

self
med



medical scheme

Notice of the 2007
Annual General Meeting



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**NOTICE OF THE ANNUAL GENERAL MEETING OF
THE SELFMED MEDICAL SCHEME TO BE HELD
ON WEDNESDAY, 27 JUNE 2007 AT 15H00 (3 PM)
AT THE BELL ROSEN GUESTHOUSE,
116 KOMMISSARIS STREET, WELGEMOED, BELLVILLE**

AGENDA

1. Notice of Meeting
2. Confirmation of Previous Minutes
3. Matters Arising from Previous Minutes
4. Adoption of Board's Report
5. Adoption of Annual Financial Statements
6. Auditor's Report
7. Appointment of Auditors
8. Appointment of Members of the Disputes Committee
9. Change in Board of Trustees Structure
10. Honorariums
11. Any Other Business (only those matters of which the Scheme received notice by 15 June 2007)

**MINUTES OF THE ANNUAL GENERAL MEETING OF
THE SELFMED MEDICAL SCHEME (REG NO. 1446),
HELD ON WEDNESDAY, 28 JUNE 2006 AT 14:00
AT THE BELL ROSEN GUESTHOUSE, 116
KOMMISSARIS STREET, WELGEMOED, BELLVILLE**

PRESENT:	Mr L Bester	(Chairman)
	Mr EH Gregory	(Vice-Chairman)
	Mr M Bartlett	(Trustee)
	Dr WH Boshoff	(Trustee)
	Mr B Reide	(Trustee)
	Mr M Werth	(Principal Officer)
IN ATTENDANCE:	Ms M Bester	(Selfmed)
	Mr H du Plessis	(Selfmed)
	Ms K Claassen	(Selfmed)
	Ms J Jansen Van Vuuren	(Selfmed)
	Mr V Wiese	(PricewaterhouseCoopers)
	Mr M Strydom	(Alexander Forbes)
	Mr T Allan	(Selfmed Marketing)

MEMBERS PRESENT: 17

PROXIES RECEIVED: 42

1. NOTICE OF MEETING

The Chairman welcomed everyone present.

It was noted that a quorum was present and that the meeting had been duly constituted. The Chairman confirmed that the notice to members had been distributed in accordance with the Rules of the Scheme and could be taken as read.

2. CONFIRMATION OF PREVIOUS MINUTES

The Minutes of the Annual General Meeting held on 28 June 2005 were accepted and APPROVED at the meeting.

PROPOSED: Mr Reide

SECONDED: Mr Gregory

3. MATTERS ARISING FROM PREVIOUS MINUTES

Item 10.1.1: Any Other Business (Minutes of 28 June 2005)

A complaint was received from member, EDB Laurensen (membership number 490234006) who requested the Scheme to consider extending the claims submission period for valid claims from four to five months. The request resulted from the member's past experiences with non-receipt and unsuccessful processing of claims by the Scheme's previous administrator.

- Due to continuous increases in the fuel price, the amount of R3,00 would be increased to R3,50 per kilometre.

The Chairman reiterated that he has waived all rights to trustee remuneration, since he was receiving remuneration as CEO.

Dr Boshoff questioned the honorarium payable for half day meetings as his attendance to such meetings and the travelling associated with it, resulted in a full day's income being forfeited. To this, Mr Pulker responded that in his opinion, half the normal attendance honorarium for a half day meeting was justified and pointed out that trustees still received a monthly retainer in addition to the meetings they attended.

It was furthermore proposed that the above increases be effective from 1 July 2006.

The above proposals were unanimously APPROVED with no votes recorded against it. The Trustees abstained from voting.

PROPOSED: Mr Pulker

SECONDED: Ms Bester

11. ANY OTHER BUSINESS

11.1 Member Correspondence

It was noted that two letters were received from the member A Marienfeld (membership number 49018903). In her first letter the member commended the Board of Trustees for their hard work and devotion to the Scheme's affairs.

In the second letter Ms Marienfeld requested an increase in the hearing aid benefit allowed under the Selfsure Option. The Chairman confirmed that consideration would be given to this request as part of the Scheme's Annual Benefit Review.

11.2 Sanlam Case

The Chairman confirmed that, although he was bound by a secrecy clause, he could confirm that the prescription case was finalised; however, Sanlam was appealing the outcome. The appeal date was set for October 2006. Once this part of the case has been finalised, the next issue would be the merits of the case, which would include the quantum (amount).

11.3 Medscheme Case

The Chairman provided background to this case and pointed out that Medscheme has sued the Scheme for unpaid administration fees, managed healthcare fees and profit share. Medscheme, in addition, summonsed the Scheme for payment of a R2,5 million loan that was granted to the Scheme during the Sanlam Health administration, without any terms. Whilst an amicable agreement was still under discussion, Medscheme claimed prescription.

The Chairman confirmed that, notwithstanding the above, he would be undertaking further discussions with the CEO from Medscheme in an attempt to reach an amicable agreement.

