Annual Report 2007

Healthcare for Professionals

PROFMED

Notice of Annual General Meeting

Notice to members

Notice is hereby given that the 37th annual general meeting ("the meeting") of the members of Profmed will be held at 6 Anerley Road, Parktown, Johannesburg on Thursday 29 May 2008 at 15:30.

Agenda:

1. To receive and adopt the annual financial statements for the year ended 31 December 2007 (including the reports of the trustees and the auditors of Profmed).
2. To re-appoint PricewaterhouseCoopers Inc. as the auditors of Profmed for 2008/9 in terms of rule 27 of the rules of Profmed.
3. To confirm the 2007 remuneration of the trustees.
4. To note the election of one trustee in accordance with the rules of Profmed.
5. To transact such other business as may be transacted at an annual general meeting (subject to the rules of Profmed, and in particular rule 28.1.6, and the provisions of the Medical Schemes Act No. 131 of 1998, as amended).

By order of the Board of Trustees

Graham R Anderson
Principal Officer
4 April 2008

Contents

2 Chairman's Report

Dr EJ Thorburn
Chairman of the Board of Trustees

Introduction

The previous four years were challenging and fraught with change, and 2007 proved to be no different. I am pleased to say, however, that Profmed and its Board of Trustees rose to the challenge yet again!

Administration

Profmed is fortunate to have a truly excellent administration in place. It therefore came as no surprise that the Council for Medical Schemes, the regulator of the medical scheme industry, had no reservations in unconditionally accrediting the Scheme's administrator.

To further enhance our administration and service, the hospital and specialised radiology authorisation and management function was brought in-house. With fully integrated systems, we anticipate a more streamlined and efficient service to members.

Governance

Profmed's Board of Trustees takes corporate governance seriously and as such all Scheme charters are under constant review, with Trustees, the Board and Board committees being subject to annual evaluation. Trustees also attend Council for Medical Scheme's and other relevant industry training. Outsourced and third party contracts are also reviewed annually.

Medical Inflation

A constant threat and challenge is coping with ever-escalating medical inflation. The largest contributor to this phenomenon is hospital costs, and Profmed is not exempt from its effects. The Minister of Health is to be encouraged in her renewed interest in addressing this issue, which will hopefully meet with a similar degree of success as that achieved with medicine costs, to the benefit of the average man in the street.

Another hurdle is dealing with the huge cost of technological advances, as well as the introduction of increasing numbers of prohibitively expensive "biological" drugs, many of which are yet to be proved effective. While not wishing to deny treatment, Trustees must assess the cost-effectiveness of funding these drugs while maintaining contributions at realistic and affordable levels.

Financial

PricewaterhouseCoopers, the Scheme's auditors, issued an unmodified audit report on the set of accounts they were required to audit this year. This is reassurance indeed of the integrity of Profmed and that of its administrator, and both are to be congratulated.

As intimated in my report last year, Profmed allocated R50 million from reserves to fund 2008 benefits. This enabled the Scheme to enhance benefits and subsidise contributions to lower levels.

Profmed budgeted for an operating loss of R17.7 million for the 2007 financial year. However, Profmed benefited from shrewd yet prudent investments, yielding an overall growth in capital of R41.5 million. This had the effect of increasing reserves.

Administration Fees

As anticipated in the 2006 Annual Report, Profmed's administration fees have decreased. Profmed is one of the few schemes in the industry able to report this positive trend and the Scheme's administration fees compare favourably with those in the industry.

Benefits

On the strength of the stronger reserves, and after consultation with the Scheme's actuaries, NMG, the

Trustees were again in a position to offer further enhanced benefits for 2008. This places Profmed as one of the few medical schemes able to do so.

However, a note of caution must be sounded. Volatile markets and uncertainty in respect of the economy could jeopardise Profmed's best intentions in respect of benefit design going forward.

Investments

Upholding good governance, and to capitalise on the Scheme's healthy reserves, the Board of Trustees took a more proactive and critical approach to investments. The investment function was put out to tender and after extensive investigation Investec Private Bank was appointed as Profmed's investment manager. The investment strategy adopted by the Scheme is designed to meet the challenges of the volatility of the market and to ensure steady returns.

Strategy

Growth of membership continues to be the Board's prime concern. Profmed is an ageing scheme and many young graduate members have emigrated, necessitating the influx of younger members to the Scheme. Size does count, not only in creating economies of scale, but also in negotiating favourable tariffs on behalf of the Scheme's members.

With this in mind, in October 2007, a marketing campaign was launched in both radio and selected print media. This has proved successful and, in 2008, for the first time in four years, the Scheme has seen a growth in membership. In addition, a dedicated in-house broker consultancy division has been launched, which is aimed at improving existing broker relationships and forging new broker relationships.

Trustees

The Profmed Board is indeed blessed with a wonderful diversity of talent, expertise and experience. Welcomed to the Board in 2007 are Etienne Huggett, Dr Elijah Nkosi and Robin Theunissen. I thank the Trustees for the encouragement and support they give to both me and the executive office staff.

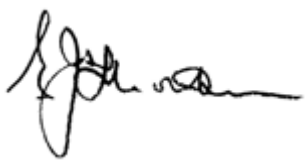
Staff

Profmed said a reluctant farewell to the Scheme's Medical Advisor, Dr Keerti Dajee. Dr Clyde Green-Thompson was welcomed on a part-time basis in her place, assisted by Wendy Schleifer, a qualified ICU sister, as Clinical Advisor.

Graham Anderson, Principal Officer, and Scheme Manager, Beverley Carrozzo, head up the efficient and dedicated executive office team.

The Future

Growth remains our key challenge. Our objective is that Profmed becomes bigger and better – in fact, the best medical scheme in the country, designed to meet the exclusive needs of professionals.



Dr Eric Thorburn
Chairman

4 Report of the Board of Trustees

The Board of Trustees hereby presents its report for the year ended 31 December 2007.
(Registration number: 00061)

1. Management

1.1 Board of Trustees in office during the year under review

Dr EJ Thorburn (Chairman)
(re-appointed 22 June 2006)
Qualified in dentistry at the University of the Witwatersrand in 1955 and received a post-graduate diploma in Clinical Dentistry (Cum Laude) at the University of Stellenbosch in 2000. He retired towards the end of 2004. Dr Thorburn has been a trustee since the inception of the present Board.

Ms EL Prins (Vice-Chairman)
(re-appointed 22 June 2006)
With BLC LLB and LLM (Cum Laude) degrees behind her name, she is also a qualified attorney, notary and conveyancer of the High Court of SA and healthcare consultant. Ms Prins' career in healthcare started at the SA Medical Association (SAMA), after which she joined the Board of Health Executives (Fedsure Health). Esmé practised in her own healthcare consulting business for four years and joined Benguela Health in 2006, consulting in healthcare in South Africa and the rest of Africa.

Dr MM Bhikhoo
(re-appointed 26 May 2005)
A MB.,BCh. graduate from the University of the Witwatersrand, Dr Bhikhoo also holds a diploma in Tropical Medicine and Health from the same university (1985 – D T M & H). Dr Bhikhoo is an Honorary Lecturer at the Department of Family Medicines at Wits. He served for some years on the Profmed Disputes Committee before his appointment as a trustee.

Dr SA Craven
(re-elected 22 June 2006)
Qualified as a medical practitioner at Oxford and subsequently obtained a PhD from the University of Cape Town. Dr Craven has been a trustee since the inception of the present Board. He is in private practice in Cape Town and serves as a Branch Councillor of the SA Medical Association. He attended the inmates of Pollsmoor prison for 15 years. Dr Craven is currently a director of Cape Primary Care and an Honorary Lecturer at the Department of Family Medicine at the University of Cape Town.

Mr E Huggett
(elected 24 May 2007)
Mr Huggett was Chief Executive of PPS and Profmed for 15 years prior to the amendments to the Medical Schemes Act and served as a Director of PPS until 2005. He is a trustee and Deputy Chairman of the PPS Retirement Annuity Fund and served as legal advisor to three major South African listed companies. He is currently in private legal practice.

Dr E Nkosi
(appointed 24 May 2007)
As a general practitioner practicing in Soweto, Dr Nkosi is also Chairman of the Board at the Chris Hani Baragwanath Hospital; a non-executive director in the JSE listed company Phumelela Leisure Limited; Chief Executive Officer of the SAMDP Provider Network and a director of various BEE companies and NGOs.

Dr Y Omar Carrim
(resigned 24 May 2007)
Dr Carrim CA (SA), is both a Registered Accountant and Auditor, and a General Medical Practitioner based in Pretoria.

Ms FK Robertson
(resigned 24 May 2007)
A pharmacist by profession, with additional qualifications in holistic healthcare and almost twenty years experience in the pharmaceutical industry. She has been involved in healthcare funding for more than ten years with the Board of Healthcare Funders, of which she is currently a director.

Dr RD Shuttleworth
(appointed 22 June 2006)
Dr Shuttleworth has been a general surgeon in private practice in Bellville since 1984. He is past Chairman and past President of the Tygerberg Boland Branch of SAMA and served on the Private Practice Committee and Constitutional Committee of the SAMA National Council.

