

NOTICE IS HEREBY GIVEN THAT THE 13TH ANNUAL GENERAL MEETING OF



WILL BE HELD ON WEDNESDAY, 20 MAY 2009, AT 13:00 IN THE MAIN BOARDROOM, SECOND FLOOR, CORPORATE BUILDING, 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, 22 May 2008
3. Annual Report of the Chairperson of the Board of Trustees for the year ended 31 December 2008
4. Adoption of the Annual Financial Statements for the year ended 31 December 2008
5. Results of the election of the Member-elected Trustees
6. Confirmation of the Disputes Committee
The current Disputes Committee comprises:
Mr J Lucas
Ms M Mannion
Mr Y Mola
Mr M Marsden.
7. Election of the external auditor for the ensuing year
Current external auditor: KPMG Inc
8. Any other business of which due notice has been given on or before Thursday, 14 May 2009

By order of the Board of Trustees

GEORGE JONES
PRINCIPAL OFFICER

PICK N PAY MEDICAL SCHEME CHAIRPERSON'S REPORT

I am pleased to report that Pick n Pay Medical Scheme maintained its strong financial performance during the last year whilst continuing to offer its members benefit enhancements and keeping contribution increases to a minimum.

We introduced the new diabetes programme, managed by the Centre for Diabetes and Endocrinology, on 1 January 2008. It has been encouraging to see the positive lifestyle enhancements experienced by enrollees on the programme and I would like to encourage all diabetic members who have not yet registered on the programme to do so.

The Single Exit Price (SEP) is a reference price for medicines and has been finalised for the 2009 benefit year. The maximum increase of 13.2% was gazetted and needs to be implemented by September 2009. It is expected that manufacturers will put through the full 13.2%. The effect of this increase was expected to materialise in mid-February 2009 and the Board, together with our actuarial consultants will be keeping a watchful eye on costs and will continue to find innovative means to keep the impact of these costs to a minimum.

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.

Both contributions and benefit category sub-limits were increased by 10% for 2009. It was interesting to note from articles in the press, that the contribution increases for Pick n Pay Medical Scheme were well below those of other schemes in the open market.

The Scheme remains financially sound with a solvency ratio of 85.4% as at 31 December 2008. The Trustees are committed to ensuring the financial viability of the Scheme and will continue their efforts to keep costs to a minimum without compromising 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.

Two of our Trustees resigned from the Board early in 2009 and we would like to take this opportunity to thank them for their valuable contribution to the Scheme. Mr Jonathan Macmillan was appointed as a Trustee in May 2006 and tendered his resignation in February 2009. As Jonathan was a Member-elected Trustee his position will be filled at the upcoming elections, the results of which will be announced at the AGM. Mr Chris Hurst was an Employer-appointed Trustee from May 2008 and also tendered his resignation in February 2009. Chris was replaced by Mr Gary Lea. We welcome Gary on board and are grateful for the valuable contribution that he will be making to the Board and to the Scheme. We wish both Jonathan and Chris well for the future and once again, our heartfelt thanks to them both.

The Board is comprised of eight Trustees, four of whom are appointed by the Company and four of whom are elected by the members at the AGM on a three-year basis. The last elections were held in May 2006, so it is once again time for you to cast your vote in electing four Trustees to the Board. Nomination forms were sent out towards the end of February, where members were asked to nominate fellow members for election. Nominations closed on 31 March and the final ballot list has been included with this mailing. Please take some time to complete the ballot forms and return them as specified or bring them along to the AGM. Remember, this is your opportunity to have a say in the management of the Scheme.

On behalf of the Pick n Pay Medical Scheme, I would like to express my 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 management and staff of the Centre for Diabetes and Endocrinology (Pty) Ltd for the efficient manner in which they have managed the Diabetes programme
- 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
- 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 Pick n Pay Medical Scheme.

