

NOTICE IS HEREBY GIVEN THAT THE TENTH ANNUAL GENERAL MEETING OF



WILL BE HELD ON FRIDAY, 9 JUNE 2006, 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 Monday, 20 June 2005.
3. To adopt the Annual Report of the Board for the year ended 31 December 2005.
4. To adopt the Annual Financial Statements for the year ended 31 December 2005.
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 Friday, 26 May 2006.
8. To adopt the results of the Trustees Elections.

By order of the Board

A handwritten signature in black ink, appearing to read "Errol Gardiner", is written over a faint, circular stamp.

ERROL GARDINER
PRINCIPAL OFFICER

ANNUAL REPORT OF THE BOARD OF TRUSTEES

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

OVERVIEW

MEDICAL SCHEMES INDUSTRY

The year 2005 had not seen as many industry changes as 2004, but changes that we experienced also had a significant impact on the Afrox Medical Aid Society, as well as on our members. We saw the introduction of HIV/AIDS as a Prescribed Minimum Benefit (PMB) from 1 January 2005, the introduction of the Shadow Risk Equalisation Fund (REF) and the implementation of ICD-10 codes. The ICD-10 coding implementation had and still has a huge influence on the payment of members' accounts.

RISK EQUALISATION FUND (REF)*

The Department of Health proposed the implementation of a Risk Equalisation Fund (REF) to enhance medical schemes fairness and stability. The REF, will improve fairness through reducing the incentive for schemes to compete on the basis of risk-selection and to encourage cost-effective purchasing of essential healthcare benefits. A shadow period was run in 2005 to test the REF and the shadow period will continue during 2006. The actual implementation will only take effect in the year 2007. The REF receives information from schemes on a routine basis to determine the beneficiary profile in each option as well as the prevalence and cost of specific medical and chronic conditions. The submission of the information to the Council is done on a sheet called a contribution table. The application of the REF Contribution Table will indicate the extent to which a particular scheme varies from the industry REF Community Rate (i.e the average cost per beneficiary for Prescribed Minimum Benefits). Based on the data submissions, reports are sent to each scheme providing an indicative assessment of the impact REF financial transfers would have were the full system to be operational. The provisional reports received by the society in 2005 indicated that the society would benefit from the REF.

ICD-10 IMPLEMENTATION**

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 been submitted by members themselves. The ICD-10 diagnosis coding standard is supplied by the World Health Organisation (WHO). The coding system has been accepted by all parties in South Africa as the coding standard of choice. An ICD-10 code provides necessary information to the Council for Medical Schemes and has the following benefits:

- ICD-10 coding provides a uniform and reliable tool for gathering disease-related data which allows easy storage, retrieval and analysis of information;
- Aggregated information can be used for appropriate planning of healthcare needs, notably patient care, research, performance improvement, healthcare planning and facility management;
- The use of codes communicates health care data in a predictable, consistent and reproducible manner; and
- It also enables fair reimbursement for healthcare services provided.

The process has four phases of which the first two phases took place in 2005. In the first phase it was required that the ICD-10 code consists of three characters, which appeared in the ICD-10 coding manuals. The time frame for the first phase was 1 July – 30 September 2005. Phase two took place from 1 October – 31 December 2005 and all accounts without these codes had to be rejected by the Society. The Society was not allowed, according to law, to pay these accounts. All service providers except for pharmacists, anaesthetists, radiologists and pathologists had to comply with this regulation from the beginning of phase one. An example of an ICD-10 code could look as follows: S72.31. All 5-character levels are required as from 1 January 2006. The ICD-10 codes were supplied to all service providers. The 3rd and 4th phases will only be implemented in 2006. The Society experienced problems with certain ICD-10 codes and accounts having to be rejected because of this.

Despite these problems, compliance on these codes for the Afrox Medical Aid Society has been above 95% from the first implementation phase.

***Source:** Council for Medical Schemes Circular 11

****Source:** Council for Medical Schemes Circular 32

AFROX MEDICAL AID SOCIETY

Following the terms of the sale agreement and the notice given by Life Healthcare Group (Pty) Ltd, these members resigned from the Society on 31 December 2005. While membership of the Society has decreased an actuarial review has confirmed the sustainability of The Afrox Medical Aid Society.

FINANCIAL OVERVIEW

Accumulated Funds

A surplus of R20 515 399 was achieved during the year, after taking into account:

- Income from investments of R3 679 815,
- An operating surplus of R13 030 919 after deducting all expenses and
- Other realised and unrealised gains of R5 519 086

The accumulated funds as at 31 December 2005 were R68 419 011.

The increase in reserves over 2005 meant that the Society achieved the minimum requirement of 25% set by the Council for Medical Schemes by reporting a year-end reserve ratio of 40.06%.

Net Contribution Income

2005	R162 083 458
2004	R140 473 141

Benefit Expenditure

2005	R132 668 693
2004	R114 618 014

} Reduced by over 55s

Expenditure

Administration	2005	R11 618 246
	2004	R9 120 524
Managed Care	2005	R2 052 614
	2004	R1 689 136

Expenditure in the Society mainly increased due to the growth in membership, the provision for Life Healthcare exited employees, a run-off administration costs accrued to December 2005 for four months and the savings interest accrued for in December, rather than being applied only at the date of payment.

