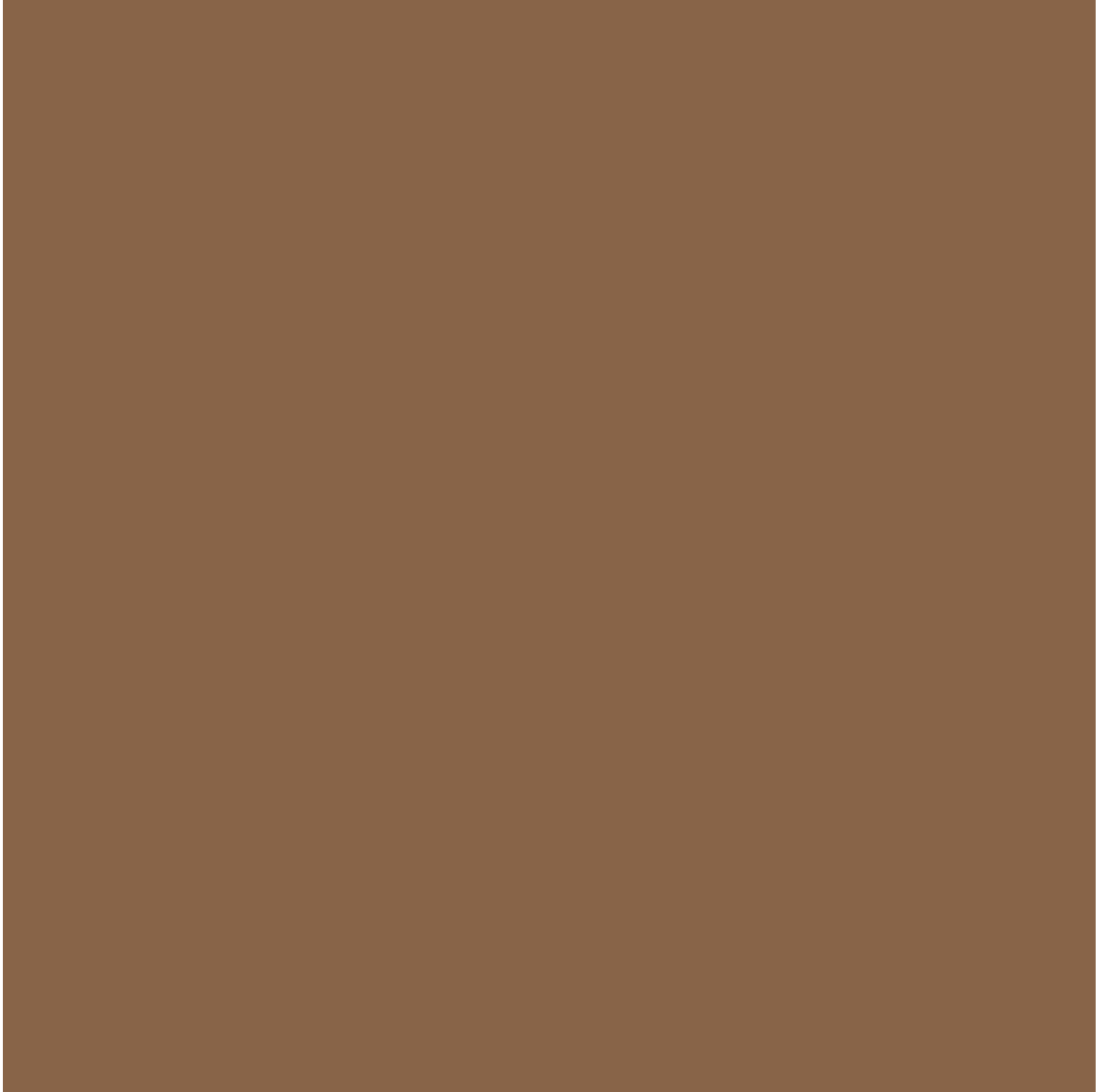


Annual Report & Accounts

2005



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*The vision of BHF is
a private healthcare funding system
that ensures lifetime access
to comprehensive and affordable
healthcare for the family of the average
working person in Southern Africa*

