

NOTICE IS HEREBY GIVEN THAT THE 12TH ANNUAL GENERAL MEETING OF



Medical scheme

WILL BE HELD ON THURSDAY, 22 MAY 2008, AT 13H00 IN THE CONFERENCE CENTRE, FIRST FLOOR, PICK N PAY OFFICE PARK, 101 ROSMEAD AVENUE, KENILWORTH.

AGENDA

1. Notice convening the Annual General Meeting
2. Minutes of the Annual General Meeting held on Thursday, 17 May 2007
3. Annual Report of the Chairperson of the Board of Trustees for the year ended 31 December 2007
4. Adoption of the Annual Financial Statements for the year ended 31 December 2007
5. Confirmation of the Disputes Committee
The current Disputes Committee comprises:
Mr J Lucas
Mr V Rodriques
Mr Y Mola
Mr M Marsden
6. Election of the External Auditor for the ensuing year
Current External Auditor: KPMG Inc
7. Any other business of which due notice has been given on or before Thursday, 15 May 2008

By order of the Board of Trustees

GEORGE JONES
PRINCIPAL OFFICER

PICK n PAY MEDICAL SCHEME

CHAIRPERSON'S REVIEW

Despite the many challenges facing Pick n Pay Medical Scheme (the Scheme) and its Board, I am pleased to report that the Scheme has once again maintained its strong financial performance during the last year whilst continuing to offer its members benefit enhancements and keeping contribution increases to a minimum.

The Board of Trustees and I recognise the need to protect members' interests and will, with the help of our Actuarial Consultants, continue to focus on legislative changes and industry-related developments that may have an impact on the Scheme.

The biggest challenge facing the healthcare industry at the moment is the dispute between the Council for Medical Schemes and the private hospital industry. The Council claims that the increases requested by private hospitals are unjustified and far in excess of the Consumer Price Index (CPI). Private hospitals have justified these costs by claiming that medical inflation is in excess of the CPI and as such it is not financially viable for them to only increase their tariffs by the CPI. Whilst no direct impact has been felt by members, we are keeping a close eye on the developments and will advise our members timeously of any significant developments via the quarterly newsletters.

Members may recall that no National Health Reference Price List (NHRPL) was published for 2007 and that the Trustees were required to base the annual increase on the 2006 figures with an inflationary allowance. Fortunately, the Council did publish the NHRPL for 2008 and it was of great comfort to the Trustees to note that the inflationary increases we applied mirrored those tariffs published by Council.

The Scheme's continued strong financial performance can be ascribed to claims expenditure being contained well within the budget, as well as the excellent investment returns achieved as a result of sound investment strategies.

A competitive contribution increase of 7% on average was approved for 2007 and benefit category sub-limits were increased on average by 7% as well. In addition, the Scheme introduced the Diabetes Management Programme, managed by the Centre for Diabetes and Endocrinology, which is aimed at ensuring appropriate and cost-effective care to diabetic members and dependants.

The Scheme remains financially sound with a solvency ratio of 86.4% as at 31 December 2007. The Trustees are committed to ensuring the financial viability of the Scheme and will continue its efforts to keep costs to a minimum without compromising on the high standard of healthcare. Legislative developments will be monitored closely on an ongoing basis to pre-empt and minimise the impact on the Scheme and its members.

On behalf of the Scheme, we would like to express our thanks to the following people/organisations:

- the Company for its active support
- our colleagues on the Board of Trustees for their leadership
- the management and staff at Metropolitan Health Corporate (Pty) Ltd and Qualsa Healthcare (Pty) Ltd for the efficient manner in which they have managed the day-to-day affairs of the Scheme
- the medical advisor, Dr Martin Bailey, for his dedication and commitment
- the external auditor, KPMG Inc, for the competent manner in which they conducted their audit

PICK n PAY MEDICAL SCHEME

CHAIRPERSON'S REVIEW (CONTINUED)

- our actuarial consultants, NMG Consultants and Actuaries, for their invaluable contributions
- the Registrar of Medical Schemes and his staff for their assistance during the year
- all service providers.