11.4 Registrar / Council Case

The Chairman confirmed that this case resulted from accusations that appeared in the Council's 2005 Report. Defamatory statements were made such as that the Chairman

appointed himself CEO of the Scheme and that he was also the Principal Officer. Discussions were held with the Council and Registrar prior and subsequent to these allegations being published; yet, they denied any wrong-doing.

11.5 Chairman / CEO Role

The Chairman stated that the KING Report recommended a management structure where the position of Chairman/CEO was split. It furthermore based its recommendations on a large organisation with a tiered management structure which, from a cost perspective, would not be justified in a scheme of Selfmed's size and with the personnel currently employed.

The history of the Scheme and the sensitivity and magnitude of the legal cases in progress have emphasised the necessity for hands-on involvement by the Board of Trustees and in particular, the Chairman. Notwithstanding the Chairman's obligation towards various other matters, his involvement with these cases was imperative towards ensuring a successful verdict that would reinforce future reserves.

The Chairman continued to state that he felt confident that the current model was working well and noted the Scheme's growing reserves as testimony thereof. He asked the meeting for a vote of confidence in this management model where the Chairman/CEO position has been consolidated.

PROPOSED: Ms Strickland

SECONDED: Ms Brill

All attendees were in favour. Mr Pulker abstained from voting.

As part of good corporate governance, the Chairman tabled the Scheme's code of ethics and confirmed that it would be available after the meeting for inspection by the members.

11.6 Material Non-Compliance

Mr Pulker questioned the reference to Material Non-Compliance that appeared in the notes of the annual financial statements. The Chairman responded that, in terms of the Medical Schemes Act 131 of 1998, as amended, all options registered under a medical scheme should be self-supporting in terms of financial performance and membership. As at the end of 2005, four Selfmed options made losses, thereby not complying with this provision in the Act. The Scheme would, however, not consider closing any of these options unless specifically instructed to do so by the Registrar. The Scheme had obtained expert actuarial opinion which confirmed that the closing of such loss-making options would not have the desired outcome, due to members downgrading and increasing the financial burden on other options. At the end of 2005 the MEDXXI Chronic Comprehensive Option was discontinued on instruction from the Registrar and information received from the Scheme's actuary has subsequently confirmed a further loss-making effect to the Scheme resulting from this action.

11.7 General

The Chairman thanked the Board of Trustees for their time and continued dedication to the Scheme. He also thanked the auditors, Alexander Forbes, Mr Werth (principal officer) and officers of the Scheme for their effort and contribution to the Scheme's success. As there was no further business to discuss, the meeting was declared closed at 15H00.

REPORT OF THE BOARD OF TRUSTEES SELFMED MEDICAL SCHEME

The Board of Trustees hereby presents its report for the year ended 31 December 2006.

1. DESCRIPTION OF THE MEDICAL SCHEME

1.1 Terms of registration

Registration Number: 1446

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

1.2 Benefit options within the Selfmed Medical Scheme

The Scheme offers five benefit options to employers and members of the public. These are:

- Selfmed 80%
- Selfmed MedXXI
- Selfmed MedXXI Chronic
- Selfmed MedXXI Comprehensive; and
- Selfsure

The Scheme's overall performance for the year under review, increased scheme reserves from a solvency level of 47% at the end of 2005 to 56% at the end of 2006. Although certain options experienced a deficit (refer note 12 of the Board Report) for the year under review, the Scheme's overall investment returns and the settlement with Medscheme Holdings has ensured growth in reserves in total for the year under review.

The Scheme operates on a sound financial basis and the 56% solvency level attained at year end is substantially higher than the statutory minimum solvency requirement set by the Council for Medical Schemes of 25%.

1.3 Savings plan

Selfmed Medical Scheme's savings plans have been discontinued with effect from 31 December 2005. The members were refunded during early 2006 and only a few balances remained of members who resigned prior to 2002. These resigned members are being traced via credit bureaux to enable refunds to them.

1.4 Risk transfer arrangements

The Scheme has also entered into a risk transfer arrangement with ER24 EMS (Pty) Ltd to provide emergency medical transport services for the duration of the year. The required disclosure has been adhered to in the Annual Financial Statements.

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review

B Reide	Member trustee (Chairman) - appointed 14 February 2007
M Bartlett	Member trustee (Vice-chairman) - appointed 21 September 2006

L du T Bester	Member trustee (CEO) - resigned as Chairman on 14 February 2007
WH Boshoff	Member trustee
EH Gregory	Member trustee - resigned as Vice-chairman on 21 September 2006

2.2 Principal Officer during the year

M Werth	
Alexander Forbes Financial Services	
40 Dorp Street	PO Box 700
Stellenbosch	Stellenbosch
7600	7599

2.3 Registered office address and postal address

Selfmed Medical Scheme	
Unit 9	PO Box 5543
Canal Edge 2	Tygervalley
Carl Cronjé Drive	7536
Tyger Waterfront	
Bellville	
Western Cape	
7530	

2.4 Medical Scheme administrator during the year

V-Medical Aid Administrators (Pty) Ltd	Selfmed Medical Scheme
2nd Floor	PO Box 44741
Paramount Place	Claremont
Claremont	7735
7700	

2.5 Investment Managers during the year

Allan Gray Life Limited	
Granger Bay Court	PO Box 51318
Beach Road	V & A Waterfront
V & A Waterfront	Cape Town
Cape Town	8002
8001	

2.6 Actuaries during the year

Alexander Forbes Financial Services	Terminated services on 28 February 2007
40 Dorp Street	PO Box 700
Stellenbosch	Stellenbosch
7600	7599

2.7 Auditors during the year

PricewaterhouseCoopers Inc.