Those who thought that 2005/2006 would be relatively calm compared to the turbulence the healthcare industry experienced in 2004/2005 have been disillusioned! While resolutions were found to the vexing problems of the previous year, the stresses and strains on the industry have by no means been relieved. In the process, the Board of Healthcare Funders (BHF) has strengthened its own foundations and grown solidly into the role and has become a reliable, professional, impartial and indeed critical industry body. We will be reinforcing this status over the coming year.

BHF's role in representing the healthcare funding sector has seen it lobbying government successfully to influence policies, conducting research for the industry, analysing and in some cases proposing alternatives to legislative changes. Consequently the organisation has been recognised as an authority on healthcare issues by both the public and private sectors. BHF is a proactive advocate within the industry, held in high esteem by government bodies for its impartiality, its firm stance on matters which could impact negatively on the industry and its constructive attitude in resolving sensitive and contentious issues. It now proudly represents approximately 96% of lives covered throughout Southern Africa, including South Africa, Zimbabwe, Botswana, Lesotho and Namibia.



TOWARDS SOCIAL HEALTH INSURANCE

Regulatory steps taken during this period have marked the push towards a Social Health Insurance for South Africa. These include legislation governing a single exit price for medicines, Circular 8 with its focus on revising benefit configurations, changes in the way the National Health Reference Price List is to be used, basing calculations not on speculation or guess-work but on actual costs, the introduction of the ICD 10 codes, the Risk Equalisation Fund and timelines related to it as summed up in Circular 9, the Health Charter and the Low Income Medical Schemes initiative (LIMS). In all these issues, BHF has been intimately involved, liaising with its members and government bodies and serving on relevant task teams and committees with regulators and the industry. However, in a number of these aspects there is still lack of clarity, for example, whether LIMS will be a separate scheme or whether it will be an option on each scheme.

continued

BHF has also been a key player in the Private Healthcare Forum, constituted of leaders within the hospital, administrator, pharmaceutical, healthcare provider and medical devices industries and considers issues affecting the broader healthcare spectrum. It is this body which, together with Government, has been mainly involved in developing the Healthcare Charter. The submissions we made to the Minister stressed that transformation of the healthcare industry should not limit itself to the compilation of a charter, but should rather take a broader and more in-depth look at healthcare transformation itself. This element is lacking in other charters and consequently marks the proposed Healthcare Charter as unique.

We are acutely aware of the problems which stand in the way of implementing the ideal transformation model, many of which are related to affordability and low-income households. Thus, transformation, as we see it should include equity and access, black economic empowerment, human resources and the financing of healthcare itself. In other words, black economic empowerment should not restrict itself to the usual bout of capital changing hands, but expand to making private healthcare accessible to more South Africans.

This immediately focuses the mind on the challenges of training and retaining high calibre staff, and in this respect, we laud President Mbeki's stated intent to encourage and actively invite expatriates to return to this country to help build the nation with their vital skills and expertise. The health sector needs to adopt a collective approach to develop a human resource strategy for the health industry of South Africa.

RISK EQUALISATION FUND

Medical schemes have been subject to intense pressure due to the recent requirement to submit data for the shadow phase of the Risk Equalisation Fund. This, together with regulatory timelines published by the CMS for schemes to submit benefit schedules and proposed contribution increases by the 1 September 2006 and Circular 9 which dealt with NHRPL issues prompted BHF to hold industry seminars to gauge the impact these may have on pricing and to make a submission to the CMS.