**ERNA VAUSE
CHAIRPERSON**

**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 2008.

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	
M Horney	Appointed: 22 May 2008
C Hurst	Appointed: 22 May 2008; Resigned: 4 February 2009
I Motaung	
G Lea	Appointed: 4 February 2009

Member elected

E Vause (Chairperson)	Appointed: 7 February 2008
M Magnussen	
H de Light	
J Macmillan	Resigned: 4 February 2009

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	

1.5 INVESTMENT MANAGERS

Allan Gray Life Limited

Granger Bay Court	PO Box 51318
Beach Road	V&A Waterfront
V&A Waterfront	8002
Cape Town	
8002	

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

1. MANAGEMENT (CONTINUED)

1.5 INVESTMENT MANAGERS (CONTINUED)

Investec Asset Management

100 Grayston Drive	PO Box 785700
Sandown	Sandton
Sandton	2146
2196	

1.6 AUDITOR

KPMG Inc

MSC House	PO Box 4609
1 Mediterranean Street	Cape Town
Foreshore	8000
Cape Town	
8001	

1.7 ACTUARIAL CONSULTANTS

NMG Consultants and Actuaries (Pty) Ltd

NMG House	PO Box 3075
411 Main Avenue	Randburg
Randburg	2125
2125	

1.8 INVESTMENT CONSULTANTS

Fifth Quadrant Actuaries and Consultants (Pty) Ltd

Great Westerford Building	Private Bag X30
2nd Floor, Suite 2, South Wing	Rondebosch
240 Main Road	7701
Rondebosch	
7700	

1.9 CAPITATION PROVIDER

Centre for Diabetes and Endocrinology (Pty) Ltd

81 Central Street	PO Box 2900
Houghton	Saxonwold
2198	2132

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 No 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 Spending Account available.

25% of total contributions are allocated to 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.

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

2. DESCRIPTION OF THE MEDICAL SCHEME (CONTINUED)

2.2 SAVINGS PLAN (CONTINUED)

The liability to 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 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, international collective investment schemes and cash instruments over the year. A portion of the local equity investment was sold during the course of the year in order to get exposure to international investments. 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 entered into a risk transfer arrangement with the Centre of Diabetes and Endocrinology for the provisioning of services to the beneficiaries of the Scheme, effective 1 January 2008.

The Scheme uses several methods to assess and monitor insurance risk exposures, both for individual types of risks insured and overall risks. The principal risk is that the frequency and severity of claims are 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.

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

5. REVIEW OF OPERATIONS

5.1 OPERATIONAL STATISTICS

The results of the Scheme's operations for the year under review at 31 December 2008 are set out in the Annual Financial Statements, and the Trustees believe that no further clarification is required.

	2008	2007
Number of members at year end	7,416	6,858
Average number of members for the year	7,116	6,550
Number of beneficiaries at year end	15,625	14,470
Average number of beneficiaries for the year	15,005	13,861
Proportion of dependants at year end	1.11	1.11
Average age of beneficiaries	30.0	30.5
Pensioner ratio	7.5%	7.8%
Average contributions net of savings per member per month	R1,337	R1,240
Average contributions net of savings per beneficiary per month	R634	R586
Average claims net of savings incurred per member per month	R1,112	R1,026
Average claims net of savings incurred per beneficiary per month	R527	R485
Average administration costs per member per month	R138	R128
Average managed care: Management services per member per month	R54	R48
Average members' funds per member at year end	R25,821	R28,506
Relevant healthcare expenditure as a percentage of net contributions	83.2%	82.7%
Managed care: Management services as a percentage of net contributions	4.0%	3.9%
Non-healthcare expenses as a percentage of gross contributions*	10.8%	10.7%
Non-healthcare expenditure per beneficiary per month	R91	R83
Amounts paid to Administrator:		
– Administration fees	R9,201,885	R7,903,400
– Managed care fees	R3,520,646	R3,023,825
Investment return	-1.7%	14.2%

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

5.2 ACCUMULATED FUNDS RATIO

	2008	2007
	R	R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per balance sheet	191,490,157	195,496,084
Less: Revaluation reserve	(61,640,143)	(83,254,448)
Accumulated funds per Regulation 29 of the Act	<u>129,850,014</u>	<u>112,241,636</u>
Gross contributions	152,061,639	129,905,600
Accumulated funds ratios:		
Accumulated funds/gross contributions x 100%	<u>85.4%</u>	<u>86.4%</u>

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

5. REVIEW OF OPERATIONS (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 and the Investec Global Fund (2007: Allan Gray).

