

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE



WILL BE HELD ON THURSDAY, 18 MAY 2006, AT 13H00 IN THE BOARDROOM, FIFTH FLOOR,
PICK 'N PAY HEAD OFFICE, CLAREMONT.

AGENDA

1. Notice convening the Annual General Meeting.
2. Minutes of the Annual General Meeting held on Thursday, 19 May 2005.
3. Annual Report of the Chairman of the Board for the year ended 31 December 2005.
4. Adoption of the Financial Statements for the year ended 31 December 2005.
5. Confirmation of the Disputes Committee.
The current Disputes Committee comprises:
Mr J Lucas
Mr V Rodriques
Mr IM Motaung
Mr M Marsden.
6. Election of the External Auditors for the ensuing year.
Current External Auditors: KPMG
7. Any other business of which due notice has been given on or before Thursday, 11 May 2006.

By order of the Board.

GEORGE JONES
PRINCIPAL OFFICER

ANNUAL REPORT OF THE BOARD OF TRUSTEES

We have pleasure in presenting our report for the year ended 31 December 2005.

CHAIRPERSON'S REVIEW

Despite the numerous changes and challenges the healthcare industry faced during the past year, the Pick 'n Pay Medical Scheme has continued its strong performance in 2005.

Members will be well aware that the industry experienced one of the most difficult and controversial periods during the last two years. This was brought about by the legal battle between some of the significant players in the pharmaceutical industry and the Minister of Health. The former were seeking to have the Single Exit Price (SEP) and the entire pricing regulations, as proposed by the Minister of Health, declared invalid. The Constitutional Court has finally ruled that the SEP will remain in force, but that the dispensing fee of 26%, up to a maximum of R26, was unrealistic and needed to be revised. It is expected that a final decision on a revised dispensing fee structure will be reached shortly, whereupon the Scheme will communicate the outcome to members.

The compulsory introduction of ICD-10 coding (International Disease Codes) with effect from 1 July 2005 on all medical service provider accounts is aimed at determining the impact and real cost of Prescribed Minimum Benefits provided under insured benefits by medical schemes. The Board of Trustees is confident that there will be an improvement in compliance from healthcare providers with the provision of ICD-10 codes in future.

Claims expenditure in 2005 was again lower than expected, resulting in the Scheme achieving a positive operating result. The Scheme's sound investment principles further ensured excellent investment returns for the Scheme.

The Scheme also improved its solvency ratio in 2005 to 88%, providing assurance of financial stability within the Scheme.

Hospital costs have seen consistent price escalations in excess of inflation during the past few years. Since hospitalisation is one of the main cost-drivers for the Pick 'n Pay Medical Scheme, the Board of Trustees introduced the Preferred Provider Network of Hospitals in August 2005, aimed at reducing hospital costs without compromising on quality care and service to members. Members were encouraged to utilise hospitals associated with the Preferred Provider Hospital Network and assist the Scheme in reducing costs. The results thus far have been very positive and the Board of Trustees is confident that this long-term initiative will assist the Scheme in further containing contribution increases.

In our commitment to reward members for the Scheme's positive performance during 2005, a very competitive average contribution increase of 4% for 2006, combined with significant benefit enhancements, was announced. The benefit enhancements include a 50% increase in the reimbursement rates of general practitioners and specialists, aimed at reducing the out-of-pocket expenditure of members. Further enhancements, such as a 23% increase in the psychiatric hospitalisation benefit limit and a 5% increase in all other benefit limits, were also implemented. Out-of-hospital radiology and pathology, previously paid from members' Medical Spending Accounts (MSAs), have been included in the Scheme's risk benefits.

The Board of Trustees recognises the need to protect members' interests and will continue to monitor the legislative changes and healthcare industry-related developments, which may impact on the Scheme. Through continued sound governance and financial disciplines, the Board of Trustees is confident that the Scheme is well positioned to meet the challenges ahead.

May we take this opportunity to once again thank all members for the steps they have taken towards better managing their health and wellness during 2005.

RENE DE WET
CHAIRPERSON

1. GOVERNANCE

1.1 Board of Trustees in office since the Annual General Meeting in 2005:

Board members

Employer nominated

Rene de Wet (Chairperson)
Colin Hultzer
Frans van der Walt
Dennis Cope

Member elected

Morag Magnussen
Helen De Light
Erna Vause
Sedick Adams (resigned 17 November 2005)

1.2 Principal Officer

George Jones

1.3 Registered office address

Business address:

Pick 'n Pay Centre
Corner Main and Campground Road
Claremont
7735

Postal address:

PO Box 23087
Claremont
Cape Town
7735

1.4 Scheme Administrator

Business address:

Metropolitan Health Corporate (Pty) Ltd
61 St George's Mall
Cape Town
8001

Postal address:

PO Box 4313
Cape Town
8000

2. DESCRIPTION OF SCHEME

2.1 Terms of registration

The Pick 'n Pay Medical Scheme ("the Scheme") is registered in terms of the Medical Schemes Act, 131 of 1998.