The REF has undergone its first shadow year of implementation. Initially, data collected was poor, but fortunately, of late, the quality of this data is improving and as a result, we have gained a better understanding of some of the implications which may be significant to schemes. For instance, the possibility, in the absence of LIMS, that low income products might be subsidising schemes which are actually operating inefficiently. As yet, however, lack of absolute clarity about risk factors which are to be published in July means that the impact on schemes cannot be accurately assessed at this point in time.

BHF strongly recommends that a consultative and constructive dialogue be implemented between the industry and the Council for Medical schemes on these issues, rather than limiting input to submissions alone. This will hopefully ensure that appropriate solutions satisfactory to all stakeholders will be found. What is certain in the light of these developments is that communication between BHF and the policy makers, BHF and its member schemes and medical schemes and their members will be assuming an increasingly important role.

BHF itself has focused considerable effort and resources into developing a communications system which is clear, easily understandable, keeps members abreast of developments timeously and highlights implications of proposed legislative and policy changes.

Numerous seminars have been held on issues of vital concern to the industry such as the Single Exit Price, Circular 8, NHRPL, tax expenditure subsidies, risk-based capital models and these have been extremely well attended. The industry is coming to rely heavily upon BHF for these sessions where clarity can be gained on more complex aspects and where there is ample opportunity for discussion and consultation. With increasing emphasis being placed on governance of schemes, the BHF trustee training programme has also assumed a greater profile.

In an innovative move, we have this year also launched our first Customer Satisfaction Survey in a more focussed and scientific attempt to determine our members' needs and views. The survey identifies those BHF departments members interact with and ranks in order of merit, the type of service they received. The astute questions pinpoints members' knowledge and the value and benefits gained from the services which BHF provides.



continued

We are certain that the outcome of this survey will be immensely useful in helping us hone in on those areas which are in need of improvement and implementing member recommendations.

REACHING OUT

We have not restricted our reach to the confines of our own borders. BHF currently represents medical schemes not only in South Africa, but also in Namibia, Botswana, Lesotho and Zimbabwe, where we provide technological support as well as expertise and consultation. We strongly support the health development goals of the New Economic Partnership for African Development (NEPAD) and the SADC health protocols. We fully believe that BHF and indeed the health industry in South Africa, have much to contribute towards fulfilling these objectives and improving the quality of life of all Africans.

CONCLUSION

It has been a very challenging year for all of us at BHF, and I am deeply indebted to those who have unstintingly given of their time and efforts. In particular I would like to extend thanks to the Board of Directors who provided support while we were without an MD. Special thanks go to the management team and staff who gamely and unreservedly pitched in to make up personnel shortfalls, shouldering new and onerous responsibilities in addition to their normal tasks. Finally I am immensely proud and grateful to welcome Dr Humphrey Zokufa to the BHF fold. He has valiantly rolled up his sleeves and come to grips with issues from a totally different perspective to those to which he is accustomed and his input is proving invaluable. We look forward to his continuing efforts in the future. I believe that as we strengthen our position within the public and private sectors we will bring significant benefits to the healthcare industry.



Mbasa Mxenge
Chairman



A review of the business plan for 2005/2006 grants us substantial grounds for satisfaction as we prepare to embark on a new financial year. We had wisely divided our planned activities into short- and medium- to long-term priorities so that we were able to respond to the changing environment. Although great progress was made in many areas, many of the issues which the industry and government have been grappling with remain without resolve.

We are proud to report the central role we have played in the many critical issues facing the environment, in particular the Healthcare Charter Process, the Medicines Pricing and Dispensing fee legislation, Prescribed Minimum Benefit revision, LIMS, the RETAP, Governance structure review and the NHRPL process.

Longer term issues which continue to appear on our radar screens are the NHRPL, hospital costs, quality and outcomes measurement, SHI, the Basic Benefit Package and more importantly, the continued sustainability and growth of the private healthcare market itself.