Annual Comparisons

	2005	2004	2003
Managed care per member per month	R21	R16	R10
Administration cost per member per month	R107	R91	R80

Membership

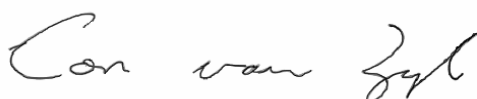
Membership of the Society increased from 21 168 beneficiaries in 2004 to 22 377 in 2005.

	December 2005	December 2004
Total membership	22 377	21 168
Principal members	9 335	8 637
Dependants	13 042	12 531
Average number of dependants per principal member	1.40	1.45

VOTE OF APPRECIATION

On behalf of the Afrox Medical Aid Society, 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 manner in which they managed the Society;
- Our Medical Advisor, Dr G Dalziel, for his dedication and commitment;
- The external auditors, Deloitte & Touché, for the efficient manner in which they conducted their audit;
- The healthcare consultants, Alexander Forbes, for their contribution;
- The Registrar of Medical Schemes and his staff for their co-operation and assistance during the year; and
- All service providers.



CHAIRPERSON



PRINCIPAL OFFICER

AFROX MEDICAL AID SOCIETY

SUMMARISED FINANCIAL INFORMATION PREPARED FROM THE AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Balance sheet as at 31 December 2005

	2005 R	2004 R
ASSETS		
Non-current assets		
Available-for-sale investments	79,412,995	14,968,760
Current assets		
Trade and other receivables	19,090,107	16,343,226
Cash and cash equivalents	6,159,142	42,271,350
Total assets	104,662,244	73,583,336
FUNDS AND LIABILITIES		
Members' funds		
Accumulated funds	68,419,011	48,391,339
Revaluation reserve	4,123,332	3,635,605
Current liabilities		
Outstanding claims	9,390,880	6,298,110
Savings plan liability	15,478,428	11,430,245
Trade and other payables	7,250,593	3,828,037
Total funds and liabilities	104,662,244	73,583,336

Income statement for the year ended 31 December 2005

	2005 R	2004 R
Net contribution income	162,083,458	140,473,141
Net claims incurred	(132,668,693)	(114,618,014)
Managed care: management services	(2,052,614)	(1,689,136)
Net expense on risk transfer arrangements		
Other risk transfer arrangements	(1,463,390)	(562,004)
Administration expenses	(11,618,246)	(9,120,524)
Net impairment losses	(1,249,596)	(521,145)
Trade and other receivables	(1,245,663)	(521,145)
Other	(3,933)	-
Investment income	3,679,815	3,519,690
Other realised and unrealised gains and losses	5,519,086	2,048,272
Other operating income	143,752	4,810
Finance costs	(1,858,173)	(1,035,700)
Net surplus for the year	20,515,399	18,499,390

AFROX MEDICAL AID SOCIETY

Cash flow statement for the year ended 31 December 2005

	2005	2004
	R	R
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operations before working capital changes	14,420,334	14,488,273
WORKING CAPITAL CHANGES		
- Increase in trade and other receivables	(3,992,544)	(3,445,313)
- Increase in trade and other payables	3,422,556	3,404,531
- Increase/(decrease) in outstanding claims provision	3,092,770	(3,082,932)
- Increase/(decrease) in savings plan liability	4,048,183	(44,845)
Cash generated from operations	20,991,299	11,319,714
Finance costs	(1,858,173)	(1,035,700)
NET CASH FROM OPERATING ACTIVITIES	19,133,126	10,284,014
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale investments	(104,755,471)	(11,735,385)
Proceeds from sale of available-for-sale investments	45,830,322	16,028,241
Interest received	3,475,351	3,519,690
Dividends received	204,464	-
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(55,245,334)	7,812,546
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(36,112,208)	18,096,560
Cash and cash equivalents at beginning of year	42,271,350	24,174,790
CASH AND CASH EQUIVALENTS AT END OF YEAR	6,159,142	42,271,350

NOTE TO THE ANNUAL FINANCIAL STATEMENTS

Due to the sale of Afrox Healthcare Limited (Life Healthcare Group (Proprietary) Limited), the possibility exists of a transfer of reserves to a Special Purpose Vehicle, which was estimated by the Actuaries of the Society at R44 million. The application for the transfer of reserves has been made to the Registrar of Medical Schemes and his decision is pending.

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

The summarised financial statements of Afrox Medical Aid Society set out in the Annual General Meeting Notice, Annexure A; pages 1 to 2 have been derived from the annual financial statements of the Society for the year ended

31 December 2005. We have audited the annual financial statements in accordance with International Standards on Auditing. In our report dated 28 April 2006, we expressed a qualified opinion on the financial statements from which the summarised annual financial statements were derived.

Discontinued operation

6 519 members belonging to Afrox Healthcare Limited (now Life Healthcare Group (Proprietary) Limited) withdrew from the Society on 31 December 2005. The income statement has not been adjusted to reflect the effects of the discontinued operation of the Society, however the notes to the annual financial statements do record this information.

Audit opinion

In our opinion, except for the effect on the financial statements of the matter referred to above, the accompanying summarised financial statements are consistent, in all material respects, with the annual financial statements from which they were derived.

For a better understanding of the scope of our audit and the Society's financial position, the results of its operations and cash flows for the year, the summarised financial statements should be read in conjunction with our audit report and annual financial statements from which the summarised financial statements were derived.

Deloitte & Touche
Registered Auditors
28 April 2006