Mr R Stoutjesdyk
(term expired 24 May 2007)
Mr Stoutjesdyk is an independent business consultant who facilitates business model interrogation. He also plays various roles in both the academic and skills development fields. He is a member of the Institute of Directors in Southern Africa and is a registered Master Human Resources Practitioner with the South African Board for Personnel Practice.

Mr RN Theunissen
(appointed 24 May 2007)
Mr Theunissen obtained a B. Acc. from the University of the Witwatersrand and qualified as a chartered accountant in 1982. He served as Senior Executive of the South African Institute of Chartered Accountants (SAICA) for 11 years and continues to serve on various audit committees and boards. He is currently operating a forensic auditing and accounting practice.

Dr HS van Riet
(re-elected 24 May 2007)
Dr Van Riet is a National Councillor for SAMA, and has been President and Chairman of the Cape Western branch of SAMA. He is currently in private practice in Hermanus.

Mr G Warrender
(elected 26 May 2005)
Mr Warrender qualified at the University of Natal with a BCom and post-graduate LLB and is currently in private legal practice in Johannesburg. He assisted boards of trustees of various blue chip closed and open schemes with administration, legislative and rule compliance. He has also sat on a number of audit, benefit, ex-gratia and disputes committees. Mr Warrender sits on Profmed's Executive Committee and Audit Committee and is Chairman of the Governance, Strategy & Risk Committee.

Board proceedings
The Board met six times during 2007 (2006: six times). The Trustees have full and unrestricted access to relevant information. The Trustees are elected or appointed from the Profmed membership.

1.2 Principal Officer
Mr GR Anderson
Mr Anderson practised in his private healthcare consulting business for seven years before joining Profmed as Principal Officer in August 2003, prior to which he was a Trustee of Profmed. His years as a pharmacist and later as a senior employee and Director of Clinic Holdings group of hospitals have been of great value.

1.3 Registered office address and postal address

6 Anerley Road	P.O. Box 1089
Parktown	Houghton
2193	2041

1.4 Medical scheme administrator during 2007
PPS Medical Scheme Administrator (Proprietary) Limited
(Accreditation number: Admin 37)

67 Koranna Avenue	Private Bag X1031
Doringkloof	Lyttelton
0157	0140

1.5 Auditors
PricewaterhouseCoopers Inc.

32 Ida Street	P.O. Box 35296
Menlo Park	Menlo Park
Pretoria	0102

1.6 Investment managers
Investec Private Bank
(Financial Services Provider number: 8102)

100 Grayston Drive	P.O. Box 785700
Sandown	Sandton
Sandton	2146

1.7 Actuaries
NMG Consultants and Actuaries (Proprietary) Limited

NMG House	P.O. Box 3075
256 Kent Avenue	Randburg
Randburg	2125

2. Description of the Scheme

2.1 Terms of registration

Profmed is a restricted membership scheme registered in terms of the Medical Schemes Act 131 of 1998, as amended.

2.2 Healthcare options within Profmed

During the year the following Scheme options were available exclusively to graduate professionals:

- ProPinnacle
- ProSecure Plus
- ProSecure
- ProActive Plus
- ProActive.

3. Investment policy of the Scheme

The Trustees continue to invest excess funds in line with Regulation 30 of the Act, as amended. The investment policy and strategy of the Scheme is regularly reviewed by the Board of Trustees. During the year, the investment policy and strategy was changed. The Scheme appointed Investec Private Bank as the asset managers during the year. The table below summarises the current strategic asset allocation of the Scheme:

	Cash	Equities	Property
Strategic parameters	60 - 80%	20 - 40%	0 - 10%
Tactical allocation	71.4%	25.6%	3.0%

4. Review of the accounting period's activities

4.1 Operational statistics per benefit option

2007	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total Scheme
Number of members at year-end	2 900	1 587	7 062	1 507	10 649	23 705
Average number of members for the year	2 903	1 524	7 104	1 417	10 866	23 814
Number of beneficiaries at year-end	6 507	3 544	18 620	3 441	29 794	61 906
Average number of beneficiaries for the year	6 532	3 403	18 680	3 256	30 145	62 016
Proportion of dependants at year-end	1.24	1.23	1.64	1.28	1.80	1.61
Average net contributions per member per month	R3 674	R2 246	R2 178	R1 181	R1 161	R1 841
Average net contributions per beneficiary per month	R1 633	R1 006	R828	R514	R418	R707
Relevant healthcare expenditure as percentage of gross contributions (claims ratio)	104.61%	112.26%	97.82%	65.20%	62.35%	89.15%
Non-healthcare expenditure as a percentage of gross contributions	7.35%	12.03%	12.41%	22.88%	23.28%	14.67%
Average age of beneficiaries per benefit option	46.74	40.52	38.47	32.20	31.60	35.80
Pensioner ratio per benefit option	22.51%	15.01%	11.61%	4.74%	4.10%	8.95%
Chronic profile per benefit option	93.07%	64.48%	52.87%	12.44%	11.20%	35.46%

2006	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total Scheme
Number of members at year-end	2 914	1 219	7 224	1 085	11 517	23 959
Average number of members for the year	2 943	1 160	7 277	971	11 848	24 199
Number of beneficiaries at year-end	6 632	2 713	18 979	2 537	31 711	62 572
Average number of beneficiaries for the year	6 732	2 577	19 094	2 308	32 305	63 016
Proportion of dependants at year-end	1.28	1.23	1.63	1.34	1.75	1.61
Average net contributions per member per month	R3 421	R2 060	R2 002	R1 152	R1 071	R1 687
Average net contributions per beneficiary per month	R1 496	R927	R763	R485	R393	R648
Relevant healthcare expenditure as percentage of gross contributions (claims ratio)	98.07%	118.36%	92.21%	60.34%	56.75%	83.29%
Non-healthcare expenditure as a percentage of gross contributions	6.78%	11.26%	11.59%	20.12%	21.66%	13.75%
Average age of beneficiaries per benefit option	45.68	40.80	37.86	32.05	30.86	35.01
Pensioner ratio per benefit option	20.88%	16.32%	10.91%	4.69%	3.68%	8.29%
Chronic profile per benefit option	87.03%	66.42%	48.14%	11.63%	9.73%	32.11%

4.2 Operational statistics for the Scheme

	2007	2006
Average accumulated funds per member	**R12 562**	R11 766
Breakdown of total amount paid to administrator:		
- Administration fees	**R37 199 000**	R36 879 000
- Non-recurring costs with the change of administrators	**R7 980 000**	R2 280 000
Return on investments as a percentage of investments	**17.71%**	13.29%

4.3 Results of operations

The Report of the Board of Trustees is one of the important documents that is presented together with, and accompanies the annual financial statements. Accordingly, references have been made directly to the page numbers, figures, notes and other statistics contained in the accompanying financial statements. In addition, the same abbreviations for certain names have been used consistently in this report and in the financial statements.

The results of the Scheme's operations are set out on page 15 of the annual financial statements. It should be noted that the relatively high level of administration fees this year and the previous year is considered temporary as it includes non-recurring costs incurred during the change of administrators. The administration fees reverted to more normal levels in the third quarter of 2007.

In the period under review, the ratio of relevant healthcare expenditure as a percentage of net contributions was 89.15% (2006: 83.29%). Managed care service expenses were 1.85% of net contributions (2006: 1.71%), while administration expenditure (inclusive of impairment losses) was 12.39% of contributions (2006: 11.57%).

Report of the Board of Trustees (continued)

4.4 Accumulated funds ratio

	2007 R'000	2006 R'000
The accumulated funds ratio is calculated as follows:		
Total members' funds per Balance Sheet	**299 149**	284 720
Less: Reserve for unrealised investment gains	**1 667**	28 769
Accumulated funds per Regulation 29 of the Act	**297 482**	255 951
Annual contribution per Income Statement	**526 133**	490 008
Accumulated funds ratio calculated as the ratio of accumulated funds/Gross annual contributions x 100	**56.54%**	52.23%
Minimum ratio required by Regulation 29 of the Act	**25.00%**	25.00%

Premium increases with effect 1 January were as follows:

	2007	2006
ProPinnacle	**7.85%**	3.75%
ProSecure Plus	**9.00%**	3.00%
ProSecure	**7.88%**	3.00%
ProActive Plus	**5.00%**	3.00%
ProActive	**5.00%**	3.00%

4.5 Members' funds and reserve accounts

Movements in the members' funds and reserve accounts are set out in the Statement of Changes in Funds and Reserves on page 16. There were no unusual movements for the Trustees to explain.

4.6 Outstanding claims

Movements on the outstanding claims provision are set out in Note 9 to the financial statements. The outstanding claims provision is made up of estimated claims incurred before and up to 31 December 2007 which had not been reported to the Scheme as at that date.

5. Actuarial valuation

The Scheme's actuaries have been consulted regarding the determination of the contribution and benefit levels. They have also assisted in determining the assumptions used in the calculation of the outstanding claims provision noted above. This is fully explained in the notes to the financial statements.

6. Outsourcing of the Scheme's administration

PPS Medical Scheme Administrator (Proprietary) Limited continued to perform the administration function of the Scheme for the current year.

7. Attendance at trustee and commitee meetings

The schedule below sets out Board of Trustee and committee meeting attendances. Trustee remuneration is disclosed in Note 18 to the annual financial statements.

