group and Parent's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Transition to NZ IFRS did not result in any changes to the statement of cash flows.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 27. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

#### (a) Reconciliation of the balance sheet at date of transition to NZ IFRS - 1 July 2006.

Group 1 July 2006	Note	Previous NZ GAAP \$000	Reclass- ification \$000	Effect of transition \$000	NZ IFRS \$000
<b>Current assets</b>					
Cash and cash equivalents		16,658	-	-	16,658
Trade and other receivables	II.c	12,428	-	396	12,824
Financial assets		24,525	-	-	24,525
Inventories		1,543	-	-	1,543
<b>Total current assets</b>		<b>55,154</b>	<b>-</b>	<b>396</b>	<b>55,550</b>
<b>Non-current assets</b>					
Financial assets	II.a	3,493	-	124	3,617
Investments		9,643	-	-	9,643
Fixed assets	III	92,247	(52)	-	92,195
Intangibles	III	-	52	-	52
Goodwill		5,727	-	-	5,727
<b>Total non-current assets</b>		<b>111,110</b>	<b>-</b>	<b>124</b>	<b>111,234</b>
<b>Total assets</b>		<b>166,264</b>	<b>-</b>	<b>520</b>	<b>166,784</b>
<b>Current liabilities</b>					
Trade and other payables	III	10,523	476	-	10,999
Provisions	II.b, III	11,198	(476)	570	11,292
<b>Total current liabilities</b>		<b>21,721</b>	<b>-</b>	<b>570</b>	<b>22,291</b>
<b>Net assets</b>		<b>144,543</b>	<b>-</b>	<b>(50)</b>	<b>144,493</b>
<b>Trust funds</b>		<b>144,543</b>	<b>-</b>	<b>(50)</b>	<b>144,493</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 27. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

#### (a) Reconciliation of the balance sheet at date of transition to NZ IFRS - 1 July 2006 (continued).

Parent 1 July 2006	Note	Previous NZ GAAP \$000	Reclass- ification \$000	Effect of transition \$000	NZ IFRS \$000
<b>Current assets</b>					
Cash and cash equivalents		16,553	-	-	16,553
Trade and other receivables	II.c	14,760	-	396	15,156
Financial assets		-	-	-	-
Inventories		1,543	-	-	1,543
<b>Total current assets</b>		32,856	-	396	33,252
<b>Non-current assets</b>					
Financial assets		-	-	-	-
Investments		1,400	-	-	1,400
Fixed assets	III	91,871	(15)	-	91,856
Intangibles	III	-	15	-	15
Goodwill		5,727	-	-	5,727
<b>Total non-current assets</b>		98,998	-	-	98,998
<b>Total assets</b>		131,854	-	396	132,250
<b>Current liabilities</b>					
Trade and other payables		9,363	-	-	9,363
Provisions		3,147	-	-	3,147
<b>Total current liabilities</b>		12,510	-	-	12,510
<b>Net assets</b>		119,344	-	396	119,740
<b>Trust funds</b>		119,344	-	396	119,740



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 27. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

#### (b) Reconciliation of the Group and Parent balance sheet as at 30 June 2007.

Group 30 June 2007	Note	Previous NZ GAAP \$000	Reclass- ification \$000	Effect of transition \$000	NZ IFRS \$000
<b>Current assets</b>					
Cash and cash equivalents		15,249	-	-	15,249
Trade and other receivables	II.c, III	16,532	(6)	396	16,922
Financial assets		25,434	-	-	25,434
Inventories		2,203	-	-	2,203
<b>Total current assets</b>		<b>59,418</b>	<b>(6)</b>	<b>396</b>	<b>59,808</b>
<b>Non-current assets</b>					
Financial assets	II.a	3,417	-	89	3,506
Investments		11,164	-	-	11,164
Fixed assets		110,861	-	-	110,861
Intangibles		1	-	-	1
Goodwill	II.d	5,067	-	660	5,727
<b>Total non-current assets</b>		<b>130,510</b>	<b>-</b>	<b>749</b>	<b>131,259</b>
<b>Total assets</b>		<b>189,928</b>	<b>(6)</b>	<b>1,145</b>	<b>191,067</b>
<b>Current liabilities</b>					
Trade and other payables	III	13,723	302	-	14,025
Provisions	II.b, III	12,341	(308)	783	12,816
<b>Total current liabilities</b>		<b>26,064</b>	<b>(6)</b>	<b>783</b>	<b>26,841</b>
<b>Net assets</b>		<b>163,864</b>	<b>-</b>	<b>362</b>	<b>164,226</b>
<b>Trust funds</b>		<b>163,864</b>	<b>-</b>	<b>362</b>	<b>164,226</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 27. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

#### (b) Reconciliation of the Group and Parent balance sheet as at 30 June 2007 (continued).

Parent 30 June 2007	Note	Previous NZ GAAP \$000	Reclass- ification \$000	Effect of transition \$000	NZ IFRS \$000
<b>Current assets</b>					
Cash and cash equivalents		13,737	-	-	13,737
Trade and other receivables	ll.c	18,456	-	396	18,852
Financial assets		-	-	-	-
Inventories		2,203	-	-	2,203
<b>Total current assets</b>		34,396	-	396	34,792
<b>Non-current assets</b>					
Financial assets		-	-	-	-
Investments		1,400	-	-	1,400
Fixed assets		110,615	-	-	110,615
Intangibles		1	-	-	1
Goodwill	ll.d	5,067	-	660	5,727
<b>Total non-current assets</b>		117,083	-	660	117,743
<b>Total assets</b>		151,479	-	1,056	152,535
<b>Current Liabilities</b>					
Trade and other payables		12,960	-	-	12,960
Provisions		3,774	-	-	3,774
<b>Total current liabilities</b>		16,734	-	-	16,734
<b>Net assets</b>		134,745	-	1,056	135,801
<b>Trust funds</b>		134,745	-	1,056	135,801