5.4 OUTSTANDING CLAIMS

Movements on the outstanding claims provision are set out in note 3 to the abridged financial statements. The increase in the outstanding claims provision is due to the timing of claims submitted. The accuracy of the provision was tested against subsequent settlements.

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 abridged 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 note 6 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. COMMITTEES OF THE BOARD OF TRUSTEES

The following 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 RISK & AUDIT COMMITTEE

The risk & 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.

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

- 3 April 2008
- 24 July 2008
- 27 November 2008.

The Administrator and the external auditors attend all committee meetings and have unrestricted access to the chairperson 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. Further objectives include ensuring that all material risks to which the Scheme is exposed are identified and adequately managed. The external auditors formally report to the committee on critical findings arising from the audit.

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

10. COMMITTEES OF THE BOARD OF TRUSTEES (CONTINUED)

10.1 RISK & AUDIT COMMITTEE (CONTINUED)

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)
- J Schubach Independent member (Appointed: 3 April 2008)

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:

- 6 August 2008
- 12 November 2008.

The members of the committee are:

- R de Wet Chairperson (Resigned: 7 February 2008)
- D Cope Chairperson (Appointed: 6 August 2008)
- E Vause Chairperson (7 February 2008 to 6 August 2008)
- M Magnussen
- J Macmillan Resigned: 4 February 2009

11. MEETING ATTENDANCES

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

Trustee/committee member	Board meetings		Risk & audit committee		Investment committee	
	A	B	A	B	A	B
R de Wet (Resigned: 7 February 2008)	1	1	-	-	-	-
D Cope	4	4	-	-	2	2
M Horney (Appointed: 22 May 2008)	3	1	-	-	-	-
E Vause	4	4	3	3	2	2
H de Light	4	3	-	-	-	-
I Motaung	4	3	-	-	-	-
J Macmillan	4	2	-	-	2	-
M Magnussen	4	4	3	3	2	2
A Jakoet	-	-	3	3	-	-
P Hinde	-	-	3	3	-	-
C Hurst	3	3	-	-	-	-
J Schubach (Appointed: 3 April 2008)	-	-	3	3	-	-
GT Jones (Principal Officer)	4	4	3	3	2	2

A - Total possible number of meetings could have attended

B - Actual number of meetings attended

12. NON-COMPLIANCE MATTER

Outstanding contributions

Nature and impact

In terms of section 26(7) of the Act, contributions should be received in accordance with the rules of the Scheme, which indicates that it should be received at the latest three days after it is due. An amount of R176,685 that was due for January contributions was received one day late and an amount of R548,703 for contributions due in April was received one day late.

Cause of failure

In both cases the month end was on a weekend and for operational reasons, and due to unscheduled power outages, the deposit was only made on the Monday.

Corrective action

The importance of timeous deposits were emphasised with all relevant parties.

**PICK N PAY MEDICAL SCHEME
ABRIDGED FINANCIAL STATEMENTS**

**BALANCE SHEET
at 31 DECEMBER 2008**

	Notes	2008 R	2007 R
ASSETS			
Non-current assets			
Available-for-sale investments	2	135,520,629	134,940,847
		135,520,629	134,940,847
Current assets			
Insurance and other receivables		100,514,249	100,223,640
		228,230	350,292
Cash and cash equivalents		100,286,019	99,873,348
		100,286,019	99,873,348
Total assets		236,034,878	235,164,487
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		191,490,157	195,496,084
		129,850,014	112,241,636
Revaluation reserve: Available-for-sale investments		61,640,143	83,254,448
		61,640,143	83,254,448
Current liabilities			
Savings plan liability		44,544,721	39,668,403
		38,269,199	31,883,643
Insurance and other payables		772,037	4,173,836
		772,037	4,173,836
Outstanding claims provision	3	5,503,485	3,610,924
		5,503,485	3,610,924
Total funds and liabilities		236,034,878	235,164,487