Most importantly, we would like to thank members for their continued efforts in proactively managing their health and wellness, thereby ensuring the financial wellbeing of the Scheme.

ERNA VAUSE
CHAIRPERSON

23 April 2008

PICK n PAY MEDICAL SCHEME

ANNUAL REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees hereby presents its report for the year ended 31 December 2007.

Registration Number: 1563

1. MANAGEMENT

1.1 BOARD OF TRUSTEES

The names of the Trustees in office during the year under review and up to the date of signing this report are:

Employer appointed

R de Wet	Chairperson	Resigned: 7 February 2008
D Cope		
C Hultzer		Resigned: 3 April 2007
I Motaung		

Member appointed

E Vause	Chairperson	Appointed: 7 February 2008
M Magnussen		
H de Light		
J Macmillan		

1.2 PRINCIPAL OFFICER

GT Jones

Pick n Pay Office Park	PO Box 23087
Corporate Building	Claremont
101 Rosmead Avenue	7735
Kenilworth	
7700	

1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS

Metropolitan Health Corporate (Pty) Ltd

Town Square	PO Box 4313
61 St George's Mall	Cape Town
Cape Town	8000
8001	

A complete set of the audited Annual Financial Statements can be obtained from the above address.

1.4 MEDICAL SCHEME ADMINISTRATOR

Metropolitan Health Corporate (Pty) Ltd

Town Square	PO Box 4313
61 St George's Mall	Cape Town
Cape Town	8000
8001	

PICK n PAY MEDICAL SCHEME

ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

1.5 INVESTMENT MANAGERS

Allan Gray Life Limited

Granger Bay Court
Beach Road
V&A Waterfront
Cape Town
8002

PO Box 51318
V&A Waterfront
8002

Investec Asset Management

100 Grayston Drive
Sandown
Sandton
2196

PO Box 785700
Sandton
2146

1.6 AUDITOR

KPMG Inc

MSC House
1 Mediterranean Street
Foreshore
Cape Town
8001

PO Box 4609
Cape Town
8000

1.7 ACTUARIAL CONSULTANTS

NMG Consultants and Actuaries (Pty) Ltd

NMG House
256 Kent Avenue
Randburg
2125

PO Box 3075
Randburg
2125

1.8 INVESTMENT CONSULTANTS

Fifth Quadrant Actuaries and Consultants (Pty) Ltd

Great Westerford Building
2nd Floor, Suite 2, South Wing
240 Main Road
Rondebosch
7700

Private Bag X30
Rondebosch
7701

PICK n PAY MEDICAL SCHEME

ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

2. DESCRIPTION OF THE MEDICAL SCHEME

The Scheme is a not-for-profit restricted membership medical scheme, registered in terms of the Medical Schemes Act 131 of 1998, as amended (the Act).

2.1 BENEFITS

The Scheme offers only one option to its members.

2.2 SAVINGS PLAN

In order to provide a facility for members of the Scheme to set funds aside to meet future healthcare costs not covered in the benefit option, the Trustees have made a medical savings account available.

25% of total contributions are allocated into a savings account to cover members' day-to-day medical expenses.

Unexpended savings amounts are accumulated for the long-term benefit of the member and interest is paid on credit balances at an interest rate, as determined by the Board of Trustees annually.

The liability to the members in respect of the savings plan is reflected as a current liability in the Annual Financial Statements, repayable in terms of Regulation 10 of the Act.

In terms of the rules of the Scheme, the savings plan is underwritten by the Scheme. Members are allowed to use their full savings contribution at any time during the year, even though contributions are paid monthly. The Medical Scheme carries the risk that contributions are not recovered, even though annual savings have been spent.

3. INVESTMENT STRATEGY OF THE MEDICAL SCHEME

The Scheme's investment objectives are to maximise the return on its investments on a long-term basis at appropriate risk. The investment strategy takes into consideration constraints both imposed by legislation and by the Board of Trustees.