In pursuing these and other issues, we have retained our internal structure of a Research Department, a Benefit and Risk Department and a Communications Department which has worked admirably in the past despite almost overwhelming pressures and stressful staff shortages. Board of Healthcare personnel are undertaking a sterling job in shouldering additional responsibilities in an attempt to make up the shortfalls. We have also identified the need for health policy and financing expertise as well as legal expertise within BHF, both to respond to the regulatory and other changes as well as to offer legal expertise to the industry. To this end we are in the process of interviewing candidates who already have a handle on the industry and who will be able to 'hit the ground running'.

I myself was able to join the organisation in November 2005, after BHF had engaged in an exhaustive search to identify a suitable Managing Director, following the departure of former CEO, Penny Thlabi, who must be applauded for the strong base she left behind. I am extremely grateful to the management team who stepped in to "fill the gap" until I could assume this post. Other BHF staff generously gave of their time and efforts to keep the organisation running on an even keel despite personnel shortages, still managing to achieve significant results in the process.



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continued

PCNS

Once the dispute over copyright was settled, proposals were required for the administering of the PCNS by the Council for Medical Schemes and BHF submitted a comprehensive tender document which reflected our solid past experience in keeping the system sustainable and relevant.

We are delighted to have been awarded the tender in June this year and have committed to a process of working to improve the governance, reporting and IT capacity of the system.

One of the challenges which PCNS is to consider will be the inclusion in the PCNS of traditional healers and alternative or allied disciplines. This will require a review of the current base. At the same time, it is intended to make the system considerably easier to navigate and it will consequently become more accessible and more sophisticated.

FORENSIC MANAGEMENT UNIT

This initiative is strongly supported by the industry and the unit's seminars and workshops have been extremely well attended. Many more are planned for the remainder of 2006. In fact, the industry has come to rely heavily on the information provided by the FMU and as a result, the unit is constantly expanding and adapting to members' expressed needs.

DATA WAREHOUSE

In line with these developments, BHF, utilising funds graciously donated by the FHFMT Trust, known as the Federation, will be developing additional databases with the intention of becoming a national and regional industry data warehouse. This will enable us to operate as an invaluable knowledge hub, collecting, collating and mining industry data to the benefit of our schemes. This is expected to add incalculable value to the sector.



BUSINESS PLAN 2006

While continuing with the themes already referred to and mentioned by the Chairman in his report, there are other issues with which we plan to contend:

To review the current PMB's in order to develop guiding principles and costing methodologies for a basic benefit package which is essential for the implementation of the proposed Risk Equalisation Fund as well as being a fundamental pillar in the Health Charter. The main challenge, however, will be in finding a balance between comprehensive benefits and affordable cover;

Ongoing involvement in the Health Quality Assessment initiative, which has developed a constantly evolving model to measure healthcare outcomes, providing an essential instrument for medical schemes to assess the value and quality they are offering. Outcomes are measured following a clearly defined process and results are issued to schemes and other participating organisations on a regular basis. BHF also includes this information in many aspects of its own research work;

Having already completed several, the B & R department will continue to design standardised benefit guidelines for schemes on PMB's and develop guidelines for suitable cover and benefits for defined PMB conditions. They will also determine the number of visits considered appropriate, the severity of the condition and the appropriate relevant treatment to be applied to PMBs. This will prove crucial in assisting medical schemes to develop benefits, structure schemes, engage with networks of service providers and help introduce a more uniform tariff structure;

Broad Based Black Economic Empowerment continues to figure largely in the current South African socio-economic scene and BHF is conscious of the important role it has to play in the sector. Among the needs identified for the healthcare industry is a list of black-empowered companies and organisations. BHF is in the process of compiling as comprehensive a list as possible of black-empowered procurement companies for the convenience of stakeholders, particularly medical schemes; these range from managed care organisations to stationery providers, event coordinators and suppliers of medical materials.



