

NOTICE IS HEREBY GIVEN THAT THE TWELTH ANNUAL GENERAL MEETING OF



WILL BE HELD ON WEDNESDAY, 11 JUNE 2008, AT 10H00 IN THE J B SUTHERLAND ROOM,
AFROX HOUSE, 23 WEBBER STREET, SELBY, JOHANNESBURG.

AGENDA

1. To read the Notice convening the Annual General Meeting.
2. To adopt the Minutes of the Annual General Meeting held on Thursday, 7 June 2007.
3. To adopt the Annual Report of the Board for the year ended 31 December 2007.
4. To adopt the Annual Financial Statements for the year ended 31 December 2007.
5. To re-appoint Advocate Buirski as the Disputes Committee.
6. To appoint the Auditors for the ensuing year.
7. To transact any other business of which due notice has been given by Wednesday, 28 May 2008.

By order of the Board

A handwritten signature in black ink, appearing to read "Michael Rowell". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Rowell
PRINCIPAL OFFICER

REVIEW BY THE BOARD OF TRUSTEES FOR THE YEAR ENDED 31 DECEMBER 2007

OVERVIEW

MEDICAL SCHEMES INDUSTRY

The year 2007 has not seen as many industry changes as 2006. No further changes were implemented around the Single Exit Price (SEP) introduced in 2004. The Risk Equalisation Fund launched in 2005 was still in its shadow period and it seems it will only be implemented in the year 2011. The ICD-10 coding implementation of 2005 had an influence on the payment of members' accounts. We would therefore like to provide you with an update on the ICD-10 coding system.

REJECTION FOR INVALID/INCOMPLETE ICD-10 CODES

On 1 January 2005 ICD-10 diagnostic coding became a legislative requirement for all claims submitted by primary diagnosing health service providers. This included accounts submitted by members themselves. In order to be fully compliant with the Medical Schemes Act, all schemes are required to reject claims where ICD-10 codes are not supplied. All schemes will apply the rules of ICD-10 coding in the same consistent manner.

It has been noted that some providers still submit incomplete codes on claims. These codes are not valid according to the Master Industry Table. The claims are thus being rejected. Many of these claims include invalid three character codes. Each and every item on a claim for service rendered must be coded to the highest level of specificity as detailed below:

- Consultations
- Procedures
- Modifiers
- Dispensed items
- Any other item appearing on a claim relevant to the patient encounter.

The essential benefits of ICD-10 coding are both administrative and statistical. Below is a list of possible benefits for a variety of stakeholders.

- i. Members
 - Better definition of member entitlements
 - Reimbursement from the correct benefit pool
 - Protection of Prescribed Minimum Benefits
- ii. Providers
 - Improved reimbursement of providers in line with section 59 of the MSA
 - Resources planning
 - Clinical audits
 - Proper capitation fees
 - Clinical excellence
- iii. Medical schemes and administrators
 - Risk management
 - Proper reimbursement
 - Development of managed care interventions
 - Claims adjudication

*Circular 20 – Council for Medical Schemes (2007)
Newsletter of the Council for Medical Schemes (October 2007)*

The ICD-10 compliance of service providers claiming from the Afrox Medical Aid Society at 31 December 2007 were on average 98.84%, which was very positive.

AFROX MEDICAL AID SOCIETY

Membership

Membership totals at 31 December 2007:

	Base Plan	Diamond Plan	Society
Members	2995	204	3199
Dependents	4435	91	4526
TOTAL	7430	295	7725

Reserves

The required minimum reserve ratio for a medical scheme is 25% as set by the Council for Medical Schemes. The Afrox Medical Aid Society reported a year end reserve ratio of 129.93%. Application of reserves for the benefit of the Society or its members is limited by the Medical Schemes Act, that requires that options within a scheme must at least break even on an annual basis from contributions received and benefits paid.

Benefits

Two independent actuarial valuations were conducted in 2007, both of which recommended very similar contributions and benefit structures and confirmed that the Society still offered 'value for money'. The Trustees also reviewed the current benefits and agreed not to reduce any of the major expense benefits. The day-to-day benefit introduced in 2007 was well accepted by members with fewer complaints received regarding the savings that were exhausted.

FINANCIAL OVERVIEW

Accumulated Funds

A surplus of R7 113 978 was achieved during the year after taking into account:

- Income from investments of R8 168 700;
- An operating deficit of R503 609 after deducting all expenses; and
- Other realised and unrealised gains of R4 005 215.