The Board of Trustees is responsible for all the investment decisions, and part of its strategy is to ensure that:

- the Scheme remains liquid;
- investments are to be placed so as to be exposed to appropriate risk to earn the best possible rate of return;
- investments made are in compliance with the regulations of the Act; and
- a risk assessment is performed with feedback to the Board of Trustees with recommendations on the risks identified.

The Scheme invested in local equities, bonds, collective investment schemes and cash instruments over the year. Government bonds were sold during the course of the year to increase exposure to equities.

PICK n PAY MEDICAL SCHEME

ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

3. INVESTMENT STRATEGY OF THE MEDICAL SCHEME (CONTINUED)

This policy is reviewed annually, taking into consideration compliance with the Act, the risk returns of the various investment instruments and the surplus of funds available.

The Scheme's investment committee, which comprises Trustees, meets regularly to consider the Scheme's investment strategy and to monitor investment performance and compliance. The committee's decisions are considered and approved by the Board of Trustees. The committee receives guidance from external consultants (Fifth Quadrant) to assist them with investment strategies.

4. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. These risks relate to the health of Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation, case management and service provider profiling. These methods for mitigating insurance risk are reviewed annually and amended for changes in the Medical Schemes Act and/or changes in the Scheme's ability to accept insurance risk.

The Board of Trustees frequently assesses the necessity to enter into risk transfer arrangements, with the assistance of the Scheme's actuarial consultants.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. 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.

5. REVIEW OF OPERATIONS

5.1 OPERATIONAL STATISTICS

The results of the Scheme's operations for the year under review at 31 December 2007 are set out in the Annual Financial Statements, and the Trustees believe that no further clarification is required.

	2007	2006
Number of members at year end	6,854	6,275
Average number of members for the year	6,550	6,130
Number of beneficiaries at year end	14,462	13,494
Average number of beneficiaries for the year	13,861	13,243
Proportion of dependants at year end	1.11	1.15

PICK n PAY MEDICAL SCHEME

ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

5.1. OPERATIONAL STATISTICS (CONTINUED)

	2007	2006
Average age of beneficiaries	30.5	30.4
Pensioner ratio	7.8%	7.4%
Average contributions net of savings per member per month	R1,240	R1,175
Average contributions net of savings per beneficiary per month	R586	R548
Average claims net of savings incurred per member per month	R1,026	R952
Average claims net of savings incurred per beneficiary per month	R485	R444
Average administration costs per member per month	R128	R139
Average managed care: managed services per member per month	R48	R45
Average members' funds per member at year end	R28,523	R27,004
Relevant healthcare expenditure as a percentage of net contributions	82.7%	81.0%
Managed care: management services as a percentage of net contributions	3.9%	3.8%
Non-healthcare expenses as a percentage of gross contributions*	10.7%	10.6%
Amounts paid to Administrator:		
– Administration fees	R7,903,400	R6,984,052
– Managed care fees	R3,023,825	R2,583,934
Investment return	14.2%	25.1%

* Non-healthcare expenses include administration and managed care expenses.

5.2 ACCUMULATED FUNDS RATIO

2007
R

2006
R

The accumulated funds ratio is calculated on the following basis:

Total members' funds per balance sheet	195,496,084	169,451,999
Less: Revaluation reserve	(83,254,448)	(69,375,957)
Accumulated funds per Regulation 29 of the Act	<u>112,241,636</u>	<u>100,076,042</u>
Gross contributions	129,905,600	115,015,999
Accumulated funds ratio:		
Accumulated funds/gross contributions x 100%	<u>86.4%</u>	<u>87.0%</u>

PICK n PAY MEDICAL SCHEME

ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

5.3 REVALUATION RESERVE

The revaluation reserve in the balance sheet reflects the unrealised gains on the Scheme's investment portfolios with Allan Gray (2006: Allan Gray and Investec Asset Management).

5.4 OUTSTANDING CLAIMS

Movements on the outstanding claims provision are set out in the notes to the Abridged Financial Statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Scheme.

6. EVENTS AFTER THE BALANCE SHEET DATE

No material facts or circumstances have arisen between the balance sheet date and the date of this report which affect the financial position or financial performance of the Scheme as reflected in these financial statements.