Name	Board Meetings		Executive Committee		Audit Committee		Governance, Strategy & Risk Committee		Medical Committee		Remuneration Committee		Ad Hoc Meetings
	A	B	A	B	A	B	A	B	A	B	A	B	B
Dr MM Bhikhoo*	6	6	6	6			4	4	4	4			41
Mr M Brown					3	3					1	1	
Dr SA Craven*	6	6							4	4			7
Ms G Ho-Tong					1	1							
Mr E Huggett*	5	5					2	1					3
Mr KG Mockler					3	3					2	2	17
Dr E Nkosi*	4	4							2	2			3
Dr Y Omar Carrim*	2	1			3	3							1
Ms EL Prins*	6	6	6	6			4	4					39
Ms FK Robertson*	1	1	2	2			2	2					2
Dr RD Shuttleworth*	6	6							4	4			4
Mr R Stoutjesdyk*	1	1					2	2					2
Mr RN Theunissen*	4	4			2	2	2	2					6
Dr EJ Thorburn*	6	6	6	6			4	3	4	4	2	2	35
Dr HS van Riet*	6	6	1	1					4	4			6
Mr G Warrender*	6	6	5	5	3	3	4	4					22

A – Total possible number of meetings that could have been attended
B – Actual number of meetings attended
* Trustee during the year under review.

8. Non-compliance with Medical Schemes Act 131 of 1998 and Regulations

8.1 Contribution income not received after three days of becoming due

In terms of Section 26(7) of the Medical Schemes Act 131 of 1998, contribution income shall be received within three days of becoming due. There were instances where the Scheme did not receive all contributions within three days of becoming due.

This is as a result of defaulting members or members having insufficient funds in their bank accounts at the time of collection. Contributions not received after three days are actively pursued.

8.2 Financial soundness of benefit options

In terms of Section 33(2) of the Medical Schemes Act 131 of 1998 each benefit option shall be self-supporting in terms of membership, financial performance, and be financially sound. For the year, three of the options had deficits. This was addressed by reviewing the contribution rates for the 2008 year, except that the Council for Medical Schemes rejected the increase proposed by the Board of Trustees for the ProPinnacle option, and this option is now budgeted to incur a significant deficit for the 2008 year. Overall, the Scheme has been profitable for the year under review and it is expected to remain profitable in the future.

8.3 Broker commission

Section 65(6) of the Act notes that: "A broker may not be directly or indirectly compensated for providing broker services by any person other than a medical scheme". Until October 2007 brokers were paid by the administrator, who was reimbursed by the Scheme. The administrator implemented a system for brokers to be paid directly from the Scheme's bank account.

Indirect borrowing of funds by the Scheme is a contravention of Section 35(6)(c) of the Act. There were instances where brokers were paid commission more than 30 days after becoming due, mainly because of outstanding information from the brokers.

Section 65(3) of the Act states that no person shall be compensated for providing services relating to the introduction or admission of a member to a medical scheme unless the Council for Medical Schemes has granted accreditation to such a person.

There were instances where the mentioned sections of the Act were not adhered to. The Board of Trustees has taken the necessary steps to ensure that this will not re-occur in future.

9. Audit Committee

The Scheme has an established Audit Committee, which was set up in accordance with Section 36 of the Medical Schemes Act 131 of 1998, as amended. The Audit Committee is mandated by the Board of Trustees by means of written terms of reference, which determine its membership, authority and duties. The main functions and responsibilities of the Audit Committee include assisting the Board of Trustees in their evaluation of the adequacy and efficiency of the internal control systems and financial reporting processes.

The members and chairman of the Committee are not officers of the Scheme or its administrators. The Committee met on three occasions during the course of the year.

The Scheme's Principal Officer, Financial Manager and internal and external auditors attend Committee meetings by invitation and have unrestricted access to the chairman of the Committee.

The Audit Committee discharged its responsibilities for the year under review as follows:

- Reviewed the effectiveness of the internal control systems, accounting practices, information systems and auditing processes and was satisfied with the effectiveness of the processes and controls in place;
- Evaluated the annual financial statements accompanying this report;
- Reviewed the Scheme's compliance with the Medical Schemes Act and Regulations;
- Reviewed the performance and independence of the auditors.

The Audit Committee comprises:

Mr KG Mockler (Chairman)	Independent member
Mr M Brown	Independent member
Dr Y Omar Carrim	Independent member
Mr RN Theunissen	Trustee
Mr G Warrender	Trustee
Ms G Ho-Tong	Independent member (resigned 24 May 2007).

10. Post balance sheet events

There has been no fact or circumstance of a material nature that has occurred between the accounting date and the date of this report which affected the 2007 results.

Statement of Responsibility by the Board of Trustees

The Trustees are responsible for the preparation, integrity, and fair presentation of the annual financial statements of Profmed. The annual financial statements, presented on pages 14 to 42, have been prepared in accordance with International Financial Reporting Standards and the Medical Schemes Act of South Africa and include amounts based on judgements and estimates made by management.

The Trustees consider that in preparing the annual financial statements, they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards that they consider to be applicable have been followed.

The Trustees are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the Scheme at year-end. The Trustees also prepared the other information included in the Annual Report and are responsible for both its accuracy and its consistency with the annual financial statements.

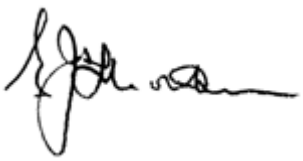
The Trustees have responsibility for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme to enable the Trustees to ensure that the annual financial statements comply with the relevant legislation.

Profmed operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures.

The going concern basis has been adopted in preparing the annual financial statements. The Trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the Scheme.

The Profmed Code of Conduct has been adhered to. The Scheme's external auditors, PricewaterhouseCoopers Inc., have audited the annual financial statements as well as the summarised financial statements, and their report is presented on page 13.

The annual financial statements were approved by the Board of Trustees on 4 April 2008 and are signed on its behalf by:



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CHAIRMAN
4 April 2008

.....
TRUSTEE

.....
PRINCIPAL OFFICER

12 Statement of Corporate Governance by the Board of Trustees

Profmed is committed to the principles and practices of fairness, openness, integrity and accountability in all dealings with its stakeholders. Five of the Trustees are elected by the members of the Scheme. The other five are appointed by the Board of Trustees.

Board of Trustees

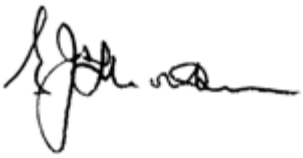
The Trustees meet regularly and monitor the performance of the administrators. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

All Trustees have access to the advice and services of the Principal Officer and, where appropriate, may seek independent professional advice at the expense of the Scheme.

Internal control

The administrators of the Scheme maintain internal controls and systems designed to provide reasonable but not absolute assurance as to the integrity and reliability of the annual financial statements and to safeguard, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

No event or item has come to the attention of the Board of Trustees that would indicate a material breakdown in the functioning of the key internal controls and systems which were in operation during the year under review.



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CHAIRMAN
4 April 2008

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TRUSTEE

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PRINCIPAL OFFICER

Report of the Independent Auditors to the Members of Profmed

We have audited the annual financial statements of Profmed Medical Scheme, which comprise the Balance Sheet as at 31 December 2007, the Income Statement, the Statement of Changes in Funds and Reserves and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 42.

Trustees' responsibility for the financial statements

The Scheme's Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Medical Schemes Act of South Africa. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Scheme as at 31 December 2007, and of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Medical Schemes Act of South Africa.

Report on other legal and regulatory requirements

As required by the Council for Medical Schemes, we report the following instances of non-compliance with the Medical Schemes Act, which we consider to be material:

Note 29 to the financial statements indicates that the Scheme did not comply with Section 33(2) of the Medical Schemes Act, as three of the benefit options were not self-supporting in terms of membership and financial performance.

PricewaterhouseCoopers Inc.
Director: J Prinsloo
Registered Auditor
Pretoria
11 April 2008

14 Balance Sheet

As at 31 December 2007	Notes	2007 R'000	2006 R'000
Assets			
Non-current assets		**95 521**	146 479
Office furniture and equipment	2	**283**	395
Available-for-sale financial assets	4	**95 238**	146 084
Current assets		**260 322**	181 652
Available-for-sale financial assets	4	**153 782**	130 469
Accounts receivable	5	**2 654**	1 908
Cash and cash equivalents	6	**103 886**	49 275
Total assets		**355 843**	328 131
Funds and liabilities			
Members' funds and reserves		**299 149**	284 720
Accumulated funds		**297 482**	255 951
Revaluation reserve for available-for-sale financial assets		**1 667**	28 769
Current liabilities		**56 694**	43 411
Member savings plan accounts	7	**275**	275
Accounts payable	8	**22 319**	16 371
Outstanding claims provision	9	**34 100**	26 765
Total funds and liabilities		**355 843**	328 131

Income Statement

For the year ended 31 December 2007	Notes	2007 R'000	2006 R'000
Net contribution income	10	**526 133**	490 008
Relevant healthcare expenditure	11	**(469 056)**	(408 151)
Net claims incurred		**(469 056)**	(408 151)
Claims incurred	11	**(470 117)**	(408 433)
Third party claims recoveries	11	**1 061**	282
Gross healthcare result		**57 077**	81 857
Managed care: management services	12	**(9 724)**	(8 377)
Administration expenditure	13	**(65 408)**	(57 137)
Broker service fees	14	**(2 316)**	(2 259)
Net impairment losses on healthcare receivables		**(5)**	(521)
Reduction in the provision for impaired healthcare receivables	25.3	**250**	940
Net healthcare result		**(20 126)**	14 503
Other income		**62 496**	43 701
Investment income	15	**61 864**	42 708
Sundry income	16	**632**	993
Other expenditure		**(839)**	(700)
Asset management fees	17	**(839)**	(700)
Net surplus for the year		**41 531**	57 504