**PICK N PAY MEDICAL SCHEME
ABRIDGED FINANCIAL STATEMENTS**

**INCOME STATEMENT
for the year ended 31 DECEMBER 2008**

	Notes	2008 R	2007 R
Net contribution income	4	114,136,587	97,503,195
Relevant healthcare expenditure	5	(94,933,772)	(80,646,339)
Net claims incurred		(94,336,486)	(80,646,339)
Claims incurred		(94,778,101)	(80,694,227)
Third-party claim recoveries		441,615	47,888
Net expense on risk transfer arrangement		(597,286)	-
Premiums paid on risk transfer arrangement		(4,073,030)	-
Recoveries from risk transfer arrangement		3,475,744	-
Gross healthcare result		19,202,815	16,856,856
Managed care: Management services		(4,588,587)	(3,806,720)
Administration expenses		(11,761,014)	(10,047,208)
Net impairment losses on insurance receivables		(9,937)	(29,805)
Net healthcare result		2,843,277	2,973,123
Other income		19,935,948	12,457,271
Investment income		10,853,759	8,633,436
Realised gain on disposal of available-for-sale investments		8,994,087	3,755,592
Sundry income		88,102	68,243
Other expenditure		(5,170,847)	(3,264,800)
Asset management fees		(1,851,494)	(806,777)
Interest on savings accounts		(3,319,353)	(2,458,023)
Net surplus for the year		17,608,378	12,165,594

**PICK N PAY MEDICAL SCHEME
ABRIDGED FINANCIAL STATEMENTS**

**STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 DECEMBER 2008**

	2008	2007
	R	R
Accumulated funds		
Balance at the beginning of the year	112,241,636	100,076,042
Net surplus for the year	17,608,378	12,165,594
Balance at the end of the year	<u>129,850,014</u>	<u>112,241,636</u>
Revaluation reserve: Available-for-sale investments		
Balance at the beginning of the year	83,254,448	69,375,957
Unrealised (loss)/gain on revaluation of available-for-sale investments	(12,620,218)	17,634,083
Realised gain on revaluation of available-for-sale investments	(8,994,087)	(3,755,592)
Balance at the end of the year	<u>61,640,143</u>	<u>83,254,448</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.

1.1 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standard Board (IASB) and in accordance with the requirements of the Medical Schemes Act No 131 of 1998 (the Act).

1.2 Basis of preparation

The financial statements provide information about the financial position, results of operations and changes in the financial position of the Scheme. These have been prepared under the 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 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

	2008	2007
	R	R
Fair value at the beginning of the year	134,940,847	120,782,441
Additions	27,023,919	24,686,398
Capitalised interest	-	1,010,234
Disposal	(13,823,919)	(29,172,309)
Unrealised (loss)/gain on revaluation of available-for-sale investment	(12,620,218)	17,634,083
Fair value at the end of the year	<u>135,520,629</u>	<u>134,940,847</u>
Non-current	<u>135,520,629</u>	<u>134,940,847</u>
The investments included above represent investments in:	115,455,902	134,940,847
- Allan Gray Equity Fund	<u>20,064,727</u>	-
- Investec Global Fund	<u>135,520,629</u>	<u>134,940,847</u>

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

3. OUTSTANDING CLAIMS PROVISION

	2008	2007
	R	R
Analysis of movements in outstanding claims		
Balance at the beginning of the year	3,610,924	3,552,034
Payments in respect of the prior year	(3,369,590)	(3,210,654)
Over provision in the prior year	241,334	341,380
Adjustment for the current year	5,262,151	3,269,544
Balance at the end of the year	<u>5,503,485</u>	<u>3,610,924</u>
Analysis of outstanding claims provision		
Estimated gross claims	6,230,684	3,951,174
Less: Estimated recoveries from savings plan accounts	(727,199)	(340,250)
	<u>5,503,485</u>	<u>3,610,924</u>

**PICK N PAY MEDICAL SCHEME
NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)**

3. OUTSTANDING CLAIMS PROVISION (CONTINUED)

The provision for outstanding claims in terms of risk transfer arrangements for the year ended 31 December 2008 was Rnil (2007: Rnil).

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.