7. INVESTMENTS IN AND LOANS TO EMPLOYERS OR MEMBERS OF THE MEDICAL SCHEME AND TO OTHER RELATED PARTIES

The Scheme holds no investments in and has granted no loans to either the participating employers of the Scheme or other related parties. Refer to the notes to the Abridged Financial Statements for related party disclosures.

8. FIDELITY COVER

The Scheme has a fidelity policy placed through Alexander Forbes, with Guardrisk Insurance Company. The sum insured is R30 million and extends to the Trustees and Principal Officer of the Scheme.

9. ACTUARIAL SERVICES

The Scheme's actuaries, NMG Consultants and Actuaries, have been consulted in the determination of the contributions and benefit levels.

10. SUB-COMMITTEES OF THE BOARD OF TRUSTEES

The following sub-committees are mandated by the Board of Trustees by means of written terms of reference as to their membership, authority and duties. These committees meet on a regular basis as and when the need arises.

10.1. AUDIT COMMITTEE

The audit committee operates in accordance with the provisions of the Act. The committee consists of five members of which two are members of the Board of Trustees.

PICK n PAY MEDICAL SCHEME

ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

10.1. AUDIT COMMITTEE (CONTINUED)

The committee met on the following three occasions during the course of the year:

- 3 April 2007
- 31 July 2007
- 29 November 2007

The Administrator and the external auditors attend all committee meetings and have unrestricted access to the Chairman of the committee.

In accordance with the provisions of the Act, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The external auditors formally report to the committee on critical findings arising from audit activities.

The members of the committee are:

- | | |
|---------------|---|
| - A Jakoet | Chairperson and independent member |
| - M Magnussen | Trustee |
| - P Hinde | Independent member |
| - E Vause | Trustee |
| - C de Vries | Independent member (Resigned: 3 April 2008) |
| - C Hultzer | By invitation (Resigned: 3 April 2007) |

10.2 INVESTMENT COMMITTEE

The primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the investment strategy of the Scheme.

The committee met on the following two occasions during the course of the year:

- 16 March 2007
- 16 August 2007

The members of the committee are:

- | | |
|---------------|---|
| - R de Wet | Chairperson (Resigned: 7 February 2008) |
| - D Cope | |
| - E Vause | |
| - M Magnussen | |
| - C Hultzer | (Resigned: 3 April 2007) |

PICK n PAY MEDICAL SCHEME**ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

11. MEETING ATTENDANCES

The following schedule sets out meeting attendances by members of the Board of Trustees and sub-committees.

Trustee/sub-committee member	Board meetings		Audit committee		Investment committee	
	A	B	A	B	A	B
R de Wet (Resigned 7 February 2008)	5	5	-	-	2	2
D Cope	5	4	-	-	2	2
C Hultzer (Resigned 3 April 2007)	1	1	1	1	1	1
E Vause	5	5	3	2	2	1
H de Light	5	4	-	-	-	-
I Motaung	5	2	-	-	-	-
J Macmillan	5	3	-	-	-	-
M Magnussen	5	4	3	3	2	2
A Jakoet	-	-	3	3	-	-
P Hinde	-	-	3	2	-	-
C de Vries (Resigned 3 April 2008)	-	-	3	3	-	-
GT Jones (Principal Officer)	5	5	3	3	2	2

A - Total possible number of meetings could have attended

B - Actual number of meetings attended

PICK n PAY MEDICAL SCHEME
ABRIDGED FINANCIAL STATEMENTS

BALANCE SHEET
at 31 DECEMBER 2007

	NOTES	2007 R	2006 R
ASSETS			
Non-current assets		134,940,847	120,782,441
Available-for-sale investments	2	134,940,847	120,782,441
Current assets		100,223,640	80,848,586
Insurance and other receivables		350,292	272,557
Cash and cash equivalents		99,873,348	80,576,029
Total assets		235,164,487	201,631,027
FUNDS AND LIABILITIES			
Members' funds		195,496,084	169,451,999
Accumulated funds		112,241,636	100,076,042
Revaluation reserve: Available-for-sale investments		83,254,448	69,375,957
Current liabilities		39,668,403	32,179,028
Savings plan liability		31,883,643	25,874,981
Insurance and other payables		4,173,836	2,752,013
Outstanding claims provision	3	3,610,924	3,552,034
Total funds and liabilities		235,164,487	201,631,027