The accumulated funds as at 31 December 2007 were R83 759 030.

The increase in reserves over 2007 meant that the Society had exceeded the minimum requirement of 25% set by the Council for Medical Schemes by reporting a year-end reserve ratio of 129.93%.

Risk Contribution Income

2007	R64 465 874
2006	R55 811 324

Benefit Expenditure (excluding savings)

2007	R58 819 352
2006	R47 965 348

Expenditure

Administration	2007	R5 144 801
	2006	R4 531 891
Managed Care	2007	R915 387
	2006	R771 004

Annual Comparisons

	2007	2006	2005
Managed care per member per month	R25	R28	R21
Administration cost per member per month	R138	R138	R107

Membership

Membership of the Society increased from 7 079 beneficiaries in 2006 to 7 725 in 2007.

	December 2007	December 2006
Total membership (beneficiaries)	7 725	7 079
Principal members	3 199	2 879
Dependants	4 526	4 200
Average number of dependants per principal member	1.41	1.46

AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007

The Summarised Annual Financial Statements are a summary of the annual audited financial statements and as such are presented in less detail than the audited financial statements. For a better understanding of the Afrox Medical Aid Society's financial position and results of its operations, the summarised financial information should be read in conjunction with the Society's audited financial statements for the corresponding period, which include all disclosures required by the relevant financial reporting framework. A complete set of the Annual Financial Statements is available on written request from the Society at the registered postal address.

REPORT OF THE BOARD OF TRUSTEES

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

Registration Number: 1567

1. DESCRIPTION OF THE MEDICAL SCHEME

1.1 Terms of registration

Afrox Medical Aid Society is a not for profit restricted medical scheme registered in terms of the Medical Schemes Act 131 of 1998 (the Act), as amended. Membership of the Scheme is open to all current and retired employees of African Oxygen Limited and any person or institution to whom membership has been extended by the Board of Trustees, appointed to manage the Scheme in terms of the Rules.

1.2 Benefit options within the Afrox Medical Aid Society

The medical scheme offers two benefit options to employees. These are:

- Base Plan
- Diamond Plan

The Scheme benefits are all of an insured (risk) nature and no savings plans were in place in the 2007-year.

1.3 Risk transfer arrangements

The Scheme has entered into a capitation agreement with Netcare 911 to provide ambulance services for the duration of the year. Details on risk transfer arrangements are given in note 6.

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review

C van Zyl	Employer trustee	(Chairperson)
M Erasmus	Employer trustee	
B Wheatcroft	Employer trustee	
A Van Den Heever	Member trustee	
A Cameron	Member trustee	
K Bonyngé	Member trustee	
T Taylor	Member trustee	
J Du Plessis	Employer trustee	

AFROX MEDICAL AID SOCIETY
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REPORT OF THE BOARD OF TRUSTEES (continued)

2.2 Principal Officer

E Gardiner African Oxygen Limited Afrox House 23 Webber Street Selby Johannesburg 2001	PO Box 5404 Johannesburg 2000
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2.3 Registered office address and postal address

Metropolitan Health Corporate (Proprietary) Limited 5 th Floor 101 De Korte Street Braamfontein 2001	PO Box 31391 Braamfontein 2017
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2.4 Medical Scheme Administrator during the year

Metropolitan Health Corporate (Proprietary) Limited 5 th Floor 101 De Korte Street Braamfontein 2001	PO Box 31391 Braamfontein 2017
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2.5 Investment managers/advisors during the year

Investment Solutions (Proprietary) Limited Investment Solutions Office Park 63 Wierda Road East Wierda Valley 2196	PO Box 786055 Sandton 2146
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2.6 Actuaries

Alexander Forbes Financial Services 61 Katherine Street Sandown 2196	PO Box 787240 Sandton 2146
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2.7 Auditors

PricewaterhouseCoopers Inc. 2 Eglin Road Sunninghill 2157	Private Bag X36 Sunninghill 2157
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**AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
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REPORT OF THE BOARD OF TRUSTEES (continued)

3. INVESTMENT STRATEGY OF THE MEDICAL SCHEME

The Scheme's investment objective is to maximise the return on its investments on a long-term basis at minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees. The nature of the investments held indicates that the Scheme does not anticipate requiring funds on an ongoing basis.