2.2 Scheme plan

The Scheme is a new generation type scheme, with an insured and a savings component. The insured portion covers hospitalisation costs subject to specific limits, plus certain out-of-hospital procedures and preventative and chronic benefits, such as general practitioner visits and medication. The member is responsible for managing these expenses. Unused savings accounts are accumulated for the long-term benefit of the member. The member's savings account balances are reflected as liabilities in the Annual Financial Statements.

3. INVESTMENT POLICY OF THE SCHEME

The Board of Trustees has continued to invest funds in line with the requirements of the Medical Schemes Act, 131 of 1998. There has been no change in policy during the 2005 benefit year.

4. REVIEW OF THE YEAR'S ACTIVITIES

4.1 Operational activities

	2005	2004
Number of members at year end	5 910	5 601
Average number of members for the year	5 753	5 503
Average insured contribution per member per month	R1 140	R1 075

Average insured claims incurred per member per month	R761	R808
Average family size at 31 December	2.2	2.2
Average age of principal members	41.2	42.1
Pensioner profile	8.1%	8.6%
Managed care fees per member per month	R42	R39
Administration costs per member per month	R115	R109
Net claims as a percentage of net contributions	66.8%	75.2%
Administration expenses as a percentage of net contributions	10.1%	10.2%
Accumulated profit per member as at 31 December	R21 968	R15 811

4.2 Financial results

The results of the Scheme are set out in the financial statements. Through sound governance, financial disciplines and careful budgeting, the Scheme achieved positive results with a net underwriting surplus of R15 305 963 and a surplus for the year of R18 248 907.

4.3 Reserves

The Scheme had a ratio of reserves as a proportion of annual contributions of 88% at 31 December 2005, which is well above the statutory solvency margin of 25%.

4.4 Outstanding claims

Movements in the outstanding claims provision are set out in the Balance Sheet. There have been no unusual movements that the trustees believe should be brought to members' attention.

5. COMMUNICATION TO MEMBERS

The Scheme published a regular newsletter to members, which kept members up to date with developments in the Scheme and the healthcare industry as a whole. A membership communication pack was sent to members at the end of 2005, detailing the benefits and contributions for 2006. In addition, members were encouraged to regularly visit the Scheme's website, hosted by the Administrator, for information relating to the rules of the Scheme and other pertinent information.

6. DISEASE RISK MANAGEMENT AND HIV/AIDS PROGRAMMES

The Disease Risk Management Programme offered by Qualsa has shown positive results. 97 participants are currently enrolled on the programme and receive regular education and personal support from Qualsa's case managers towards better managing their conditions, reducing health spend and improving health outcomes.

The Scheme continues to provide assistance to members suffering from HIV/AIDS via the HIV Risk Management Programme offered by Qualsa. There was a 35% increase in the number of registered members during 2005. It is encouraging to note that there is a general improvement in the compliance of participants registered on the programme. The trustees aim to create more awareness amongst members regarding the benefits offered by the programme and thereby increasing participation over the next few years.

7. INTEREST IN THE ADMINISTRATOR

None of the trustees or Pick 'n Pay officials have any interests in the Administrator.

8. AUDIT COMMITTEE

The Audit Committee was established in accordance with the provisions of the Medical Schemes Act of 1998. The Audit Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This committee met on a regular basis and assisted the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems,

financial reporting practices and other auditing purposes. In line with good corporate governance, new members were elected in February 2005 to serve as members of the Audit Committee.

The Audit Committee presently comprises the following persons:

- Bakar Jakoet (Chairperson)
- Morag Magnussen
- Erna Vause
- Sarah Bennett
- Penny Hinde.

9. CONTRIBUTION INCREASES AND BENEFIT REVIEW

NMG Consultants and Actuaries, the actuaries appointed by the Scheme, assist the Board of Trustees with the Scheme's financial planning and the annual benefit and pricing review. Decisions are made by the Board of Trustees after consulting with the actuaries.

The average contribution increase for 2006 of 4% is lower than previous years due to a lower inflationary environment and other cost-saving initiatives introduced by the Board of Trustees during 2005. Benefits offered by the Scheme were reviewed and various enhancements were implemented.