No 1 Waterhouse Place

PO Box 2799

Century City

Cape Town

7441

8000

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 minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees. At year end the Scheme's accumulated reserves were mainly invested in the Allan Gray Medical Scheme Money Market portfolio.

The investment committee met three times during 2006. The mandate of the Committee is to ensure that:

- the Scheme remains liquid;
- investments are placed at minimum risk and 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 fixed deposits, equities and cash instruments during 2006. During the latter part of 2006 the equity portfolio was sold in view of the volatility on the stock exchange. The investment committee has re-invested in the equity market after year end subsequent to further growth on the stock exchange. This investment 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.

The Committee is currently reviewing investment advisors in the market and it was agreed that an investment advisor should be appointed with a view to funds being channeled into appropriate areas. The advisor's primary mandate is to comply with prevailing legislative constraints and to ensure value retention while still ensuring growth.

4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

4.1 Operational statistics – 2006

	Selfmed 80%	Selfmed MedXXI	Selfmed MedXXI Chronic	Selfmed MedXXI Compre- hensive	Selfsure	Total Scheme
Average contributions per member per month	R3,405	R1,159	R2,137	R1,618	R1,447	R1,564
Average contributions per beneficiary per month	R1,886	R481	R1,230	R699	R606	R682
Claims as a percentage of gross contributions	89%	91%	111%	92%	94%	93%
Average claims per member per month	R3,026	R1,054	R2,380	R1,486	R1,355	R1,456
Average claims per beneficiary per month	R1,675	R437	R1,370	R642	R567	R634
Average administration costs per member per month	R223	R223	R223	R223	R223	R223
Average administration cost per beneficiary per month	R97	R97	R97	R97	R97	R97
Amounts paid to administrator	R2,539,756	R4,386,300	R1,256,880	R1,266,246	R3,647,471	R13,096,653
Non-health expenses as a percentage of gross contributions	13%	14%	16%	16%	15%	14%
Amount paid to brokers	R123,432	R1,065,663	R108,921	R174,659	R1,195,725	R2,668,400
Number of new members	n/a	n/a	n/a	n/a	n/a	1 661
Number of members leaving the scheme	n/a	n/a	n/a	n/a	n/a	1 526
Average number of members during the year	1 318	6 211	852	1 127	3 946	13 455
Number of members at 31 December	1 282	6 230	818	1 073	4 129	13 532
Average age per beneficiary	53.52	38.23	54.47	41.66	29.21	37.56
65 years + ratio	35,21%	12,21%	35,95%	15,93%	5,12%	13,10%
Average accumulated funds per member	n/a	n/a	n/a	n/a	n/a	R10,445
Dependant ratio to members at 31 December	0.79	1.39	0.73	1.31	1.34	1.27
Average healthcare management expense per member per month	R43	R33	R38	R35	R42	R37
Average healthcare management expense per beneficiary per month	R24	R14	R22	R15	R18	R16
Return on investments as a percentage of investments	13,11%	13,11%	13,11%	13,11%	13,11%	13,11%

4.2 Operational statistics – 2005

	MEDXXI Chronic Compre- hensive	Selfmed 80%	Selfmed MedXXI	Selfmed MedXXI Chronic	Selfmed MedXXI Compre- hensive	Selfsure	Total Scheme
Average contributions per member per month	R2,857	R3,266	R1,066	R1,988	R1,491	R1,353	R1,501
Average contributions per beneficiary per month	R1,565	R1,750	R437	R1,098	R637	R516	R637
Claims as a percentage of gross contributions	141%	69%	87%	111%	79%	81%	85%
Average claims per member per month	R4,014	R2,247	R930	R2,197	R1,183	R1,096	R1,278
Average claims per beneficiary per month	R2,200	R1,204	R381	R1,214	R506	R418	R542
Average administration costs per member per month	R195	R195	R195	R195	R195	R195	R195
Average administration cost per beneficiary per month	R83	R83	R83	R83	R83	R83	R83
Amounts paid to administrator	R228,146	R1,291,876	R5,922,967	R938,516	R1,291,797	R3,017,603	R12,690,904
Non-health expenses as a percentage of gross contributions	7%	6%	18%	10%	13%	15%	13%
Amount paid to brokers	R37,502	R29,998	R1,124,786	R90,518	R214,584	R1,189,385	R2,686,773
Number of new members joining the scheme	n/a	n/a	n/a	n/a	n/a	n/a	1 404
Number of members leaving the scheme	n/a	n/a	n/a	n/a	n/a	n/a	1 181
Average number of members during the year	240	1 358	6 265	1 785	1 358	3 171	13 378
Number of members at 31 December	228	1 312	6 312	940	1 319	3 286	13 397
Average age per beneficiary	56.43	52.52	37.43	53.68	41.33	28.22	37.63
65 years + ratio	35,68%	33,68%	11,46%	34,65%	15,20%	4,09%	13,12%
Average accumulated funds per member at year end	n/a	n/a	n/a	n/a	n/a	n/a	R9,106
Dependant ratio to members at 31 December	0.81	0.85	1.43	0.78	1.32	1.57	1.34
Average healthcare management expense per member per month	R38	R38	R38	R38	R38	R38	R38
Average healthcare management expense per beneficiary per month	R21	R20	R16	R21	R16	R14	R16
Return on investments as a percentage of investments	16,70%	16,70%	16,70%	16,70%	16,70%	16,70%	16,70%