The investment committee met on two occasions during 2007. The mandate of the investment committee is to ensure that:

- the Scheme remains liquid;
- investments are placed at minimum risk at the best possible rate of return;
- investments made are in compliance with 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 fixed deposits, bonds, equities, property and cash instruments during 2007. This policy is reviewed annually, taking into consideration compliance with the Act, the risk and returns of the various investment instruments and the surplus of funds available.

4. REVIEW OF THE FINANCIAL YEAR'S ACTIVITIES

4.1 Operational statistics

	Diamond Plan	Base Plan	2007 Total Scheme
Number of members at the end of the accounting period	204	2995	3199
Number of new members	0	575	575
Number of members leaving Scheme	15	240	255
Average number of members for the accounting period	210	2886	3096
Average number of beneficiaries for the accounting period	302	7,246	7,549
Average age of beneficiaries for the accounting period	68.9	29.6	31.1
Pensioner ratio (continuation beneficiaries > 65 years)	79.6%	4.3%	7.2%
Average net contributions per member per month (R)	2,957	1,646	1,735
Average net contributions per beneficiary per month (R)	2,053	656	712
Average claims incurred per member per month (R)	2,427	1,520	1,582
Average claims incurred per beneficiary per month (R)	1,685	605	649
Average administration costs per member per month (R)	139	138	138
Average administration cost per beneficiary per month (R)	97	55	57
Average managed care: Management services per member per month (R)	23	25	25
Average accumulated funds per member at 31 December (R)	N/A	N/A	26,183
Dependant ratio to members at 31 December	0.5	1.4	1.5
Net claims as a percentage of net contributions	82.1%	92.3%	91.2%
Non-health expenses as a percentage of gross contributions	5.58%	10.06%	9.54%
Managed care: Management services as a percentage of net contributions	0.78%	1.50%	1.42%
Administration expenses as a percentage of net contributions	4.7%	8.4%	8.0%
Chronic profile (beneficiaries)	69.7%	13.5%	15.6%

**AFROX MEDICAL AID SOCIETY
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For the year ended 31 December 2007**

REPORT OF THE BOARD OF TRUSTEES (continued)

4. REVIEW OF THE FINANCIAL YEAR'S ACTIVITIES (continued)

4.1 Operational statistics

	Diamond Plan	Base Plan	2006 Total Scheme
Number of members at the end of the accounting period	219	2,660	2,879
Number of new members	3	399	402
Number of members leaving Scheme	19	308	327
Average number of members for the accounting period	228	2,612	2,840
Average number of beneficiaries for the accounting period	329	6,726	7,055
Average age of beneficiaries for the accounting period	69.4	30.9	32.6
Pensioner ratio (continuation beneficiaries > 65 years)	79.5%	4.8%	8.1%
Average net contributions per member per month (R)	2,847	1,532	1,638
Average net contributions per beneficiary per month (R)	1,974	595	659
Average claims incurred per member per month (R)	2,808	1,280	1,403
Average claims incurred per beneficiary per month (R)	1,947	497	565
Average administration costs per member per month (R)	124	139	138
Average administration cost per beneficiary per month (R)	86	54	55
Average managed care: Management services per member per month (R)	28	28	28
Average accumulated funds per member at 31 December (R)	N/A	N/A	26,622
Dependant ratio to members at 31 December	0.4	1.5	1.5
Net claims as a percentage of net contributions	98.6%	83.6%	85.7%
Non-health expenses as a percentage of gross contributions	5.25%	8.03%	7.65%
Managed care: Management services as a percentage of net contributions	0.99%	1.84%	1.72%
Administration expenses as a percentage of net contributions	4.4%	9.1%	8.4%
Chronic profile (beneficiaries)	50.8%	10.8%	12.6%

4.2 Results of operations

The results of the medical scheme are set out in the summarised Annual Financial Statements, and the Trustees believe that no further clarification is required.

**AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007**

REPORT OF THE BOARD OF TRUSTEES (continued)

4. REVIEW OF THE FINANCIAL YEAR'S ACTIVITIES (continued)

4.3 Accumulated funds ratio

	2007	2006
Total members' funds per balance sheet	99,816,893	88,697,700
Less:		
Cumulative net gains on re-measurement to fair value of financial instruments included in the accumulated funds **	(16,057,863)	(12,052,648)
Accumulated funds per regulation 29	83,759,030	76,645,052
Gross contributions	64,465,874	57,359,372
Accumulated funds ratio (excluding unrealised gains on investments reserve)	129.93%	133.62%
Accumulated funds ratio (including unrealised gains on investments reserve)	154.84%	154.64%
** Cumulative net gains on re-measurement to fair value are calculated as follows:		
Net cumulative gains opening balance at the beginning of the year	12,052,648	4,123,332
Add:		
Movement in unrealised gains on re-measurement to fair value of available-for-sale financial assets	4,005,215	7,929,316
Cumulative net gain on re-measurement to fair value of available-for-sale financial assets	16,057,863	12,052,648

4.4 Reserve accounts

Movements in the reserves are set out in the Statement of Changes in Funds and Reserves. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the medical scheme.