PICK n PAY MEDICAL SCHEME
ABRIDGED FINANCIAL STATEMENTS
INCOME STATEMENT
for the year ended 31 DECEMBER 2007

	NOTES	2007 R	2006 R
Net contribution income	4	97,503,195	86,445,879
Relevant healthcare expenditure		(80,646,339)	(69,702,719)
Net claims incurred		(80,646,339)	(69,702,719)
Claims incurred		(80,694,227)	(70,020,166)
Third-party claim recoveries		47,888	317,447
Gross healthcare result		16,856,856	16,743,160
Managed care: Management services		(3,806,720)	(3,284,728)
Administration expenses		(10,047,208)	(8,893,915)
Net impairment losses on insurance receivables		(29,805)	(65,967)
Net healthcare result		2,973,123	4,498,550
Other income		12,457,271	6,283,964
Investment income		8,633,436	6,080,787
Realised gain on disposal of available-for-sale investments		3,755,592	-
Sundry income		68,243	203,177
Other expenditure		(3,264,800)	(2,985,897)
Asset management fees		(806,777)	(1,295,702)
Interest on savings accounts		(2,458,023)	(1,690,195)
Net surplus for the year		12,165,594	7,796,617

PICK n PAY MEDICAL SCHEME
ABRIDGED FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 DECEMBER 2007

	2007 R	2006 R
Accumulated funds		
Balance at the beginning of the year	100,076,042	92,279,425
Net surplus for the year	12,165,594	7,796,617
Balance at the end of the year	<u>112,241,636</u>	<u>100,076,042</u>
Revaluation reserve: Available-for-sale investments		
Balance at the beginning of the year	69,375,957	37,549,200
Unrealised gain on revaluation of available-for-sale investments	17,634,083	31,826,757
Realised gain on revaluation of available-for-sale investments	(3,755,592)	-
Balance at the end of the year	<u>83,254,448</u>	<u>69,375,957</u>

PICK n PAY MEDICAL SCHEME

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the Abridged Financial Statements are consistent with the prior year. The Scheme adopted International Financial Reporting Standard (IFRS)7 and the amendment to International Accounting Standard (IAS)1 for the first time in its audited Annual Financial Statements for the year ended 31 December 2007. This new standard and amendment to a standard has resulted in additional disclosures but have not had any effect on the measurement or classification of the amounts reported in the Annual Financial Statements.

1.1. Statement of compliance

The financial statements are prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standard Board (IASB) and in accordance with the requirements of the South African Medical Schemes Act, 1998.

1.2. Basis of preparation

The financial statements provide information about the financial position, results of operations and changes in financial position of the Scheme. These have been prepared under historical cost convention, except for available-for-sale financial assets, which are carried at fair value.

The Scheme's functional and presentation currency is South African Rands.

1.3. Use of estimates

The preparation of the financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amount of assets, liabilities and contingent liabilities at balance sheet date as well as affecting the reported income and expenditure for the year. The actual outcome may differ from these estimates, possibly significantly.

There have been no significant changes in estimates in the current year.

2. AVAILABLE-FOR-SALE INVESTMENTS

	2007	2006
	R	R
Fair value at the beginning of the year	120,782,441	87,627,274
Additions	24,686,398	-
Capitalised interest	1,010,234	1,328,410
Disposal	(29,172,309)	-
Unrealised gain on revaluation of available-for-sale investment	17,634,083	31,826,757
Fair value at the end of the year	<u>134,940,847</u>	<u>120,782,441</u>
Non-current	<u>134,940,847</u>	<u>120,782,441</u>

PICK n PAY MEDICAL SCHEME

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)

2. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

The investments included above represent investments in:

	2007	2006
	R	R
Listed Equities	134,940,847	92,417,763
Bonds	-	23,767,788
Money Market collective investment scheme	-	4,596,890
	<u>134,940,847</u>	<u>120,782,441</u>

A register of investments is available for inspection at the registered office of the Scheme.