4.2 Results of operations

The results of the Scheme are set out in the annual financial statements, and the trustees believe that no further clarification is required.

Although the claims experience for 2006 has deteriorated from the previous year's experience, the Board of Trustees has taken several measures, including a reduction of option benefits to ensure the long term sustainability of the Scheme. It counts in the Scheme's favour that a high reserve level exists at year end that could support some of the higher claims experience predicted for the 2007 benefit year which has led to market related increases for the 2007 benefit year.

4.3 Solvency ratio

	2006 R'000	2005 R'000
Total members' funds per balance sheet	141,347,781	137,966,211
Less:		
Revaluation reserve		
Cumulative net gains on re-measurement to fair value of financial instruments included in the accumulated funds	-	15,978,894
Accumulated funds per Regulation 29	<u>141,347,781</u>	<u>121,987,317</u>
Gross contributions	<u>252,526,715</u>	<u>260,366,865</u>
Solvency ratio at year end	<u>56%</u>	<u>47%</u>
Minimum solvency requirement – Council of Medical Schemes	25%	25%

4.4 Reserve accounts

Movements in the reserves are set out in the Statement of Changes in Members' Funds. There have been no unusual movements that the trustees believe should be brought to the attention of the members of the Scheme.

4.5 Outstanding claims

The basis of calculation of the outstanding claims provision is discussed in note 28 and this is consistent with the prior year. Movements on the outstanding claims provision are set out in note 8 of the annual financial statements. There have been no unusual movements that the trustees believe should be brought to the attention of the members of the 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

The Health Monitor Company has been appointed effective 1 March 2007 to provide the actuarial services to the scheme. This was provided by Alexander Forbes for the year under review.

7. TRANSACTIONS WITH RELATED PARTIES

The Scheme holds no investments in participating employers of medical scheme members.

All transactions with related parties have been fully disclosed in note 26 to the Annual Financial Statements and the trustees believe that no further clarification is required.

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 of its third party administrator and all conflicts of interest are considered. The Committee met on two occasions during the course of the year and their meetings were attended by all members.

The chairperson of the medical scheme, the chief financial officer, the external auditors and the internal auditor attend all audit 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 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 Audit Committee has satisfied its responsibilities under its terms of reference for the period under review.

The principle that has been established for recommending the external auditor for non-audit services is that the independence of the auditor should never be compromised and before each assignment this is tested.

Disclosure of amounts paid for non-audit services have been separately disclosed under note 16. Pricewaterhousecoopers performed a corporate governance review and an Information Communication Technology (ICT) risk assessment for the year under review.

Independent members: I van Gend (chairperson), N Retief, C de Jager

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 four members of which two are members of the Board of Trustees. The majority of the members, including the chairperson, are officers of the medical scheme. Regular presentations by investment managers ensure input from third parties with expert opinion. The committee met on four occasions during the course of the year and these meetings were attended by all members.

The CEO of the medical scheme and the chief financial officer attend all investment committee meetings and has unrestricted access to the chairperson of the Committee.

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 Scheme is currently reviewing proposals from investment advisors with a view to appointing a third party expert opinion to the Investment Committee.

The Committee presently comprises: L Bester (CEO), M Bartlett (Vice-Chairman), M Werth (Principal Officer) and H du Plessis (CFO).

10. TRUSTEE MEETING ATTENDANCE AND REMUNERATION

The following schedule sets out Board of Trustees meeting attendances. Trustee remuneration is disclosed in note 16 to the annual financial statements.

Trustee/sub-committee member	Board meetings Review meetings		Benefit & Contribution		Audit Committee Meetings	
	A	B	A	B	A	B
B Reide	5	5	1	1	n/a	n/a
M Bartlett	5	5	1	1	2	2
L Bester	5	5	1	1	2	2
W Boshoff	5	5	1	1	n/a	n/a
G Gregory	5	5	1	1	n/a	n/a

A – total possible number of meetings that could have been attended

B – actual number of meetings attended

11. SUB-COMMITTEE MEETING ATTENDANCE

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

Trustee remuneration is disclosed in note 16 to the annual financial statements.