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:

	2008	2007
Claims outstanding for services rendered in:	%	%
December	59.3	46.9
November	20.2	8.7
October	3.7	4.1
September	1.4	1.6
August and prior	0.5	0.6

**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:

	2008	2007
	R	R
Effect of a 1% change in assumed percentages	377,366	345,970
Effect of a 2% change in assumed percentages	762,885	699,342
Effect of a 3% change in assumed percentages	1,156,783	1,060,377

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

	2008	2007
	R	R
Gross contributions	152,061,639	129,905,600
Less: Savings plan contributions	(37,925,052)	(32,402,405)
Net contribution income	<u>114,136,587</u>	<u>97,503,195</u>

5. RELEVANT HEALTHCARE EXPENDITURE

	2008	2007
	R	R
Claims incurred, excluding claims incurred in respect of risk transfer arrangement		
Current year claims	119,759,627	105,708,043
Movement in outstanding claims provision	5,262,151	3,269,544
Over-provision in the prior year	(241,334)	(341,380)
Adjustment for the current year	5,503,485	3,610,924
	<u>125,021,778</u>	<u>108,977,586</u>
Less:		
Claims paid against savings account	(33,411,674)	(27,788,496)
Cash discounts received on claims	(307,747)	(494,864)
Total claims incurred, excluding risk transfer arrangement	<u>91,302,357</u>	<u>80,694,227</u>
Claims incurred in respect of risk transfer arrangement		
Current year claims	3,475,744	-
Movement in outstanding claims provision	-	-
Net claims incurred per the income statement	<u>94,778,101</u>	<u>-</u>
Net expense on risk transfer arrangement		
Premiums/fees paid	(4,073,030)	-
Recoveries received	3,475,744	-
Net expense on risk transfer arrangement	<u>(597,286)</u>	<u>-</u>

The Scheme entered into a risk transfer arrangement with the Centre for Diabetes and Endocrinology (Pty) Limited (CDE) during 2008. In terms of the arrangement, CDE provides a comprehensive programme for members of the Scheme with diabetes at a fixed monthly rate per beneficiary on the programme.

6. 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.

**PICK N PAY MEDICAL SCHEME
NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)**

6. RELATED PARTY DISCLOSURES (CONTINUED)

Parties with significant influence over the Scheme (continued)

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, and provide services as an independent member on the risk and audit committee.

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 committees.

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

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.

	2008	2007
	R	R
Income statement		
Gross contributions received (key management personnel)	309,928	228,168
Claims incurred (key management personnel)	294,400	259,778
Compensation (key management personnel)		
- Medical advisor	408,548	372,547
Administration fees (MHC)	9,201,885	7,903,400
Managed care fees (Qualsa)	3,520,646	3,023,825
Consulting fees (NMG)	1,679,024	1,517,404
	2008	2007
	R	R
Balance sheet		
Consulting fees payable (including in accrued expenses)	279,837	288,324
Managed care fees payable (including in accrued expenses)	-	99,346
Savings plan liability (key management personnel)	900,035	409,952
Medical advisor compensation payable (included in accrued expenses)	34,046	-
Reimbursement of postage/printing cost payable to MHC (included in accrued expenses)	63,046	-

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.

6. RELATED PARTY DISCLOSURES (CONTINUED)

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

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.

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 are payable on demand should an appropriate claim be issued, or the member exits the Scheme.

Actuarial and consulting fees

The agreement with NMG is 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.

7. CONTINGENT ASSET

At 31 December 2008 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 R2,090,397 (2007: R2,156,139).

8. NON-COMPLIANCE MATTER

Outstanding contributions

Nature and impact

In terms of section 26(7) of the Act, contributions should be received in accordance with the rules of the Scheme, which indicates that it should be received at the latest three days after it is due. An amount of R176,685 that was due for January contributions was received one day late and an amount of R548,703 for contributions due in April was received one day late.

Cause of failure

In both cases the month end was on a weekend and for operational reasons, and due to unscheduled power outages, the deposit was only made on the Monday.

Corrective action

The importance of timeous deposits were emphasised with all relevant parties.

**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 10 to 17 have been derived from the financial statements of Pick n Pay Medical Scheme (the Scheme) for the year ended 31 December 2008. 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 the Scheme for the year ended 31 December 2008, from which the abridged financial statements were derived, in accordance with International Standards on Auditing.

In our report dated 23 April 2009, 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 2008 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.

Report on other legal and regulatory requirements

As required by the Council for Medical Schemes, we draw your attention to note 8: Non-compliance matter.

KPMG Inc
Registered Auditor

Per LP Smith
Chartered Accountant (SA)
Registered Auditor
Director
23 April 2009



Medical scheme