10. INDUSTRY DEVELOPMENTS

With legislation introduced on 1 July 2005, healthcare providers were required to indicate ICD-10 diagnosis codes on claims submitted to the Scheme. An exemption period was granted to certain healthcare providers. However, all healthcare providers were required to indicate ICD-10 codes on their accounts with effect from 1 January 2006.

The Medical Schemes Act stipulates that the Scheme may not pay claims if no ICD-10 codes are indicated; thus members and providers were encouraged to ensure that claims were submitted with the required information.

It is envisaged that the introduction of the Risk Equalisation Fund (REF) will take effect in 2007. The effect on Pick 'n Pay Medical Scheme could result in the Scheme paying contributions or receiving payments from the REF. The Board of Trustees, in consultation with its actuaries, will continue to monitor the process during the testing phase, which will continue in 2006.

The Government further introduced new tax legislation on 1 March 2006 aimed at making taxation fairer among medical scheme members. In general, lower income earners will benefit from increased tax relief, while higher income earners will receive less tax relief. Approximately 82% of the Scheme's members are positively affected by the changes.

11. VOTE OF APPRECIATION

On behalf of the Pick 'n Pay Medical Scheme, we would like to express our thanks to the following people/organisations:

- The Company for their active support
- Our members for their ongoing support
- Our colleagues on the Board of Trustees for their support
- The management and staff at Metropolitan Health Group for the efficient manner in which they have managed the day-to-day affairs of the Scheme
- The Medical Advisor, Dr M Bailey, for his dedication and commitment
- The external auditors, KPMG, for the competent manner in which they conducted their audit and for the consultancy services that they have rendered
- Our healthcare 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.

12. CONCLUSION

The Board of Trustees remains committed to carrying members' best interests at heart and making every effort to ensure the long-term affordability and sustainability of the Scheme. The Scheme remains in a strong financial position and, with the continued support of its members and all stakeholders, the Board of Trustees is confident that the Scheme will continue to provide excellent benefits to members at affordable contribution rates.

**PICK 'N PAY MEDICAL SCHEME
BALANCE SHEET
as at 31 DECEMBER 2005**

	2005 R	2004 R
ASSETS		
Non-current assets		
Available-for-sale investments	87,627,274	61,439,551
Current assets		
Trade and other receivables	68,350,053	48,471,625
Cash and cash equivalents	437,668	739,850
	67,912,385	47,731,775
Total assets	<u>155,977,327</u>	<u>109,911,176</u>
FUNDS AND LIABILITIES		
Members' funds		
Accumulated funds	129,828,625	87,010,502
Revaluation reserve	92,279,425	74,030,518
	37,549,200	12,979,984
Current liabilities		
Savings plan liability	26,148,702	22,900,674
Trade and other payables	21,146,361	17,503,634
Outstanding claims provision	2,149,014	2,601,342
	2,853,327	2,795,698
Total funds and liabilities	<u>155,977,327</u>	<u>109,911,176</u>

**PICK 'N PAY MEDICAL SCHEME
INCOME STATEMENT
for the year ended 31 DECEMBER 2005**

	2005 R	2004 R
Net contribution income	78,692,599	70,993,930
Net claims incurred	(52,566,869)	(53,355,056)
Managed care: management services	(2,878,553)	(2,544,353)
	23,247,177	15,094,521
Administration expenses	(7,963,291)	(7,223,117)
Net impairment losses	22,077	(117)
Net underwriting surplus	15,305,963	7,871,287
Net investment income	2,942,944	3,331,319
Surplus for the year	<u>18,248,907</u>	<u>11,202,606</u>

**STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 DECEMBER 2005**

	2005 R	2004 R
Accumulated funds		
Balance at 1 January	74,030,518	62,827,912
Net surplus for the year	<u>18,248,907</u>	<u>11,202,606</u>
Balance at 31 December	<u>92,279,425</u>	<u>74,030,518</u>
Revaluation reserve		
Balance at 1 January	12,979,984	3,026,933
Unrealised gain on revaluation of available-for-sale investments	<u>24,569,216</u>	<u>9,953,051</u>
Balance at 31 December	<u>37,549,200</u>	<u>12,979,984</u>

REPORT OF THE INDEPENDENT AUDITORS to the members.

The abridged Annual Financial Statements have been summarised from the Annual Financial Statements of Pick 'n Pay Medical Scheme for the year ended 31 December 2005, which were audited by us. Detailed financial statements are available on request.

KPMG, CHARTERED ACCOUNTANTS (SA) Cape Town, 7 April 2006.