Trustee/sub-committee member	Board meetings		Benefit & Contribution Review meetings		Remuneration Committee meetings		Investment Committee meetings		Audit Committee meetings	
	A	B	A	B	A	B	A	B	A	B
B Reide	*	*	*	*	1	1	n/a	n/a	n/a	n/a
M Bartlett	*	*	*	*	1	1	3	3	*	*
L Bester	*	*	*	*	n/a	n/a	3	3	*	*
W Boshoff	*	*	*	*	1	1	n/a	n/a	n/a	n/a
G Gregory	*	*	*	*	1	1	n/a	n/a	n/a	n/a
C de Jager	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
H du Plessis	5	5	1	1	n/a	n/a	3	3	2	2
R Gush	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
N Retief	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2	2
I van Gend	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2	2
M Werth (PO)	5	5	1	1	n/a	n/a	3	3	2	2

A – total possible number of meetings could have attended

B – actual number of meetings attended

* – included in the table under 10 above

12. NON-COMPLIANCE WITH THE ACT

The following area of non-compliance with the Act was identified during the course of the financial year:

In terms of section 33(2) of the Medical Schemes Act 131 of 1998, as amended, each option shall be self-supporting in terms of membership and financial performance and be financially sound.

At 31 December 2006, the following options did not comply with section 33(2):

Deficit before investment and operating income:

	Membership at year end	R
Selfmed 80%	1 282	(2 133 448)
Selfmed MEDXXI	6 230	(8 451 541)
Selfmed MEDXXI Chronic	818	(6 629 084)
Selfmed MEDXXI Comprehensive	1 073	(2 521 011)
Selfmed Selfsure	4 129	(9 305 959)
	<u>13 532</u>	<u>(29 041 043)</u>

Surplus / (deficit) for the year including investment and other operating income:

Selfmed 80%	4 682 227
Selfmed MEDXXI	2 485 243
Selfmed MEDXXI Chronic	(3 548 053)
Selfmed MEDXXI Comprehensive	253 208
Selfmed Selfsure	(491 055)
	<u>3 381 570</u>

The Scheme is of the opinion that the term financially sound should include a general reference to the solvency level of the Scheme and the fact that the current solvency of the Scheme is at 56% at year end points to the long term sustainability of the benefit options despite the fact that a current year deficit was reported on a specific option.

The Board of Trustees has taken several steps to ensure the long term sustainability of the Scheme. The worse than expected claims experience during 2006 has resulted in the performance as listed above. The Board of Trustees remain committed to ensure that year on year contribution increases remain market related and will be monitoring each option on an ongoing basis.

13. CONTINGENCIES

It is reported that the Scheme is involved with two legal cases at 31 December 2006 as plaintiffs:

13.1 Sanlam Health Risk Management Ltd.

This matter was taken off the Cape High Court Roll following all three parties consenting to Arbitration.

Topmed Medical Scheme and Selfmed Medical Scheme are co-plaintiffs and all costs are shared equally. The value of the claim can not be accurately determined and is of a sensitive nature.

13.2 Council of Medical Schemes (COMS) and Registrar of Medical Schemes

Following a defamatory statement in the 2004 COMS Annual Report by the above against Selfmed's Board of Trustees and the Chairman, the matter was taken up with the Registrar. Since no agreement could be reached, the case was handed over to the Scheme's legal counsel who issued summons against the two parties in the amount of R500, 000 and has a scheduled court date for November 2007.

13.3 Legal expenses

Legal expenses in excess of R1, 2m could be incurred in respect of these matters.

13.4 Medscheme settlement

The matter with Medscheme Holdings has been settled with each party carrying their own legal costs.

Details of the settlement have been disclosed under Note 20 of the annual financial statements.

14. CORPORATE GOVERNANCE

Selfmed Medical Scheme is committed to the principles and practice of fairness, independence, openness, integrity and accountability in all dealings with its stakeholders.

The performance of all executive management, non-executive management and the CEO is reviewed by the Board of Trustees annually.

In the interest of Corporate Governance reform the roles of Chairperson and CEO were separated after year end on 14 February 2007. The CEO, Mr L. Bester resigned as Chairman of the Board and Mr B.Reide was appointed as Chairman of the Board of Trustees. This means that the Chairperson is now an independent non-executive trustee.

The CEO's service contract has also been amended to provide for a term of less than 3 years.

14.1 Risk Management and Control Framework

The Board of Trustees is accountable for communicating appropriate risk and control policies throughout the organisation and a process for identifying/evaluating/managing significant risks was in place throughout the year under review.

The Board of Trustees performs an annual business risk assessment that is monitored by the executive committee and progress on actions is reported at each board meeting.