4.5 Outstanding claims provision

Movements on the outstanding claims provision are set out in note 3 to the summarised Annual Financial Statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the medical scheme.

5. ACTUARIAL SERVICES

The Scheme's actuaries have been consulted in the determination of the contribution and benefit levels.

6. POST BALANCE SHEET EVENTS

There have been no post balance sheet events that affect the summarised Annual Financial Statements.

AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007

REPORT OF THE BOARD OF TRUSTEES (continued)

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

The medical scheme holds no investments in participating employers of medical scheme members. Metropolitan Health Group (MHG) and Qualsa, which are the contracted administrator and managed care service provider of the medical scheme, have a significant influence on the management and operation of the medical scheme. Payments are made in terms of the administration and managed care agreements, during the 2007 financial year, were as follows:

Administration fees for the medical scheme (MHG)	R4,325,047
Managed Care (Qualsa)	R478,614
HIV/AIDS management (Aid for Aids)	R105,330
Pharmacy benefit management (Medikredit)	R222,003
Drug utilisation review (Direct Medicines)	R109,440
African Oxygen Ltd	R104,665

8. AUDIT COMMITTEE

An audit committee was established in accordance with the provisions of the Act. The committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The committee consists of five members of which two are members of the Board of Trustees. The majority of the members, including the chairperson, are not officers of the medical scheme or its third party administrator. The committee met on two occasions during the course of the year and these meetings were attended by a majority of committee members. Refer to paragraph 10 of the report of the Board of Trustees.

The chairman of the medical scheme, the financial manager, and the external and internal auditors attend all audit 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 medical 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 committee presently comprises:

R Clarke	(Chairperson)
A Kistan	Resigned 1 June 2007
C van Zyl	
E Gardiner	(Principal Officer) by invitation
K Ehlers	Appointed 3 December 2007
M White	Appointed 3 December 2007
M Erasmus	Appointed 1 June 2007

**AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007**

REPORT OF THE BOARD OF TRUSTEES (continued)

9. INVESTMENT COMMITTEE

An investment committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This committee consists of two members of the Board of Trustees and the Principal Officer. The committee met on one occasion during the course of the year and this meeting was attended by all members.

The chairman of the medical scheme, who is also the chairman of the investment committee, attends all investment meetings.

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

The committee presently comprises:

C van Zyl	(Chairman and Trustee)
M Erasmus	(Trustee)
E Gardiner	(Principal Officer) by invitation

10. TRUSTEE MEETING ATTENDANCE AND REMUNERATION

The following schedule sets out Board of Trustees meeting attendances, attendances by members of Board sub-committees. No Trustee remuneration has been paid during the year.

Trustee/sub-committee member	Board meetings	Audit Committee meetings	Investment Committee meetings
Number of meetings for the year	5	2	1
Trustees			
C van Zyl	4	1	1
M Erasmus	4	1	1
B Wheatcroft	3		
J Du Plessis	4		
A Van Den Heever	4		
A Cameron	5		
K Bonyngge	4		
T Taylor	5		
Sub-committee members (Non-Trustee)			
R Clarke		1	
A Kistan		1	
K Ehlers		1	
M White		1	
Principal Officer			
E Gardiner (Principal Officer)	4	2	1

**AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007**

REPORT OF THE BOARD OF TRUSTEES (continued)

11. NON COMPLIANCE WITH THE MEDICAL SCHEMES ACT 131 OF 1998

The Trustees note the following matters of non-compliance with the Act, which were addressed for correction by the Scheme:

- Section 26(7) states that, "All subscriptions or contributions shall be paid directly to a medical aid fund not later than three days after payment thereof becoming due". Certain isolated cases were experienced where contributions were not paid by members within three day as stipulated by the Act due to payment delays.
- As set out in note 5, the Base benefit option incurred an operating deficit during the year. In terms of section 33(2) of the Act, each option shall be self-supporting in terms of membership and financial performance and be financially sound.
- Section 59(2) states that, "A medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the Rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme". Certain isolated cases were experienced where claims were not paid by the medical scheme within 30 days as stipulated by the Act due to incorrect information used by suppliers.

**REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF AFROX MEDICAL AID SOCIETY**

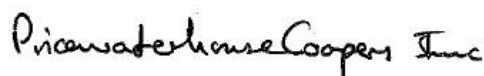
Opinion

We have audited the Annual Financial Statements of Afrox Medical Aid Society for the year ended 31 December 2007, from which the summarised financial statements were derived, in accordance with International Standards on Auditing.

In our report dated 30 April 2008, we expressed an unqualified opinion on the financial statements from which the summarised financial statements are derived.

In our opinion, the accompanying summarised 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 the results of its operations for the year ended 31 December 2007, and of the scope of our audit, the summarised financial statements should be read in conjunction with the Annual Financial Statements from which the summarised financial statements were derived and our audit report on those Annual Financial Statements.



PricewaterhouseCoopers Inc.
Director: Leon de Wet
Registered Auditor
Johannesburg
30 April 2008

AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007

BALANCE SHEET
For the year ended 31 December 2007

	Notes	2007 R	2006 R
ASSETS			
Non-current assets			
Available-for-sale financial assets	2	83,476,476	89,210,774
		83,476,476	89,210,774
Current assets			
Trade and other receivables		22,001,179	8,375,560
Cash and cash equivalents		5,241,840	4,720,479
		16,759,339	3,655,081
Total assets		105,477,655	97,586,334
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		99,816,893	88,697,700
Available-for-sale reserve		83,759,030	76,645,052
		16,057,863	12,052,648
Current liabilities			
Outstanding claims provision	3	5,660,762	8,888,634
Savings plan liability		2,741,123	1,996,046
Trade and other payables		-	4,231,123
		2,919,639	2,661,465
Total funds and liabilities		105,477,655	97,586,334

AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007

INCOME STATEMENT
For the year ended 31 December 2007

	Notes	2007 R	2006 R
Net contribution income	4	64,465,874	55,811,324
Relevant healthcare expenditure		(58,819,352)	(47,965,348)
Net claims incurred		(58,756,478)	(47,816,900)
Claims incurred		(59,177,151)	(48,210,402)
Third party claim recoveries		420,673	393,502
Net expense on risk transfer arrangements		(62,874)	(148,448)
Risk transfer arrangement fees paid		(276,888)	(372,230)
Recoveries from risk transfer arrangements		214,014	223,782
Gross healthcare result		5,646,522	7,845,976
Managed care: management services		(915,387)	(771,004)
Administration services		(5,144,801)	(4,531,891)
Net impairment (losses)/reversals		(89,943)	914,491
Net healthcare result		(503,609)	3,457,572
Other income		8,369,685	5,574,042
Investment income		8,168,700	5,381,739
Sundry Income		200,985	192,303
Other expenditure		(752,098)	(805,573)
Asset management expenses		(388,074)	(456,179)
Finance costs		(364,024)	(349,394)
Net surplus for the year		7,113,978	8,226,041

AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007

STATEMENT OF CHANGES IN FUNDS AND RESERVES
For the year ended 31 December 2007

	Accumulated funds	Available-for-sale reserve	Total members fund
	R	R	R
Balance at 1 January 2006	68,419,011	4,123,332	72,542,343
Net surplus for the year	8,226,041	-	8,226,041
Unrealised gain on revaluation of available-for-sale financial assets	-	7,929,316	7,929,316
Balance at 31 December 2006	<u>76,645,052</u>	<u>12,052,648</u>	<u>88,697,700</u>
Balance at 1 January 2007	76,645,052	12,052,648	88,697,700
Net surplus for the year	7,113,978	-	7,113,978
Unrealised gain on revaluation of available-for-sale financial assets	-	4,005,215	4,005,215
Balance as at 31 December 2007	<u>83,759,030</u>	<u>16,057,893</u>	<u>99,816,893</u>