3. OUTSTANDING CLAIMS PROVISION

	2007	2006
	R	R
Analysis of movements in outstanding claims		
Balance at the beginning of the year	3,552,034	2,853,327
Payments in respect of the prior year	(3,210,654)	(2,508,460)
Over provision in the prior year	341,380	344,867
Adjustment for the current year	3,269,544	3,207,167
Balance at the end of the year	<u>3,610,924</u>	<u>3,552,034</u>
Analysis of outstanding claims provision		
Estimated gross claims	3,951,174	3,916,791
Less: Estimated recoveries from savings plan accounts	(340,250)	(364,757)
	<u>3,610,924</u>	<u>3,552,034</u>

Process used to determine the assumptions over claims provisioning

The process used to determine the assumptions over claims provisioning is intended to result in realistic estimates of the most likely or expected outcome. The sources of data used as inputs for the claims run-off assumptions are internal, using detailed studies that are carried out on a regular basis. There is more emphasis placed on current trends.

The actual method or blend of methods used varies by category of claims and observed historical claims development. To the extent that the historical claims development method is used, we assume that the historical 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:

- change in claims submission mechanisms;
- changes in composition of members and their dependants;
- random fluctuations; and
- legislative changes.

PICK n PAY MEDICAL SCHEME

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)

3. OUTSTANDING CLAIMS PROVISION (CONTINUED)

Notified claims are assessed with due regard to the claim circumstances, category, anticipated development, expected seasonal fluctuations and information available from managed care management services (specifically hospital pre-authorisation). The provisions are best estimates based on the most recent information 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 provision estimation difficulties also differ by category of claims (i.e. hospital [major medical benefit], chronic and day-to-day) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim and reporting lags.

Independent actuaries perform separate calculations of the outstanding claims provision, which is compared to the estimates as prepared by management. Where variances arise, an understanding thereof is sought and any applicable adjustments catered for.

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected percentages of claims settled after each of the first four months of the claims run-off period, before the claims turn stale.

Sensitivity of outstanding claims provision

The percentages used as assumptions are listed in the table below. The table also outlines the sensitivity of these percentages, and the impact on the Scheme's liabilities if an incorrect assumption is used.

Other assumptions

- The actual demographics of the Scheme were used, including all membership movements for the period.
- The effect of ageing of the population on the utilisation of health services is automatically incorporated.
- Utilisation escalation incorporates the impact of HIV/AIDS.

The assumed percentages of claims outstanding at the end of the period are as follows:

	2007	2006
	%	%
Claims outstanding for services rendered in:		
December	14	15
November	5	7
October	3	4
September	1	2
August and prior	0.5	0.4

PICK n PAY MEDICAL SCHEME

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)

3. OUTSTANDING CLAIMS PROVISION (CONTINUED)

The impact of the sensitivity of these percentages are set out below:

	2007	2006
	R	R
Effect of a 1% change in assumed percentages	345,970	304,292
Effect of a 2% change in assumed percentages	699,342	615,247
Effect of a 3% change in assumed percentages	1,060,377	933,111

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.

4. NET CONTRIBUTION INCOME

	2007	2006
	R	R
Gross contributions	129,905,600	115,015,999
Less: Savings plan contributions	<u>(32,402,405)</u>	<u>(28,570,120)</u>
Net contribution income	<u>97,503,195</u>	<u>86,445,879</u>

5. RELATED PARTY DISCLOSURES

Parties with significant influence over the Scheme

Metropolitan Health Corporate (Pty) Limited (MHC) has significant influence over the Scheme, as it provides financial and operational information on which policy decisions are based, but does not control the Scheme. MHC provides administration services.

Managed care organisation, Qualsa Healthcare (Pty) Limited (Qualsa), a wholly-owned subsidiary of MHC, has significant influence over the Scheme as managed care provider, but does not control the Scheme.