The system of internal control is designed to manage, rather than eliminate, risk of failure and a comprehensive Disaster Recovery Plan (DRP) and site has been established to ensure continuity of business critical activities.

14.2 Social and transformation policies and practices

The scheme employed 40 permanent staff as at 31 December 2006. The staff complement is made up as follows:

34 female staff members

6 male staff members

In terms of ongoing transformation, only 2 of the males listed above form part of executive management.

The scheme is committed to ongoing training and development and the training expenses are listed under note 16 in the Annual Financial Statements. There have also been no Occupational safety and health incidents during the year under review.

15. CONCLUSION

Proactive communication with members remains a priority of the Scheme. The Board of Trustees are confident that the amendments made to benefit options for the 2007 benefit year, will ensure the Scheme's long-term sustainability.

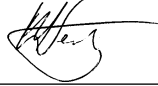
All legislative changes are thoroughly researched to ensure that the Scheme can react to the changing market.



Chairman



Trustee



Principal officer

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SELFMED MEDICAL SCHEME

Report on the Summarised Financial Statements

The summarised financial statements set out on pages 19 to 26 have been derived from the financial statements of Selfmed Medical Scheme for the year ended 31 December 2006. These summarised financial statements are the responsibility of the Scheme's trustees. Our responsibility is to express an opinion on whether these summarised 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 Selfmed Medical Scheme for the year ended 31 December 2006, from which the summarised financial statements were derived, in accordance with International Standards on Auditing.

In our report dated 14 March 2007, we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

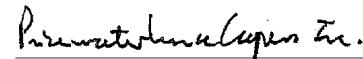
In our opinion, the summarised financial statements are consistent, in all material respects, with the financial statements from which they are derived.

For a better understanding of the Scheme's financial position and its financial performance for the year ended 31 December 2006 and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which the summarised financial statements were derived and our audit report thereon.

Report on Other Legal and Regulatory Requirements

As required by the Council for Medical Schemes, we report the following instances of non-compliance with the Medical Schemes Act:

- In terms of section 33(2) of the Medical Schemes Act 131 of 1998, as amended, each option shall be self-supporting in terms of membership and financial performance and be financially sound. Certain options did not meet this requirement and are disclosed in note 30 to the financial statements.



PRICEWATERHOUSECOOPERS INC.

Director: V Wiese

Registered Auditor

Cape Town

30 April 2007

SELFMED MEDICAL SCHEME
BALANCE SHEET
as at 31 December 2006

	2006	2005
	R	R
ASSETS		
Non-current assets		
Property, plant and equipment	748 264	611 750
Current assets	162 418 284	184 335 070
Financial assets held at fair value through profit or loss	-	143 846 390
Trade and other receivables	382 850	1 465 434
Cash and cash equivalents	162 035 434	39 023 246
Total assets	163 166 548	184 946 820
FUNDS AND LIABILITIES		
Members' funds		
Accumulated funds	141 347 781	137 966 211
Non-current liabilities		
Lease liabilities	142 731	149 005
Current liabilities	21 676 036	46 831 604
Borrowings	-	2 500 000
Outstanding claims provision	12 566 273	15 500 000
Savings plan liability	88 309	14 846 365
Trade and other payables	9 021 454	13 985 239
Total funds and liabilities	163 166 548	184 946 820

SELFMED MEDICAL SCHEME
INCOME STATEMENT
for the year ended 31 December 2006

	2006	2005
	R	R
Risk contribution income	252 526 715	240 898 448
Risk transfer arrangement fee	1 300 373	1 039 832
Net contribution income	251 226 342	239 858 616
Investment income	11 051 654	11 625 255
Net fair value gains on financial assets at fair value through profit or loss	9 943 421	15 978 894
Other operating income	11 427 539	49 105
Net income	283 648 956	267 511 870
Claims incurred	234 995 810	205 132 048
Managed care: Management services	6 011 529	6 099 797
Broker service fees	2 668 400	2 686 773
Administration expenses	35 975 556	32 457 506
Net impairment losses	616 091	369 224
Interest paid on savings plan accounts	-	429 845
Net expenses	280 267 386	247 175 193
Surplus for the year	3 381 570	20 336 677

**SELFMED MEDICAL SCHEME
STATEMENT OF CHANGES
IN MEMBERS' FUNDS
for the year ended 31 December 2006**

	Accumulated funds	
	R	
Balance at 1 January 2005	117 629 534	
Surplus for the year	20 336 677	
Balance as at 31 December 2005	<u>137 966 211</u>	
Surplus for the year	3 381 570	
Balance as at 31 December 2006	<u><u>141 347 781</u></u>	
Scheme Solvency	2006	2005
Gross annual contributions	252 526 715	260 366 865
Accumulated funds	141 347 781	137 966 211
Less: Unrealised gains on investments	-	15 978 894
	<u>141 347 781</u>	<u>121 987 317</u>
Statutory minimum solvency requirement	25%	25%
Solvency as calculated	56%	47%
Contributions are made up as follows:		
Gross contributions	252 526 715	260 366 865
Less: Savings plan contributions	-	(19 468 417)
Risk Contributions	<u>252 526 715</u>	<u>240 898 448</u>