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 27. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

#### (c) Reconciliation of the Group and Parent surplus for the year ended 30 June 2007.

Group 30 June 2007	Note	Previous NZ GAAP \$000	Reclass- ification \$000	Effect of transition \$000	NZ IFRS \$000
<b>Operating income</b>	III	163,883	(141)	-	163,742
Employee expenses		45,650	-	-	45,650
Net claims expenses	II.b	11,152	-	213	11,365
Hospital direct expenses		72,369	-	-	72,369
		129,171	-	213	129,384
<b>Gross profit</b>		34,712	(141)	213	34,358
Occupancy expenses		9,467	-	-	9,467
Communication and marketing expenses		4,161	-	-	4,161
Computer expenses		2,318	-	-	2,318
Finance expenses	II.d	2,265	-	(660)	1,605
Personnel expenses		1,018	-	-	1,018
Other expenses		4,568	-	-	4,568
		23,797	-	(660)	23,137
<b>Operating surplus</b>		10,915	(141)	447	11,221
Share of profit on equity accounted investments		1,868	-	-	1,868
Interest and other income	II.a, III	6,538	141	(35)	6,644
<b>Net surplus</b>		19,321	-	412	19,733



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 27. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

#### (c) Reconciliation of the Group and Parent surplus for the year ended 30 June 2007 (continued).

Parent 30 June 2007	Note	Previous NZ GAAP \$000	Reclass- ification \$000	Effect of transition \$000	NZ IFRS \$000
<b>Operating income</b>		145,017	-	-	145,017
Employee expenses		43,476	-	-	43,476
Hospital direct expenses		72,369	-	-	72,369
		115,845	-	-	115,845
<b>Gross profit</b>		29,172	-	-	29,172
Occupancy expenses		9,166	-	-	9,166
Communication and marketing expenses		1,756	-	-	1,756
Computer expenses		1,856	-	-	1,856
Finance expenses	ll.d	1,646	-	(660)	986
Personnel expenses		896	-	-	896
Other expenses		2,891	-	-	2,891
		18,211	-	(660)	17,551
<b>Operating surplus</b>		10,961	-	660	11,621
Interest and other income		4,440	-	-	4,440
<b>Net surplus</b>		15,401	-	660	16,061



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

### 27. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

#### II Explanation of adjustments between previous NZ GAAP and NZ IFRS

##### (a) Adjustments to investments and other income

Under previous NZ GAAP the discount or premium on purchase of investments was capitalised and then amortised over the term of the investment. Under NZ IFRS, with the designation of financial assets at fair value through the income statement, the discount or premium has to be recognised immediately in the income statement. Therefore the discount or premium previously recognised in the balance sheet and amortisation in the income statement under previous NZ GAAP have been adjusted.

##### (b) Adjustments to insurance contract liabilities and claims expense

Under NZ IFRS an additional risk margin, and an allowance for claim management costs, are included in the calculation of the provision for outstanding claims. Refer to note 23, actuarial information, for details.

##### (c) Adjustments to accounts receivable and opening retained earnings

Under previous NZ GAAP a provision for doubtful debts could be estimated for total accounts receivable. Under NZ IFRS, a provision must be estimated reliably against individual debts. The provision for doubtful debts has been adjusted back against accounts receivable and retained earnings at 1 July 2006.

##### (d) Adjustments to goodwill and amortisation expense

Under NZ IFRS goodwill on acquisition is impairment tested at the end of each financial year as part of the assets of the cash generating unit it is allocated to rather than amortised over up to 20 years as previously under NZ GAAP. The 2007 financial year amortisation cost has been added back on to goodwill.

#### III Explanation of reclassifications

Under NZ IFRS, computer software is classified as an intangible asset, rather than as equipment under previous NZ GAAP.

Commissions received have been reclassified as an investment and other income to align with current year classifications under NZ IFRS. Unpresented claims cheques have been reclassified as payables rather than insurance contract liabilities to align with current year classifications under NZ IFRS.



## Audit Report to the Trustees of Southern Cross Health Trust

We have audited the financial statements on pages 7 to 39. The financial statements provide information about the past financial performance and financial position of the Trust and Group as at 30 June 2008. This information is stated in accordance with the accounting policies set out on pages 10 to 15.

### 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 2008 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 applied 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 also provided other services to the Trust in relation to accounting advisory 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 39:
  - 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 2008 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 30 September 2008 and our unqualified opinion is expressed as at that date.

**KPMG**  
**AUCKLAND**

# directory

## **Southern Cross Health Trust**

### **Registered Office**

PO Box 6772, Wellesley St  
Level 10, AMP Centre,  
29 Customs St West, Auckland  
Ph: 09 925 5300  
Fax: 09 366 1423

### **Website:**

[www.southerncross.co.nz](http://www.southerncross.co.nz)



**Southern Cross  
Healthcare**