16 Statement of Changes in Funds and Reserves

For the year ended 31 December 2007	Accumulated funds	Revaluation reserve for available-for-sale financial assets	Total members' funds and reserves
	R'000	R'000	R'000
Balance at 1 January 2006	198 447	29 015	227 462
Surplus for the year 2006	57 504	-	57 504
Brought forward gains realised during the year	-	(18 415)	(18 415)
Realised gains on investments acquired during the year	-	(2 988)	(2 988)
Net change in available-for-sale financial assets	-	21 157	21 157
Balance at 31 December 2006	255 951	28 769	284 720
Surplus for the year 2007	41 531	-	41 531
Brought forward gains realised during the year	-	(28 769)	(25 177)
Realised gains on investments acquired during the year	-	(10 952)	(3 592)
Net change in available-for-sale financial assets	-	12 619	1 667
Balance at 31 December 2007	297 482	1 667	299 149

Cash Flow Statement

For the year ended 31 December 2007	Notes	2007 R'000	2006 R'000
Cash flow from operating activities			
Cash generated from operations	19	**(10 426)**	1 390
(Decrease)/increase in members' savings plan accounts		**-**	(14 806)
Net cash generated/(utilised) from operating activities		**(10 426)**	(13 416)
Cash flow from investing activities			
Acquisition of office furniture and equipment	2	**(4)**	(257)
Acquisition of available-for-sale financial assets		**(347 182)**	(88 112)
Proceeds on sale of available-for-sale financial assets		**387 334**	13 900
Interest	15	**23 976**	18 773
Dividends	15	**913**	2 532
Net cash generated/(utilised) from investing activities		**65 037**	(53 164)
Net (decrease)/increase in cash and cash equivalents		**54 611**	(66 580)
Cash and cash equivalents at beginning of year		**49 275**	115 855
Cash and cash equivalents at end of year	6	**103 886**	49 275

For the year ended 31 December 2007

1. Summary of significant accounting policies

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

1.1 Basis of preparation

The financial statements of the Scheme have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act of South Africa. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets to fair values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Scheme's management to exercise judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 9.

(a) Standards, amendment and interpretations effective in 2007

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduce new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Scheme's financial instruments, or the disclosures relating to taxation and accounts payable.

- IFRS 4, 'Amendments and implementation guidance'. Most of these disclosures are currently provided in terms of IAS 39 and IAS 32. The statement does not significantly impact the results of the Scheme. It will, however, have some impact on the format of the disclosures.

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Scheme's operations:

- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies';
- IFRIC 8, 'Scope of IFRS 2';
- IFRIC 9, 'Re-assessment of embedded derivatives';
- IFRIC 10, 'Interim financial reporting and impairment'; and
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'.

(c) Interpretations to existing standards that are not yet effective and not relevant for the Scheme's operations

The following interpretations to existing standards have been published and are mandatory for the Scheme's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant to the Scheme's operations:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Scheme will apply IAS 23 (Amended) from 1 January 2009 but it is currently not applicable to the Scheme as there are no qualifying assets.

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Scheme will apply IFRS 8 from 1 January 2009 but is currently not applicable to the Scheme as the Scheme has no distinguishable business or geographical segments.

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Scheme will apply IFRIC 14 from 1 January 2008, but it is not currently applicable.

- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Scheme's operations because the Scheme does not provide for public sector services.

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is not relevant to the Scheme's operations because the Scheme does not operate any loyalty programmes.

1.2 Office furniture and equipment

Office furniture and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount when it is probable that future economic benefits associated with the asset will flow to the Scheme and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost over their estimated useful lives. The estimated maximum useful lives of items of furniture and equipment are:

Office furniture	10 years
Office equipment	3 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing realisable proceeds with carrying amounts. These are included in the income statement as operating income.

Where components of an item of furniture and equipment have different useful lives they are accounted for as separate items. There were no changes in the useful lives from prior years.

1.3 Financial instruments

Financial assets and liabilities are recognised when the Scheme becomes party to the contractual provisions of the instrument (the trade date). The Scheme classifies its financial assets into two categories, namely, accounts receivable and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Scheme determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Initial recognition of financial instruments

All financial instruments are initially recognised at fair value, which represents the consideration receivable or given, plus direct transaction costs. Regular purchases and sales of financial instruments are recognised on trade-date, which is the date on which the Scheme commits to purchase or sell the instruments. Subsequent to initial recognition, financial instruments are measured as set out in the following paragraphs.

Accounts receivable

Accounts receivable are non-derivative financial assets that arise from transactions with members and suppliers, and have fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method. A provision for impairment is raised when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of receivables.

Accounts receivable from the Road Accident Fund

The timing and monetary value of Road Accident Fund recoveries are considered to be uncertain and therefore debtors are only raised for amounts subsequently received after year-end. Amounts received during the year are deducted from relevant healthcare expenditure (Note 11) as part of third party claim recoveries.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Scheme intends to dispose of them within twelve months of the balance sheet date. Subsequent to initial recognition, available-for-sale financial assets are carried at fair values. Changes in the fair values of financial assets classified as available-for-sale are recognised directly in the Scheme's revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognised in accumulated funds are transferred to the income statement and disclosed as realised gains on disposal of 'available-for-sale investments'. Interest on available-for-sale financial assets, calculated using the effective interest method, is recognised as investment income in the income statement. Dividends on available-for-sale equity instruments are recognised as investment income in the income statement when the Scheme's right to receive payments is established.

The fair values of quoted financial assets are based on bid prices at balance sheet date as quoted daily on a regulated exchange. If the market for a financial asset is not active, the Scheme establishes fair value by using valuation techniques. The Scheme did not have any financial assets that did not trade in an active market for the period under review.

1.4 Impairment of financial assets

The Scheme assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (loss event) and that loss event has an adverse impact on the estimated cash flows from the asset that can be reliably measured.

An asset is impaired if its carrying amount is greater than its recoverable amount. The recoverable amount of all assets, excluding available-for-sale investments, is the greater of the selling price or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment of available-for-sale financial assets

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as objective evidence that the financial assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from reserves and recognised in the income statement.

Impairment of receivables and other financial assets carried at amortised cost

Objective evidence that a financial asset (or group of financial assets) carried at amortised cost is impaired includes observable data that comes to the attention of the Scheme regarding the following loss events:

- Significant difficulty of service provider or member debtors;
- Breach of contract, such as non-payment of member contributions when due and if these remain unpaid for extended periods;
- Default or delinquency in payments due by service providers and other debtors;
- The absense of an active market for that financial asset due to financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from other Scheme assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Scheme;
- Adverse changes in the payment status of members of the Scheme; or
- National or local economic conditions that correlate with non-payment of debtor contributions.

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated cash flows, discounted at the asset's effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within net impairment losses on receivables.

Reversal of impairment

Impairment losses are reversed when there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Subsequent recoveries of receivables previously impaired are recognised through the income statement, in net impairment losses on receivables.

1.5 Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred or when on transfer, the Scheme retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Scheme retains substantially all the risks and rewards of ownership of the financial asset, the Scheme continues to recognise the financial asset.

If a transfer does not result in derecognition because the Scheme has retained substantially all the risks and rewards of ownership of the transferred asset, the Scheme continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Scheme recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Scheme neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Scheme determines whether it has retained control of the financial asset. In this case:

(i) if the Scheme has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer;

(ii) if the Scheme has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Financial liabilities are derecognised when the contractual obligations are discharged or cancelled or expire.

1.6 Offsetting of financial instruments

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

1.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less which are readily convertible to a known amount of cash and are subject to insignificant risk of change in value.

1.8 Provisions

Provisions are recognised when the Scheme has a present legal or constructive obligation as a result of past events, where it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the Scheme's best estimate of the cash flows to settle the present obligation for claims and other expenses incurred and notified to the Scheme as at the balance sheet date.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

Outstanding claims provision

The outstanding claims provision comprises provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported as at the balance sheet date. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle and variations in the nature and average cost incurred per claim.

Estimated co-payments are deducted in calculating the outstanding claims provision. The Scheme does not discount its provision for outstanding claims since the effect of the time value of money is not considered material.

Liability adequacy test on outstanding claims provision

At balance sheet date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities. The outstanding claims provision is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability (i.e. the value of business acquired). Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficiency through the income statement.

1.9 Member insurance contracts

Contracts under which the Scheme accepts significant insurance risk from members by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts. The contracts issued compensate the Scheme's members for healthcare expenses incurred.

1.10 Contribution income

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the member insurance contracts are reasonably certain. The earned portion of net contributions receivable is recognised as revenue. Net contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis. Net contributions are shown before the deduction of broker service fees and similar costs.

1.11 Relevant healthcare expenditure

Relevant healthcare expenditure incurred comprise the total estimated cost of settling all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether or not reported by the end of year.