**SELFMED MEDICAL SCHEME
CASH FLOW STATEMENT
for the year ended 31 December 2006**

	2006	2005
	R	R
Cash flows from operating activities		
Cash flows from operations before working capital changes	(29 944 564)	(5 999 038)
Net sale / (purchase) of investments	153 793 737	(26 635 045)
Working capital changes		
Decrease in trade and other receivables	726 125	552 404
Increase / (decrease) in trade and other payables	2 515 113	(2 614 470)
(Decrease) / increase in savings plan liability	(14 758 056)	1 466 905
Interest received	9 960 443	10 289 791
Dividends received	1 091 211	1 335 464
Net cash flows from operating activities	<u>123 384 009</u>	<u>(21 603 990)</u>
Cash flows from investing activities		
Purchase of fixed assets	(416 893)	(190 696)
Proceeds on disposal of fixed assets	51 346	-
Net cash flows from investing activities	<u>(365 547)</u>	<u>(190 696)</u>
Cash flows from financing activities		
(Decrease) / increase in lease liability	(6 274)	149 005
Net cash flows from financing activities	<u>(6 274)</u>	149 005
Net decrease in cash and cash equivalents	123 012 188	(21 645 681)
Cash and cash equivalents at the beginning of the year	39 023 246	60 668 927
Cash and cash equivalents at the end of the year	<u>162 035 434</u>	<u>39 023 246</u>

SELFMED MEDICAL SCHEME
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

		2006 R	2005 R
20. OTHER OPERATING INCOME			
Medscheme settlement (i)		9 978 898	-
- Borrowings no longer repayable	Note 7	2 500 000	-
- Performance bonus: Solutio	Note 4	(1 947 749)	-
- Medscheme conset account	Note 4	(371 689)	-
- Impairment provision reversed	Note 4	2 319 438	-
- Solutio performance bonus not payable	Note 10	2 713 940	-
- Medscheme administration fee not payable	Note 10	2 328 095	-
- Medscheme conset and creditors not payable	Note 10	1 795 343	-
- Solutio managed care fee not payable	Note 10	641 520	-
Interest received on operating bank accounts		748 796	-
Road Accident Fund recoveries		516 808	37 937
Accruals and provisions reversed		130 735	-
Profit on sale of fixed assets		15 748	-
Sundry income		36 554	11 168
		11 427 539	49 105

(i) During the current year the ongoing legal dispute with Medscheme has been settled and each party has agreed to carry their own legal costs. All amounts carried on the balance sheet under accounts receivable and accounts payable have been offset and the net impact is shown above.

23. CONTINGENCIES

The scheme management is not aware of any pending legal action against the scheme.

It is reported that the Scheme has instituted two legal cases at 31 December 2006:

1. Sanlam Health Risk Management Ltd.

This matter was taken off the Cape High Court Roll following all three parties consenting to Arbitration. Topmed Medical Scheme and Selfmed Medical Scheme are co-plaintiffs and all costs are shared equally. The value of the claim can not be accurately determined and is of a sensitive nature.

2. Council of Medical Schemes and Registrar of Medical Schemes

Following the defamatory statement in the 2004 Council of Medical Schemes' Annual Report by the above against Selfmed's Board of Trustees and the Chairman, the matter was

taken up with the Registrar. Since no agreement could be reached, the case was handed over to the Scheme's legal counsel who issued summons against the two parties in the amount of R500 000 and has a scheduled court date for November 2007.

3. Legal expenses estimated in excess of R1.2m could be incurred in respect of these matters.

25. POST BALANCE SHEET EVENTS

Change of service providers

Selfmed Medical Scheme has contracted with The Health Monitor Company to provide actuarial services to the scheme with effect from 1 March 2007. These services were previously provided by Alexander Forbes Healthcare.

26. RELATED PARTY TRANSACTIONS

Parties with significant influence over the scheme

Administrator V Medical Aid Administrators (Pty) Ltd has significant influence over Selfmed Medical Scheme. V Medical Aid Administrators (Pty) Ltd provides administration services. Managed care organisation Solutio Health Risk Management has significant influence over Selfmed Medical Scheme. Solutio Health Risk Management provides managed care services for the scheme.

For the year under review Alexander Forbes Healthcare Consultants provided actuarial and principal officer services to the scheme.

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 and members of the Executive Committee. The disclosure deals with full time personnel that are compensated on a salary basis (Executive Committee), and part time personnel that are compensated on a fee basis (Board of Trustees) and Principal Officer.

Close family members include close family members of the Board of Trustees, Principal Officer and members of the Executive Committee.

Transactions with related parties

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

Key management personnel (Board of Trustees, and executive committee) and their close family members.