CASH FLOW STATEMENT
For the year ended 31 December 2007

	2007 R	2006 R
Cash flows from operating activities		
Cash flows (utilised in)/generated from operations before working capital changes	(537,881)	427,653
Working capital changes		
- (Increase)/decrease in trade and other receivables	(521,341)	15,135,672
- Decrease in trade and other payables	(258,174)	(4,589,129)
- Increase/(decrease) in outstanding claims provision	745,077	(7,394,834)
- Decrease in savings plan liability	<u>(3,867,592)</u>	<u>(11,247,305)</u>
Cash utilised in operations	(4,439,931)	(5,667,943)
Finance costs	(364,024)	(349,394)
Purchase of available-for-sale financial assets	-	(1,868,463)
Proceeds on disinvestment of available-for-sale financial assets	9,739,513	-
Investment income	<u>8,168,700</u>	<u>5,381,739</u>
Net increase/(decrease) in cash and cash equivalents	13,104,258	(2,504,061)
Cash and cash equivalents at beginning of year	3,655,081	6,159,142
Cash and cash equivalents at end of year	<u>16,759,339</u>	<u>3,655,081</u>

AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007

SELECTED NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007

1. Principal accounting policies

In the current year the Scheme adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for the accounting period beginning 1 January 2007. The adoption of these new and revised Standards and Interpretations has resulted in no material changes to the Scheme's accounting policies and has not materially affected the amounts reported for the current or prior years.

1.1 Risk transfer arrangements

Risk transfer premiums are recognised as an expense over the indemnity period on a straight-line basis.

Risk transfer premiums and benefits reimbursed are presented in the income statement and balance sheet on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

Claims recoveries relating to risk transfer arrangements are calculated on the basis of an actuarial calculation which is based on industry-wide data and takes into consideration inflation increases, the Scheme's member ageing and hospital risk management trends.

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding claims provisions and claims reported not yet paid. Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the outstanding claims provision, claims reported not yet paid and settled claims associated with the risk transfer arrangement.

Amounts recoverable under risk transfer arrangements are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Scheme may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Scheme will receive under the risk transfer arrangement.

2. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007	2006
	R	R
Fair value at beginning of year	89,210,774	79,412,995
Additions	-	1,868,463
Disinvestment	(9,739,513)	-
Unrealised gains on revaluation	4,005,215	7,929,316
Fair value at end of year	83,476,476	89,210,774
 Non-current	 83,476,476	 89,210,774

AFROX MEDICAL AID SOCIETY
SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007

SELECTED NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2007

2. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

The quoted investments (valued with reference to an active market) included above represent investments held in a policy of insurance with Investment Solutions in:

Listed Equities	22,122,578	32,950,234
Bonds	6,547,318	6,130,146
Cash	54,806,580	50,130,394
	83,476,476	89,210,774
	83,476,476	89,210,774

The investments have no fixed maturity. The fair values of available-for-sale financial assets are based on the market value as at 31 December 2007. The cash component earned interest at an effective rate of 7.97% per annum (2006:7%).

There is no impairment provision on available-for-sale financial assets in 2007 or 2006. The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as available-for-sale. None of the financial assets are either past, due or impaired.

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

3. OUTSTANDING CLAIMS PROVISION

Provision for outstanding claims incurred but not yet reported	2,741,123	1,996,046
	2,741,123	1,996,046

Analysis of movements in outstanding claims

Balance at the beginning of the year	1,996,046	9,390,880
Payments in respect of prior year	(1,807,717)	(9,164,795)
Overprovision in prior year	188,329	226,085
Adjustment for current year	2,552,794	1,769,961
Balance at end of year	2,741,123	1,996,046
	2,741,123	1,996,046

Analysis of outstanding claims provision

Estimated gross claims	2,741,123	2,147,839
Less: Estimated recoveries from savings plan accounts	-	(151,793)
	2,741,123	1,996,046
	2,741,123	1,996,046

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3. OUTSTANDING CLAIMS PROVISION (continued)

Process used to determine the assumptions

The provision is calculated as expected ultimate claims less the actual paid claims as at the year end. For year end purposes, the expected ultimate claims are estimated by considering the actual claims paid as at 31 March 2008, in respect of the 2007 financial year, and extrapolating these paid claims to 30 April (four months after the end of the financial year, corresponding to the maximum period of time, of four months, during which claims have to be notified to the Scheme as per the Scheme Rules). The percentage of total claims in respect of the 2007 financial year expected to have been paid by 31 March 2008 was 95.87% (2007:94.38%).

The actual method or blend of methods used may vary each year due to factors relevant to that year. 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 (such as changes in claim submission procedures);
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum and/or maximum levels of medical benefit to be provided); and
- changes in composition of members and their dependants.