Net risk claims incurred comprise of:

- claims submitted and accrued for services rendered during the year;
- over or under provisions relating to prior year claims accruals;
- amounts paid or to be paid under service provider contracts for services rendered to members; and
- claims incurred but not yet reported.

Net of:

- recoveries from members for co-payments;
- recoveries from third parties; and
- discount received from service providers.

1.12 Expenses for the acquisition of member insurance contracts

These expenses comprise of commissions or fees paid to brokers on new member insurance contracts as well as renewal commissions and any other expenses related thereto. These expenses are accounted for on an accruals basis when they become due and payable.

1.13 Investment income

Investment income comprises dividends and interest on cash and cash equivalents and other available-for-sale financial assets.

Interest income is recognised using the effective interest rate method, taking into account the principal amount outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Dividend income on available-for-sale equity investments is recognised when the right to receive payment has been established – this is the ex-dividend date for equity securities. Capitalisation shares received in terms of a capitalisation issue from reserves, other than share premium or a reduction in share capital, are treated as dividend income.

1.14 Retirement benefits

Defined contribution plan

The Scheme's employee pension fund is funded through payments to insurance companies. The Scheme has a defined contribution plan which is a pension plan, governed by the Pensions Fund Act, where the Scheme pays fixed contributions into a separate entity. Once the contributions have been paid, the Scheme has no legal or constructive obligations to pay further contributions if the pension fund does not hold sufficient assets to pay all employees their entitlement. The pension contributions are recognised as employee benefit expenses when they are due and payable.

1.15 Unallocated funds

Unallocated funds arise on the receipt of unidentified deposits in favour of the Scheme. Unallocated funds that have legally prescribed, that is funds older than three years, are written back and are included in the income statement.

1.16 Segment reporting

No segmental business information is presented as the entire Scheme's business is considered to be one business segment.

2. Office furniture and equipment

	Office equipment R'000	Office furniture R'000	Total R'000
Year ended 31 December 2007			
Opening carrying amount	251	144	395
Acquired during the year	4	-	4
Depreciation charge	(98)	(18)	(116)
Closing carrying amount	157	126	283
Cost or valuation	326	182	508
Accumulated depreciation	(169)	(56)	(225)
Carrying amount	157	126	283
Year ended 31 December 2006			
Opening carrying amount	56	151	207
Acquired during the year	247	10	257
Depreciation charge	(52)	(17)	(69)
Closing carrying amount	251	144	395
Cost or valuation	344	182	526
Accumulated depreciation	(93)	(38)	(131)
Carrying amount	251	144	395
Year ended 31 December 2005			
Cost or valuation	97	172	269
Accumulated depreciation	(41)	(21)	(62)
Carrying amount	56	151	207

3. Analysis of carrying amounts of financial assets and liabilities per category

	2007 R'000	2006 R'000
Avaliable-for-sale financial assets		
- Non-current portion	**95 238**	146 084
- Current portion	**153 782**	130 469
Cash and cash equivalents	**103 886**	49 275
Accounts receivable		
- Loans and receivables	**2 244**	1 676
- Insurance receivables	**410**	232
Accounts payable		
- Financial liabilities measured at amortised cost	**9 996**	5 004
- Insurance payables	**46 423**	38 132

4. Available-for-sale financial assets

	Notes	2007 R'000	2006 R'000
Beginning of the year		**321 383**	289 239
Capital contribution		**-**	6 000
Withdrawals			
- Day-to-day cash management		**(3 848)**	(13 900)
- Change of asset managers		**(347 182)**	-
Amount invested with the new asset managers		**347 182**	-
Net realised gains	15	**39 721**	21 403
Brought forward realised gains		**28 769**	18 415
Realised gains on investment acquired during current year		**10 952**	2 988
Asset management fees	17	**(839)**	(700)
Unrealised fair value movement		**(27 102)**	(246)
Unrealised fair value loss	15	**(2 746)**	-
Investment income			
- Interest	15	**21 824**	17 055
- Dividends	15	**913**	2 532
Fair value at the end of the year		**349 306**	321 383
Less: Classified as cash and cash equivalents	6	**(100 286)**	(44 830)
Less: Available-for-sale financial assets - current		**(153 782)**	(130 469)
Available-for-sale financial assets		**95 238**	146 084
Classified as:			
Available-for-sale financial assets			
- Non-current			
- Listed equities		**95 238**	88 501
- Money market and bond instruments	25.2	**-**	57 583
Available-for-sale financial assets		**95 238**	146 084

Available-for-sale financial instruments are denominated in RSA Rand. Money market instruments redeemable in three months or less are classified as cash and cash equivalents. None of the available-for-sale financial assets are either past due or impaired. The weighted average effective interest rate on money market instruments was 8.96% (2006: 7.55%).

5. Accounts receivable

	2007 R'000	2006 R'000
Contributions outstanding	**410**	232
Receivable from service providers	**340**	306
Recoveries from members	**85**	171
Accrued interest	**2 029**	1 659
Impairment provision	**(210)**	(460)
Current portion	**2 654**	1 908

As at 31 December 2007, the carrying amounts of accounts receivable approximated their fair value. Interest is not charged on overdue balances.

6. Cash and cash equivalents

	Notes	2007 R'000	2006 R'000
Cash at bank and on hand		**3 467**	4 445
Short-term bank deposits		**133**	-
Money market instruments	4	**100 286**	44 830
		103 886	49 275

7. Member savings plan accounts

	Notes	2007 R'000	2006 R'000
Balance at beginning of the year		**275**	15 081
Payments made on behalf of members	11	**-**	(650)
		275	14 431
Repayment with termination of savings option		**-**	(14 156)
Balance due to members as at 31 December		**275**	275

The member savings accounts contained a demand feature, which arises from the fact that Regulation 10 of the Medical Schemes Act 131 of 1998, as amended, requires any credit balance on a member's savings account to be taken as a cash benefit when the member terminates his or her membership of the Scheme or membership option, and enrols in another benefit option or medical scheme without a savings account or does not enrol in another medical scheme. For this reason, as required by paragraph 49 of IAS 39, the fair values of the savings accounts are not less than the amounts payable on demand. The amounts were not discounted, due to the demand features.

From 2006 the Scheme no longer had member savings accounts and the identifiable credit balances were repaid four months after year-end when the December 2005 claims were settled. The balance is due to unclaimed credit balances that will be written back to income after they have prescribed.

8. Accounts payable

	2007 R'000	2006 R'000
Net contributions received in advance	**1 027**	856
Reported claims not yet paid	**12 323**	11 367
Payable to PPS Insurance Company Ltd	**852**	696
Member and provider credit balances	**49**	177
Sundry accounts payable	**8 068**	3 275
	22 319	16 371

As at 31 December 2007, the carrying amounts of accounts payable approximated their fair value because of the short-term maturities of these liabilities.

9. Outstanding claims provision

	2007 R'000	2006 R'000
Analysis of movements in outstanding claims		
Balance at beginning of year	**26 765**	32 441
Payments in respect of prior year	**(27 197)**	(23 729)
Under/(over) provision in prior year written back	**432**	(8 712)
Adjustment for current year	**34 100**	26 765
Balance at end of year	**34 100**	26 765

Analysis of movements in provision arising from liability adequacy test
The liability adequacy test was performed and no additional provision was required.

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for claims made under insurance contracts. Initial estimates are made relating to the best calculations on reported claims and derived as the claims process develops. All estimates are revised and adjusted at year-end by management.

Process used to determine the assumptions
The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from managed care: management services and historical evidence of the size of similar claims. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The process of estimation also differs by category of claims such as in-hospital, chronic and outpatient risk benefits due to differences in claim complexity, the volume of claims, individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The cost of the outstanding claims provision is estimated using the Chain Ladder method. This model extrapolates the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each benefit year based upon observed development of earlier years and expected loss ratios. Run-off triangles are used in situations where it takes time after the treatment date for the full extent of the claims to become known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The actual method or blend of methods used varies by benefit year being considered, categories of claims and observed historical claims development. To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development /recording of claims paid and incurred;
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided);
- changes in composition of members and their dependants; and
- random fluctuations, including the impact of large losses.

Assumptions

The outstanding claims provisions are calculated based on claim processing patterns over the previous 12 months. Due to the large size of the Scheme membership base, no adjustment to the data is made for outliers or large claims. The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic and outpatient categories of claims. These are used for assessing the outstanding claims provision for the 2007 benefit year. Due to the fact that 94% of claims are paid within three months of the date of service, no allowance for discounting of claims costs is made.

Changes in assumptions and sensitivities to changes in key variables

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables. For each sensitivity illustrated, all other assumptions have been left unchanged.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the Scheme's estimation process. The Scheme believes that the liability for claims reported in the balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

	Change in variable %	Change in liability 2007 R'000	Change in liability 2006 R'000
In-hospital claims ratio	1% increase	**1 930**	1 762
Chronic claims ratio	1% increase	**261**	279
Manual claims as percentage of total claims	1% increase	**352**	312

This analysis is prepared for a change in a specified variable with other assumptions remaining constant. The change in liability also represents the absolute change in surplus/(deficit) for the period. It should be noted that increases in liabilities will result in decreases in surplus and vice versa. These reasonable possible changes in key variables do not result in any changes directly in reserves.