NMG Consultants and Actuaries (NMG) has significant influence over the Scheme, as they provide financial and operational information on which policy decisions are based, but do not control the Scheme. NMG provides consulting and actuarial services.

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, the Principal Officer and members of sub-committees.

Close family members include family members of the Board of Trustees, Principal Officer and members of the sub-committees.

PICK n PAY MEDICAL SCHEME

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)

5. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties

The following table provides the total number of transactions that have been entered into with related parties for the relevant financial year.

	2007	2006
	R	R
Income statement		
Gross contributions received (key management personnel)	228,168	219,312
Claims incurred (key management personnel)	259,778	127,692
Compensation (key management personnel)		
– Medical advisor	372,547	348,547
Administration fees (MHC)	7,903,400	6,984,052
Managed care fees (Qualsa)	3,023,825	2,583,934
Consulting fees (NMG)	1,517,404	1,311,182
Balance sheet		
Managed care fees due	150,304	58,091
Savings account balances (key management personnel)	409,952	384,883

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

Contributions received (key management personnel)

This constitutes the contributions paid by the related parties as members of the Scheme, in their individual capacities. All contributions were at the same terms as applicable to other members.

Claims incurred (key management personnel)

This constitutes amounts claimed by the related parties, in their individual capacities as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to other members.

Compensation (key management personnel)

This constitutes payment to the Scheme's medical advisor. The Trustees and the Principal Officer are not remunerated by the Scheme.

Administration fees

The administration agreement is in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite but subject to the right of either party to terminate the agreement by giving not less than three months notice. The outstanding balance bears no interest and is due within 30 days.

PICK n PAY MEDICAL SCHEME

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)

5. RELATED PARTY DISCLOSURES (CONTINUED)

Managed care fees

The managed care agreement is in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite but subject to the right of either party to terminate the agreement by giving not less than three months notice. The outstanding balance bears no interest and is due within 30 days.

Savings account balances

The amounts owing to the related parties relate to savings account balances to which the parties have a right. In line with the terms applied to other members, the balances earn interest at the same rate as the Scheme receives on its cash investments. The amounts are all current, and would need to be payable on demand should an appropriate claim be issued, or the member exit the Scheme.

6. CONTINGENT ASSET

At 31 December 2007 the Scheme had pending motor vehicle recoveries submitted to the Road Accident Fund (RAF) for assessment. These recoveries will only be accounted for when an amount is virtually certain to be received from the RAF. The value at year end amounted to R2,156,139 (2006: R1,703,964).

PICK n PAY MEDICAL SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE PICK N PAY MEDICAL SCHEME

Report on the Abridged Financial Statements

The Abridged Financial Statements set out on pages 12 to 20 have been derived from the financial statements of Pick n Pay Medical Scheme (the Scheme) for the year ended 31 December 2007. These Abridged Financial Statements are the responsibility of the Scheme's Trustees. Our responsibility is to express an opinion on whether these Abridged Financial Statements are consistent, in all material respects, with the financial statements from which they were derived.

We have audited the Annual Financial Statements of Pick n Pay Medical Scheme for the year ended 31 December 2007, from which the Abridged Financial Statements were derived, in accordance with International Standards on Auditing.

In our report dated 23 April 2008, we expressed an unqualified opinion on the financial statements from which the Abridged Financial Statements were derived.

In our opinion, the Abridged Financial Statements are consistent, in all material respects, with the financial statements from which they are derived.

For a better understanding of the Scheme's financial position and its financial performance for the year ended 31 December 2007 and of the scope of our audit, the Abridged Financial Statements should be read in conjunction with the financial statements from which the Abridged Financial Statements were derived and our audit report thereon. Detailed financial statements are available on request from the Scheme.

KPMG Inc
Registered Auditor

Per LP Smith
Chartered Accountant (SA)
Registered Auditor
Director
23 April 2008

MSC House
1 Mediterranean Street
Foreshore
Cape Town
8001

Pick n Pay

Medical scheme