The impact of the risk transfer arrangement on the provision has been assessed and found to be immaterial.

Assumptions

The assumption that has the greatest effect on the measurement of the outstanding claims provision is the proportion of claims paid three months after the year end (as at the end of March 2008) when expressed as a percentage of the expected total claim payments in respect of the full year for which the outstanding claims provision is being estimated, based on historical claims development information.

An analysis of sensitivity of the various estimation techniques and variables for the determination of the claims provision provides an indication of the adequacy of the Scheme's estimation process. The Trustees believe 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. Even though a significant proportion of the claims relating to the financial year have already been processed, the Trustees consider the most significant variable to be the pattern of claims submission. Should the assumptions made regarding claims still to be paid vary by 5% (i.e. assuming March 2008 claims represent 90.87%, instead of 95.87%, of claims relating to 2007) the effect will be:

	%	2007
	Change	R
Claims provision	5	3,016,532
Surplus for the year based on the above impact		6,838,569
Reserves for the year based on the above impact		83,483,621

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	2007	2006
	R	R
4. NET CONTRIBUTION INCOME		
Gross contributions	64,465,874	57,359,373
Less:		
Savings contributions	-	(1,548,049)
Net contribution income	64,465,874	55,811,324

5. SURPLUS/LOSS FROM OPERATIONS PER BENEFIT OPTION

For management purposes the Scheme is organised into two benefit options, the Diamond plan and the Base plan. Administration and other expenses are allocated to the options on the basis of contribution income.

Base plan – 2995 members (2006: 2660 members)

	2007	2006
	R	R
Net contribution income	57,014,663	48,013,621

Relevant healthcare expenditure

	(52,700,352)	(40,261,669)
Net claims incurred	(52,640,945)	(40,125,252)
Claims incurred	(53,061,618)	(40,518,754)
Third party claim recoveries	420,673	393,502
Net expense on risk transfer arrangements	(59,407)	(136,417)
Risk transfer arrangement premiums paid	(258,905)	(342,214)
Recoveries from risk transfer arrangements	199,498	205,797

Gross healthcare result

	4,314,311	7,751,952
Managed care: management services	(856,964)	(709,055)
Administration expenses	(4,793,717)	(4,175,826)
Net impairment (losses)/reversals	(83,842)	906,104
Net healthcare result	(1,420,212)	3,773,175

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Diamond plan – 204 members (2006: 219 members)

Net contribution income	7,451,211	7,797,703
Relevant healthcare expenditure	(6,119,000)	(7,703,679)
Net claims incurred	(6,115,533)	(7,691,648)
Claims incurred	(6,115,533)	(7,691,648)
Third party claim recoveries	-	-
Net expense on risk transfer arrangements	(3,467)	(12,031)
Risk transfer arrangement premiums paid	(17,983)	(30,015)
Recoveries from risk transfer arrangements	14,516	17,984
Gross healthcare result	1,332,211	94,024
Managed care: management services	(58,423)	(61,948)
Administration expenses	(351,084)	(356,065)
Net impairment (losses)/recoveries	(6,101)	8,386
Net healthcare result	916,603	(315,603)

6. NET EXPENSE ON RISK TRANSFER ARRANGEMENTS

Expenses		
Premiums paid	(276,888)	(372,230)
Netcare 911	(276,888)	(86,515)
ER 24	-	(285,715)
Income		
Recoveries received	214,014	223,782
Net expense on risk transfer arrangements	(62,874)	(148,448)

Netcare 911 conducts business of pre-hospital emergency response and transportation services for and on behalf of members of the Scheme. An estimated amount of R214,014 (2006: R223,782) was paid in ambulance claims benefits for the Scheme members during the cost benefit year. The contract with Netcare 911 is a one year contract which is automatically renewed annually. The cost to the Scheme of providing the equivalent service was based on an actuarial calculation of industry-related costs.

7. EVENTS AFTER BALANCE SHEET DATE

No transactions or events, which are material to the financial position of the Scheme, were entered into or incurred between the balance sheet date and the date of this report.

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8. CONTINGENT ASSET

The Scheme has 182 outstanding Road Accident Claims to the value of R4,731,518 (2006: 182 claims to the value of R5,153,317). Due to the uncertain outcome of claims to the Road Accident Fund the Scheme has decided not to account for the inflow of economic benefits. The inflow will be treated on a cash received basis.