10. Net contribution income

	2007 R'000	2006 R'000
Net contribution income	**526 133**	490 008

11. Relevant healthcare expenditure

	Notes	2007 R'000	2006 R'000
Current year claims paid		**462 782**	414 759
Movement in outstanding claims provision		**7 335**	(5 676)
Payments in respect of prior year	9	**(27 197)**	(23 729)
Under/(over) provision in prior year	9	**432**	(8 712)
Adjustment for current year	9	**34 100**	26 765
Less: Claims paid/charged to members' savings accounts	7	**-**	(650)
Claims incurred		**470 117**	408 433
Less: Third party claim recoveries		**(1 061)**	(282)
		469 056	408 151

12. Managed care: management services

	2007 R'000	2006 R'000
Hospital pre-authorisation, case and disease management	**5 043**	4 514
Current year expense	**5 043**	4 906
Prior year overprovision	**-**	(392)
Pharmacy benefits and clinical risk management services	**3 686**	3 597
Emergency medical transportation service	**257**	266
Travel insurance	**434**	-
Optical management	**304**	-
	9 724	8 377

13. Administration expenditure

	2007 R'000	2006 R'000
Core administration fees		
PPS Medical Scheme Administrator (Pty) Ltd	**37 199**	36 879
Expenses incurred on change of administrators		
Paid to PPS Medical Scheme Administrator (Pty) Ltd	**7 980**	2 280
Audit fees	**608**	818
- Transition audit	**-**	285
- Statutory audit	**355**	367
- Interim audit	**253**	166
Actuarial fees	**359**	710
Association fees	**58**	187
Bank charges	**560**	506
Computer expenses	**83**	28
Council for Medical Schemes expenses	**304**	283
Depreciation	**116**	69
Entertainment	**21**	11
Internal audit fees	**65**	11
Legal fees	**685**	70
Marketing expenses	**1 871**	793
Principal Officer remuneration	**1 062**	965
Printing and stationery	**1 922**	965
Professional fees	**228**	332
Professional indemnity insurance premiums	**137**	169
PPS Insurance – other services	**7 837**	8 270
Staff remuneration	**1 780**	1 577
Telephone, postage and fax	**414**	744
Travel, accommodation and conferences	**230**	261
Trustees' remuneration and considerations	**1 719**	1 060
Other expenses	**170**	149
	65 408	57 137

14. Broker service fees

	2007 R'000	2006 R'000
Brokers fees	**2 316**	2 259
Other distribution costs paid to brokers	**-**	-
	2 316	2 259

15. Investment income

	2007 R'000	2006 R'000
Dividend income	**913**	2 532
Interest income	**23 976**	18 773
- Available-for-sale financial assets	**21 824**	17 055
- Call and current bank accounts	**2 152**	1 718
Net realised gains on available-for-sale financial assets	**39 721**	21 403
Unrealised fair value loss on available-for-sale financial assets	**(2 746)**	-
	61 864	42 708
Net realised gains on available-for-sale financial assets		
Realised gains on financial assets – available-for-sale:	**39 721**	21 403
- Equity securities	**39 721**	21 403
	39 721	21 403

16. Sundry income

	2007 R'000	2006 R'000
Prescribed amounts written back to income	**617**	872
Donations received	**-**	121
Profit on the sale of equipment	**15**	-
	632	993

17. Asset management fees

	2007 R'000	2006 R'000
Current year expense	**839**	700

This expense is charged as a percentage of the total value of investments managed by the asset management company.

18. Trustee and committee remuneration

The tables below record the remuneration and consideration paid to Trustees and other committee members during 2006 and 2007:

31 December 2007	Fees for meeting attendance	Fees for holding of office	Fees for consultancy services	Allowances	Total remuneration	Training	Conference fees	Travel and accommodation	Other disbursements, reimbursements	Total considerations
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Dr MM Bhikhoo*	182 000				182 000		4 843	20 592		207 435
Mr M Brown	15 925				15 925			1 570		17 495
Dr SA Craven*	79 600				79 600			58 196		137 796
Ms G Ho-Tong	5 000				5 000			144		5 144
Mr E Huggett*	46 700				46 700			18 228		64 928
Mr KG Mockler	36 900		22 200		59 100			9 932		69 032
Dr E Nkosi*	44 900				44 900			15 708		60 608
Dr Y Omar Carrim*	24 100				24 100			2 820		26 920
Ms EL Prins*	166 380	17 500			183 880		19 990	27 633		231 503
Ms FK Robertson*	30 600	15 000			45 600			2 304		47 904
Dr RD Shuttleworth*	67 300				67 300			56 880		124 180
Mr R Stoutjesdyk*	22 400				22 400			1 651		24 051
Mr RN Theunissen*	57 150				57 150			15 348		72 498
Dr EJ Thorburn*	204 680	49 500			254 180	1 800	11 220	34 296		301 496
Dr HS van Riet*	90 050				90 050			72 522		162 572
Mr G Warrender*	145 000				145 000			20 664		165 664
Total	1 218 685	82 000	22 200		1 322 885	1 800	36 053	358 488		1 719 226

31 December 2006	Fees for meeting attendance	Fees for holding of office	Fees for consultancy services	Allowances	Total remuneration	Training	Conference fees	Travel and accommodation	Other disbursements, reimbursements	Total considerations
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Dr MM Bhikhoo*	105 200				105 200			1 846		107 046
Mr M Brown	26 847				26 847			2 326		29 173
Dr SA Craven*	60 400				60 400			36 147		96 547
Ms G Ho-Tong	22 500				22 500			720		23 220
Mr KG Mockler	38 980		21 600		60 580			5 839		66 419
Dr Y Omar Carrim*	50 300				50 300			5 280		55 580
Ms EL Prins*	89 500				89 500		4 095	16 449		110 044
Ms FK Robertson*	65 800	30 000			95 800			4 458		100 258
Dr RD Shuttleworth	24 900				24 900			12 797		37 697
Mr R Stoutjesdyk*	59 300				59 300			4 831		64 131
Dr EJ Thorburn*	116 300	45 000			161 300		4 095	12 302		177 697
Dr HS van Riet*	59 900				59 900			43 607		103 507
Mr G Warrender*	85 200				85 200			3 024		88 224
Total	805 127	75 000	21 600		901 727		8 190	149 626		1 059 543

* Members of the Board of Trustees in office during the year. Trustee appointment, election and resignation dates are disclosed in the Report of the Board of Trustees.

19. Cash generated from operations per cashflow statement

	Notes	2007 R'000	2006 R'000
Net surplus for the year		**41 531**	57 504
Adjustments for:			
- Depreciation	13	**116**	69
- Interest received	15	**(23 976)**	(18 773)
- Dividend income	15	**(913)**	(2 532)
- Realised gain on disposal of available-for-sale financial assets	15	**(39 721)**	(21 403)
- Profit on sale of equipment	16	**15**	-
- Decrease in provision for impairment		**(250)**	(940)
- Increase/(decrease) in outstanding claims provision		**7 334**	(5 676)
Cash flows from operations before working capital changes		**(15 868)**	8 249
- Changes in working capital		**5 442**	(6 859)
- Decrease/(increase) in accounts receivable	5	**(506)**	1 693
- Increase/(decrease) in accounts payable	8	**5 948**	(8 552)
Cash generated/(utilised) in operations		**(10 426)**	1 390

20. Surplus/(deficit) from operations per benefit option

The Scheme offers five benefit options, which have the following principal features:

- **ProPinnacle** – Comprehensive in-hospital cover in private wards, and comprehensive chronic and day-to-day cover. GPs and specialist costs covered at Profmed Premium Tariff rates (300% of NRPL).
- **ProSecure Plus** – Comprehensive in-hospital cover and private ward rates for maternity confinement. Chronic and day-to-day medical expenses and cover over and above the prescribed minimum benefits. In-hospital medical GP and specialist costs covered at Profmed Premium Tariff rates (300% of NRPL).
- **ProSecure** – Comprehensive cover in-hospital, chronic and day-to-day medical expenses and cover over and above the prescribed minimum benefits.
- **ProActive Plus** – Comprehensive in-hospital benefits, and cover for prescribed minimum benefits. In-hospital medical GP and specialist costs covered at Profmed Premium Tariff rates (300% of NRPL).
- **ProActive** – Comprehensive in-hospital benefits, and cover for prescribed minimum benefits.