	2006 R	2005 R
<i>Compensation</i>		
Short-term employee benefits - Executive Committee*	3 798 893	2 111 858
Part time fee basis - Board of Trustees	638 750	590 615
Total compensation paid to key management personnel	<u>4 437 644</u>	<u>2 702 473</u>

*New key management personnel were employed due to the change in the administration model not present for a full year in the 2005 comparative figure.

Contributions and claims

	2006 R	2005 R
Income Statement		
Gross contributions received	88 236	94 576
Claims incurred	130 972	176 514

Balance Sheet

Contributions debtor	-	-
Claims reported not yet paid	-	-
Savings balances	-	22 400

All contributions and claims were on the same terms as applicable to other members.

Transactions with entities that have significant influence over the scheme

Income Statement

Administration fees *	13 096 653	12 690 905
Managed care fees*	6 011 529	6 099 797
Actuarial consulting fees	519 819	676 162
Principal officer's fees	436 238	474 372

Balance Sheet

Administration fees due	-	8 236
Managed care fees due	506 548	-

Terms and conditions of the administration agreement

The administration agreement is in terms of the Rules of the scheme and in accordance with instructions given by the Trustees of the scheme. The agreement is automatically renewed each year unless notification of termination is given. The scheme has the right to terminate the agreement on giving 90 days notice. Any outstanding balance bears no interest and is payable within 7 days from the start of the relevant month.

Terms and conditions of the managed care agreement

The managed care agreement is in accordance with instructions given by the Trustees of the scheme. The agreement is automatically renewed each year unless notification of termination is given. The scheme has the right to terminate the agreement on giving 90 days notice.

The outstanding balance bears no interest and is payable within 30 days.

Terms and conditions of the actuarial services

The services are retained on a month to month basis and either party can serve one month's written notice to terminate the services.

Terms and conditions of the principal officer services

The services are retained on a month to month basis and either party can serve one month's written notice to terminate the services.

*The administration and managed care fees for 2005 related to amounts paid to Old Mutual Healthcare (Pty) Ltd.

The Scheme shares administrator services with V Medical Aid Administrators (Pty) Ltd.

Managed care services are now performed by Solutio Health Risk Management.

30. MATERIAL NON-COMPLIANCE

Sustainability of benefit options

In terms of section 33(2) of the Medical Schemes Act 131 of 1998, as amended, each option shall be self-supporting in terms of membership and financial performance and be financially sound.

At 31 December 2006, the following options did not comply with section 33(2):

Deficit before investment and operating income:	R
Selfmed 80%	(2 133 448)
Selfmed MEDXXI	(8 451 541)
Selfmed MEDXXI Chronic	(6 629 084)
Selfmed MEDXXI Comprehensive	(2 521 011)
Selfmed Selfsure	(9 305 959)
	<u>(29 041 043)</u>

Surplus / (deficit) for the year including investment and other operating income:

Selfmed 80%	4 682 227
Selfmed MEDXXI	2 485 243
Selfmed MEDXXI Chronic	(3 548 053)
Selfmed MEDXXI Comprehensive	253 208
Selfmed Selfsure	(491 055)
	<u>3 381 570</u>

The scheme is of the opinion that the term financially sound should include a general reference to the solvency level of the scheme and the fact that the current solvency of the scheme is at 56% at year end points to the long term sustainability of the benefit options despite the fact that a current year deficit was reported on a specific option.

The numbering used in respect of the explanatory notes that appear in this summarised version, corresponds with the numbering as applicable to the full set of annual financial statements.

Members may inspect a copy of the full set of financial statements, without charge, at the Scheme's registered office at Canal Edge 2, Tyger Waterfront, Carl Cronjé Drive, Bellville. Alternatively, members may request their own copy of the full financial statements at a cost of R30 per copy by contacting the Scheme on 0860 787 372.

Selfmed Medical Scheme
Annual General Meeting 2007



Proxy:

Complete in full if you cannot attend the meeting in person

I, (full names)

of (full address)

being a member of the SELFMED MEDICAL SCHEME with membership number

hereby appoint

(full names)

of (full address)

as my proxy to vote for me and on my behalf at the Annual General Meeting of the Scheme to be held on 27 June 2007, and at any resumption of an adjournment thereof, as he/she sees fit.

Signed at on

Signature of Principal Member

Witness

Note:

The proxy form must be returned to Ms Soneke Crouse at PO Box 5543, Tygervalley, 7536 or faxed to 021 914 5927 by **no later than 21 June 2007**.

Selfmed Medical Scheme
Annual General Meeting 2007



Confirmation of Attendance:

(Completion of this form is requested for catering purposes only.)

Complete in full **ONLY** if you are going to attend the meeting

Surname:

First names:

Date of Birth:

Full current address:

Membership number:

Declaration:

I declare that the above particulars apply to me, that I am entitled to vote in terms of my membership of SELFMED, and/or by proxy of a member of SELFMED and that I will attend this meeting.

Signature

Note:

The Confirmation of Attendance form must be returned to Ms Soneke Crouse at PO Box 5543, Tygervalley, 7536 or faxed to 021 914 5927 by **no later than 21 June 2007**.