9. RELATED PARTY TRANSACTIONS

Parties with significant influence over the Scheme

Employer, African Oxygen Ltd, has significant influence over the Scheme, as African Oxygen Ltd participates in the Scheme's financial and operating decisions by means of employer-representative trustees, but does not control the Scheme.

Administrator, Metropolitan Health Group, (and managed healthcare service provider Qualsa Healthcare (Pty) Ltd (Qualsa) by association) has significant influence over the Scheme, as the Metropolitan Health Group participates in the Scheme's financial and operating decisions, but does not control the Scheme.

Transactions with related parties

The tables below provide the total amount of transactions, which have been entered into with related parties for the relevant financial year

Key management personnel (Board of Trustees, Principal Officer and executive committee) 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.

	2007	2006
	R	R
<i>Income Statement</i>		
Trustees gross medical aid contributions	251,715	248,961
Trustees gross medical aid claims	195,261	140,972
Claims reported not yet paid	-	4,721
Ex gratia payments	-	-
<i>Balance Sheet</i>		
Trustees savings account balances	-	61,317
Outstanding contributions	-	-

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

Transaction	Nature of transactions and terms and conditions thereof.
Contribution received	This constitutes the contributions paid by the related party as a member of the Scheme, in their individual capacity. All contributions were at the same terms as applicable to third parties.
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 third parties.
Claims reported not yet paid	These are claims that have been reported, but not yet paid due to the fact that the Scheme does a payment run twice a month. All claims are settled within 30 days of being received.
Savings account balances	The amounts owing to the related parties relate to medical aid savings balances to which the parties have a right. 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.
Contribution debtor	This constitutes outstanding contributions owing by members. These amounts are due immediately. No provisions for doubtful debts have been raised on these amounts.

Transactions with entities that have significant influence over the Scheme

Income Statement	2007	2006
	R	R
Administration fees – Afrox Oxygen Ltd	104,665	96,880
Administration fees – Metropolitan Health Corporate (Pty) Ltd	4,325,047	3,480,936
Managed care fees – Qualsa Healthcare (Pty) Ltd	478,665	396,302
Balance Sheet		
Administration fees – Afrox Oxygen Ltd	9,557	78,164

Terms and conditions of the administration agreement

African Oxygen Limited provides the services of the Principal Officer and human resources administrative support.

10. COMPARATIVE INFORMATION

The format of the Income Statement has changed for the 2007 reporting period as per the Council for Medical Schemes requirement. Resultantly the prior year Income Statement has been restated for comparative purposes.

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REVISION OF 2006 ANNUAL FINANCIAL STATEMENTS

In accordance with section 38 of the Medical Schemes Act 131 of 1998 as amended, should the Registrar be of the opinion that the Scheme's Annual Financial Statements do not correctly reflect the revenue and expenditure or the financial position, as the case may be the Registrar may reject the Annual Financial Statements.

Following the Registrar's interpretation of certain statements of IFRS, the Scheme was notified that its Annual Financial Statements for the year ended 31 December 2006, approved by the Board of Trustees on 30 March 2007, were rejected. The Scheme was directed to amend the income statement as follows:

	2006 R
Net contribution income as previously reported	55,439,094
Reclassified to relevant healthcare expenditure	372,230
	<u>55,811,324</u>
Expenses as previously reported	47,593,118
Reclassified from net contribution income	372,230
	<u>47,965,348</u>
Managed care: management services	<u>771,004</u>

Managed care: management services were previously reported under Net risk claims incurred. The Registrar was of the view that these fees should not be reported as part of claim expenditure.

There was no change to the surplus or deficit for the year ended 31 December 2006.

These changes required by the Registrar of Medical Schemes were not considered by the Trustees to affect the fair presentation of the Annual Financial Statements in accordance with International Financial Reporting Standards.

VOTE OF APPRECIATION

On behalf of the Afrox Medical Aid Society we would like to express our thanks to the following Stakeholders:

- 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 of the Metropolitan Health Group (MHG) for the manner in which they managed the day-to-day affairs of the Society;
- Our Medical Advisor, Dr Grant Dalziel, for his dedication and commitment;
- The external auditors, PricewaterhouseCoopers;
- The healthcare consultants, Alexander Forbes, for their actuarial service;
- The Registrar of Medical Schemes and support staff for their co-operation and assistance during the year; and
- All other service providers.



CHAIRPERSON



PRINCIPAL OFFICER