The tables opposite reflect the performance from operations per benefit option, as follows:

2007	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	R'000 Total
Net contribution income	127 994	41 065	185 637	20 083	151 354	526 133
Relevant healthcare expenditure	(133 899)	(46 101)	(181 597)	(13 094)	(94 365)	(469 056)
Claims incurred	(134 090)	(46 342)	(181 930)	(13 117)	(94 638)	(470 117)
Third party claim recoveries	191	241	333	23	273	1 061
Gross healthcare result	(5 905)	(5 036)	4 040	6 989	56 989	57 077
Managed care: management services	(1 185)	(622)	(2 900)	(579)	(4 438)	(9 724)
Broker service fees	(282)	(148)	(691)	(138)	(1 057)	(2 316)
Administration expenditure	(7 973)	(4 186)	(19 512)	(3 892)	(29 845)	(65 408)
Net impairment losses on healthcare receivables	30	16	73	15	111	245
Net healthcare result	(15 315)	(9 976)	(18 990)	2 395	21 760	(20 126)
Average number of members during the year	2 903	1 524	7 104	1 417	10 866	23 814

2006	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	R'000 Total
Net contribution income	120 836	28 673	174 809	13 433	152 257	490 008
Relevant healthcare expenditure	(118 509)	(33 938)	(161 185)	(8 107)	(86 412)	(408 151)
Claims incurred	(118 573)	(33 967)	(161 213)	(8 120)	(86 560)	(408 433)
Third party claim recoveries	64	29	28	13	148	282
Gross healthcare result	2 327	(5 265)	13 624	5 326	65 845	81 857
Managed care: management services	(1 019)	(402)	(2 519)	(336)	(4 101)	(8 377)
Broker service fees	(275)	(108)	(679)	(91)	(1 106)	(2 259)
Administration expenditure	(6 949)	(2 739)	(17 182)	(2 293)	(27 974)	(57 137)
Net impairment losses on healthcare receivables	51	20	126	17	205	419
Net healthcare result	(5 865)	(8 494)	(6 630)	2 623	32 869	14 503
Average number of members during the year	2 943	1 160	7 277	971	11 848	24 199

The allocation of the 2006 and 2007 non-healthcare expenses across the options are based on the average number of members per option during the year.

21. Related party transactions

The Scheme is controlled by the Board of Trustees, fifty percent are elected by the members of the Scheme and fifty percent are appointed by the Board of Trustees.

Parties with significant influence over the Scheme

Administration fees were paid to the administrator, PPS Medical Scheme Administrator (Proprietary) Limited, a wholly-owned subsidiary of PPS Insurance Company Limited.

The administrator has significant influence over the Scheme as the administrator participates in the Scheme's financial and operating policy decisions, but does not control the Scheme. The administrator provides administration services.

Administration fees were charged in line with market-related rates on an arms length basis.

Transactions with entities that have significant influence over the Scheme

	Notes	2007 R'000	2006 R'000
Income statement			
PPS Medical Scheme Administrator: Administration fees	13	**37 199**	36 879
PPS Medical Scheme Administrator: Non-recurring costs with change of the administrator	13	**7 980**	2 280
PPS Insurance Company Ltd: Other services	13	**7 837**	8 270
Balance sheet			
Balance due to PPS Insurance Company Ltd at year-end	8	**852**	696

The terms and conditions of the transactions with entites with significant influence over the Scheme were as follows:

Administration agreement

The administration agreement is in terms of the Rules of the Scheme and in accordance with instructions given by the Board of Trustees. The agreement is automatically renewed each year unless notification of termination is received or following the cancellation of the administrator's accreditation or the issue of a lawful directive to this effect by the Council for Medical Schemes in terms of the Medical Schemes Act 131 of 1998, as amended. The outstanding balance bears no interest and is due within 30 days.

Key management personnel and their close family members

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees and the Principal Officer. The disclosure deals with full-time personnel that are compensated on a salary basis (Principal Officer), and part-time personnel that are compensated on a fee basis (Board of Trustees).

Close family members include close family members of the Board of Trustees and Principal Officer. The table opposite reflects the nature of transactions between the Scheme and the key management and their close family members, as follows:

	2007 R'000	2006 R'000
Income statement		
Remuneration	**2 781**	2 025
Contributions received	**233**	232
Claims incurred	**(1 480)**	(331)
Balance sheet		
Claims reported not yet paid	**-**	1

The terms and conditions of the related party transactions were as follows:

Transaction	Nature of transactions and terms and conditions thereof
Contributions received	This constitutes the contributions paid by the related party as a member of the Scheme, in their individual capacity. All contributions were on the same terms as applicable to other members.
Claims incurred	This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid out in terms of the Rules of the Scheme, as applicable to other members.
Contribution debtor	This constitutes outstanding contributions receivable. The amounts are due immediately. No impairment provisions have been raised on these amounts.
Claims reported not yet paid	These are claims that have been reported, but not yet paid due to the fact that the Scheme's year-end fell between the claims payment runs. All claims are settled within 30 days of being received, as applicable to third parties or other members.

22. Commitments

The Scheme had not made any commitments for future capital or lease payments as at year-end.

23. Post balance sheet events

There have been no facts or circumstances of a material nature that have occurred between the accounting date and the date of this report affecting the 2007 results.

24. Guarantees

The Scheme did not receive guarantees from third parties in terms of Section 33(3) of the Medical Schemes Act.

25. Financial risk management

25.1 Financial risk factors

The Scheme's activities expose it to a variety of financial risks, including the effects of changes in the equity market price and interest rates. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are liquidity risk, credit risk, interest rate risk and market risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments, which the Scheme holds to meet its obligations to its members.

Risk management and investment decisions are carried out by the Board, under the guidance and policies approved by the Board of Trustees. The Board identifies and evaluates financial risks associated with the Scheme's investment portfolio.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity. The Board of Trustees approves all of these written policies.

25.2 Market risk

a) Interest rate risk

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate investments within the Scheme's money market investment portfolio as well as additional fixed deposit investments.

The Scheme's investment manager's mandate is for a 60% to 80% money market portfolio. The portfolio invests in bonds and cash instruments.

The table below summarises the Scheme's exposure to interest rate risk. Included in the table are the Scheme's money market securities, fixed deposits, deposits on call and current bank accounts at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to one month	1-3 months	4-12 months	1-5 years	Total
2007					
Total exposure - R'000	75 419	28 467	153 782	-	257 668
2006					
Total exposure - R'000	30 749	60 494	88 501	57 583	237 327

The above amounts are classified as follows:

	Notes	2007 R'000	2006 R'000
Available-for-sale financial assets			
- Non-current	4	**-**	57 583
- Current	4	**153 782**	130 469
Cash and cash equivalents	6	**103 886**	49 275
		257 668	237 327

Interest rate risk sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) accumulated funds and the surplus by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed from the date the current asset managers were appointed.

2007	Surplus or deficit (R'000)		Accumulated funds (R'000)	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Available-for-sale financial assets	R44 055	R38 996	R300 006	R294 947

b) Currency risk

All of the Scheme's benefits are Rand-denominated and therefore do not have significant net currency risk.

c) Price risk

The Scheme is exposed to equity securities price risk, because of investments held by the Scheme and classified on the balance sheet as available-for-sale financial assets. The Scheme is not exposed to commodity risk. To manage the price risk arising from investment in equity securities, the Scheme diversifies its portfolio within the limits prescribed by the Medical Schemes Act and Regulations.

25.3 Credit risk

The Scheme's principal financial assets are cash and cash equivalents, accounts receivable and investments. The Scheme's credit risk relates primarily to its accounts receivable.

The receivables are in respect of:

- contributions due from members;
- amounts recoverable from service providers and accrued interest.

The Scheme manages credit risk by:

- actively pursuing all contributions not received after 3 days of becoming due, as required by Section 26(7) of the Medical Schemes Act 131 of 1998, as amended;
- suspending benefits on all member accounts when contributions have not been received for 30 days;
- terminating benefits on all member accounts when contributions have not been received for 60 days;
- ageing and pursuing unpaid accounts on a monthly basis.

The amounts presented in the balance sheet are net of provision for impairment, estimated by the Scheme's management, based on prior experience and the current economic environment.

The credit risk on liquid funds is limited because the counter-parties are banks with high credit ratings assigned by international credit-rating agencies.

There is no significant concentration of credit risk with respect to receivables, as the Scheme has a large number of members who are nationally dispersed.

Exposure to credit risk

For the disclosure of the maximum exposure to credit risk on accounts receivable, available-for-sale financial assets and cash and cash equivalents, please refer to Note 3. Accounts receivable that are less than sixty days past due are not considered impaired. The ageing analysis of these receivables is as follows:

	2007 R'000	2006 R'000
Fully performing	-	-
Past due – 4 to 30 days	585	168
Past due – 31 to 60 days	40	81
Impaired	210	460

Movements on the impairment provision of accounts receivable are as follows:

	2007 R'000	2006 R'000
At 1 January	460	1 400
Reduction in the provision for receivable impairment	(250)	(940)
At 31 December	210	460

25.4 Liquidity risk

The Scheme manages liquidity risk by monitoring cash flows. The Scheme is exposed to daily calls on its available cash resources mainly from claims. Liquidity risk is the risk that cash may not be available to pay obligations when they are due at a reasonable cost.

The availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme has the ability to fund the day-to-day operations of the Scheme. The Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by section 35 and regulation 30 of the Medical Schemes Act 131 of 1998, as amended.

25.5 Capital management

The Scheme's objectives when managing capital are to maintain the capital requirements of the Medical Schemes Act 131 of 1998, as amended and to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for its stakeholders.

The risk is that the reserves are insufficient to provide for adverse variations on actual and future experience. The Medical Schemes Act 131 of 1998, as amended, requires a minimum ratio of accumulated funds expressed as a percentage of gross premiums to be 25%. The Scheme's accumulated funds ratio was 56.54% as at 31 December 2007 and 52.23% at 31 December 2006. The accumulated funds ratio is calculated as follows:

	2007 R'000	2006 R'000
Total members' funds per balance sheet	**299 149**	284 720
Less: Reserve for unrealised investment gains	**1 667**	28 769
Accumulated funds per Regulation 29 of the Act	**297 482**	255 951
Annual contribution income per income statement	**526 133**	490 008
Accumulated funds ratio calculated as the ratio of accumulated funds/Gross annual contributions x 100	**56.54%**	52.23%

25.6 Investment risk

Investment risk is the risk that the investment returns on accumulated assets will not be sufficient to cover future liabilities. Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities. During the first quarter of the current year, the Scheme appointed Investec Private Bank as the asset managers. Previously the investments were managed by Investec Asset Management.

Breakdown of investments

Money market portfolio:

The Scheme's investment manager's mandate is for a 60% to 80% money market portfolio. The portfolio invests in bonds and cash instruments.

The investments will be subject to a credit rating of at least a F1+ short-term credit rating and a long-term credit rating of AA or higher.

For diversification purposes Corporate bonds, Government bonds, Parastatals and Securitisation bonds are allowed per the Act, but the maximum is limited. The limit approved by the Trustees is a maximum 10% per institution.

The performance of the portfolio is measured against the Alexander Forbes Short-term Fixed Interest Money market Index (known as the Stefi Index). This is a composite index consisting of four different sector indices which represents a maturity spectrum over 3, 6, 9 and 12 months.

Equity portfolio:

The Scheme's investment manager's mandate is to invest in a fully discretionary equity portfolio.

The portfolio may only be invested in South African equities, with cash held as working capital only. The portfolio is prohibited from investing in PPS Insurance Company Ltd or its subsidiaries.

The assets of the portfolio must be invested in accordance with Annexure B of the Regulations of the Medical Schemes Act 131 of 1998.

The performance of this portfolio is measured against the JSE All Share Index. The table overleaf indicates the sensitivity of the surplus of the Scheme to movement in the JSE All Share Index from the date that the current asset managers were appointed.

Surplus or deficit

2007	Increase in Market (R'000)			Decrease in Market (R'000)		
	30%	15%	5%	5%	15%	30%
Equity portfolio	R66 828	R53 103	R46 082	R35 328	R26 328	R12 828

26. Critical accounting judgements and areas of key sources of estimation uncertainty

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are discussed below.

Outstanding claims provision

The outstanding claims provision is a provision made for the estimated cost of healthcare benefits that had occurred before the year-end, but that had not been reported to the Scheme by that date. This provision is determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

The outstanding claims provision is reduced by the estimated recoveries from members for co-payments.

27. Insurance risk management

The primary insurance activity carried out by the Scheme relates to assuming the risk of loss from members and their dependants as a result of claims that are directly subject to the risk. These risks relate to the insured healthcare events of the Scheme's members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contracts. The Scheme also has exposure to market risk through its insurance and investment activities.

The Board of Trustees has developed and approved a documented policy for the acceptance and management of insurance risk to which the Scheme is exposed. Reference has also been made to the requirements of the Medical Scheme Act 131 of 1998, as amended, in compiling the insurance risk-management policy. This policy is reviewed annually and the benefit options provided to the members are structured to fall within the acceptable insurance risk levels specified. The annual business plan is structured around the insurance risk-management policy.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling, as well as the monitoring of emerging legislative, environmental and actuarial issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, comparison of budgeted versus actual claims on a regular basis, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts, using established actuarial principles. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The following table summarises the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, by age group and in relation to the type of risk covered/benefits provided. Where appropriate, prescribed minimum benefits (PMB) and non-PMB claims have been split.

Concentration of insurance risk

Claims incurred for 2007 service year	In-Hospital R'000	Chronic R'000	Day-to-day R'000	Other R'000	Total R'000
Age grouping (in years)					
< 26	43 789	3 715	18 383	4 132	70 019
26 - 34	22 613	2 545	6 397	873	32 428
35 - 49	50 363	6 507	17 856	4 585	79 311
50 - 64	84 996	17 972	30 990	9 526	143 484
> 65	90 555	17 990	21 271	7 138	136 954
Total	292 316	48 730	94 897	26 254	462 196
Movement in IBNR					7 767
Rectified benefits					154
Claims refund					(1 061)
Relevant healthcare expenditure (Note 11)					469 056

Claims incurred for 2006 service year	In-Hospital R'000	Chronic R'000	Day-to-day R'000	Other R'000	Total R'000
Age grouping (in years)					
< 26	41 690	3 011	16 135	2 303	63 139
26 - 34	22 191	2 287	6 027	418	30 923
35 - 49	49 940	5 776	15 632	2 492	73 840
50 - 64	81 355	15 255	25 867	5 368	127 845
> 65	82 388	14 932	17 314	3 023	117 657
Total	277 564	41 261	80 975	13 604	413 404
Movement in IBNR					(5 676)
Rectified benefits					704
Claims refund					(281)
Relevant healthcare expenditure (Note 11)					408 151

In-hospital benefits cover all costs incurred by members, while they are in hospital to receive pre-authorised treatment for certain medical conditions.

Chronic benefits cover the cost of certain prescribed medicines consumed by members for chronic conditions/diseases, such as high blood pressure, cholesterol and asthma.

Day-to-day benefits cover the cost (up to 100% of the National Health Reference Price List tariff) of all out-of-hospital medical attention, such as visits to general practitioners and dentists and prescribed non-chronic medicines.

The Scheme's strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that the variability of the outcome is reduced.

The strategy is set out in the annual business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split of this market.

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contracts at renewal. Management information including contribution income and claims ratios by option, target market and demographic split, is reviewed monthly. There is also an underwriting review programme that reviews a sample of contracts on a quarterly basis to ensure adherence to the Scheme's objectives.

Risk transfer arrangements

The Scheme did not reinsure any of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Scheme did not have any capitation agreements with any providers of service.

Claims development

Claims development tables have not been presented as the uncertainty regarding the amounts and timing of claims payments is typically resolved within a year. In the majority of cases, claims are resolved within four months from the time they are reported to the Scheme. At year end, a provision is made for those claims outstanding that have not yet been reported. Details on the subsequent development in respect thereof for the last two years are shown in Note 9.

28. Contingent asset

The Scheme grants assistance to its members in defraying expenditure incurred in connection with rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the Road Accident Fund (RAF), administered in terms of the Road Accident Fund Act No 56 of 1996 (RAFA). If the member is reimbursed by the RAF, they are obliged contractually to cede that payment to the Scheme to the extent that they have already been compensated. The outstanding amount at year-end amounts to R4 676 037 (2006: R4 758 087).

29. Non-compliance matters

In terms of Section 26(7) of the Medical Schemes Act 131 of 1998, contribution income shall be received within three days of becoming due. There were instances where the Scheme did not receive all contributions within three days of becoming due.

In terms of Section 33(2) of the Medical Schemes Act 131 of 1998, each benefit option shall be self-supporting in terms of membership, financial performance and be financially sound. At the end of the year three of the options had deficits.

Section 65(6) of the Act notes that: "A broker may not be directly or indirectly compensated for providing broker services by any person other than a medical scheme". Until October 2007 brokers were paid by the administrator, who was reimbursed by the Scheme.

Indirect borrowing of funds by the Scheme is a contravention of Section 35(6)(c) of the Act. There were instances where brokers were paid commission more than 30 days after becoming due.

Section 65(3) of the Act states that no person shall be compensated for providing services relating to the introduction or admission of a member to a medical scheme unless the Council for Medical Schemes has granted accreditation to such a person. There were instances where the mentioned sections of the Act were not adhered to.

Form of Proxy

for the Profmed Annual General Meeting to be held at 15:30 on 29 May 2008.

I, _____ , membership no. _____ ,

being a current and fully-paid member of Profmed, hereby appoint _____ ,

membership no. _____ , or failing him the Chairman of the meeting, as my proxy to attend, and speak, and vote on a poll for me and on my behalf at the meeting of Profmed to be held at 15:30 on 29 May 2008 at 6 Anerley Road, Parktown, Johannesburg, and at any adjournment thereof, as follows:

No.	Business	In favour of	Against	Abstain
1.	Resolution for the adoption of the Annual Financial Statements for the year ended 31 December 2007 (including the reports of the trustees and the auditors)			
2.	Resolution for the re-appointment of the auditors			
3.	Confirmation of remuneration of trustees			

Indicate instruction to proxy by way of a cross ☒ in the relevant space provided above.

Signed this _____ day of _____ 2008.

Signature: _____

Notes:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend, speak and, on a poll, vote in his stead, provided such proxy is also a current and fully-paid member of Profmed.
2. Resolutions referred to in this form are those that must, in accordance with the rules of Profmed, be taken at an annual general meeting and voted upon by all those present at such an annual general meeting.
3. The proxy form must be signed, dated and returned to "The Principal Officer – Profmed", 6 Anerley Road, Parktown or posted to PO Box 1089, Houghton, 2041or faxed to 012 677 9286 by not later than 12:00 on the day of the scheduled annual general meeting.
4. The signatory may insert the name of any Profmed member whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose at the top of the proxy form.
5. The completion and lodging of this Form of Proxy will not preclude the signatory from attending the meeting and speaking and voting in person to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
6. If the signatory does not indicate in the appropriate place on the face of this form how he/she wishes to vote in respect of any resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution whether or not express reference is made to the nature of such a resolution in this form.