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continued

STRATEGIC DIRECTION

Over the years our strategic direction has become ever more clearly defined as a vital industry body and mouthpiece for the private healthcare funding sector. As new issues have arisen, BHF has embraced them unhesitatingly and not held back on efforts in liaising and consulting with stakeholders to find suitable solutions in the interest of the growth and sustainability of the healthcare industry. Although we have made some inroads into developing constructive relationships with the DoH and the CMS, there is still much to be done to enhance BHF's standing. Our new goal in becoming an information hub for the industry is one which excites us and will, I believe, prove over the years to come one of our most important functions.

Finally, I would like to thank the Board of Directors for the trust and confidence they have in me. I would also like to express my heartfelt thanks for the very warm reception I was given by all BHF staff without exception and for the unstinting support I have received from them all. I have been extremely impressed by the calibre, both of the organisation and its people and together with cooperation from all healthcare industry stakeholders, I am confident that we are well positioned to continue to make a significant contribution to the further evolution of our industry.



Dr Humphrey Zokufa
Chief Executive Officer

DIRECTORS

G Abrahams	Y Motsisi
TEG Borrill	SG Motuba
B Brooks	M Mxenge (Chairman)
J Broomberg	B Nkosi
MT Chaora (Zimbabwe)	RJ Parsons (Britain)
BM Dick	FK Robertson
KA Ebineng (Botswana)	AO Rijnen
BL Khan	MCT Schultz
J Mathekga	A September (Namibia)
PW Mboniso	B Swartzberg
A Meyer	ZH Zokufa (Executive)

NATURE OF BUSINESS

"To promote the interest of its members as medical schemes with a view to an efficient access of their subscribing members to health care benefits."



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SECRETARY

AJ Kreft

COMPANY REGISTRATION NUMBER

2001/003387/08

REGISTERED OFFICE

3rd Floor	PO Box 2324
37 Bath Avenue	Parklands
Rosebank	2121
2196	

ATTORNEYS

Werksmans Attorneys, 155 5th Street, Sandown, Sandton 2196

BANKERS

Nedbank Limited, Nedbank Gardens, 33 Bath Avenue, Rosebank 2196

AUDITORS

Ernst & Young, Wanderers Office Park, 52 Corlett Drive, Illovo

at 31 December 2005

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors are responsible for the maintenance of adequate accounting records and the preparations and integrity of the financial statements and related information. The external auditors are responsible for independently auditing and reporting on the fair presentation of financial statements in conformity with International Standards on Auditing. The financial statements have been prepared in accordance with Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act, 1973 of South Africa.

The directors are also responsible for the company's system of internal financial controls. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

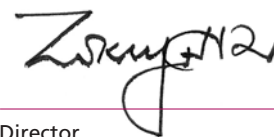
The financial statements have been prepared on the going concern basis, since the directors have every reason to believe that the company has adequate resources in place to continue in operation for the foreseeable future.

The annual financial statements which appear on pages 14 to 47 were approved by the board of directors on 8 June 2006.

Signed on behalf of the board by:



Director



Director



Report of the Independent Auditors

to the members of Board of Healthcare Funders of Southern Africa
(Association incorporated under Section 21 of the Companies Act)

We have audited the annual financial statements of Board of Healthcare Funders of Southern Africa which comprise the balance sheet at 31 December 2005 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements fairly present, in all material aspects, the financial position of the company at 31 December 2005 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.



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Ernst + Young

REGISTERED ACCOUNTANTS AND AUDITORS
CHARTERED ACCOUNTANTS (SA)

Johannesburg
8 June 2006

Report of the Directors

Annual Report 2005

for the year ended 31 December 2005

BUSINESS AND OPERATIONS

The company promotes the interest of its members as medical schemes with a view to efficient access of their subscribing members to health care benefits. The business and operations of the company during the year under review continued as in the past and we have nothing further to report thereon.

FINANCIAL RESULTS

The results of the company and the state of its affairs are set out in the attached financial statements and do not, in our opinion, require further comment.

PROPERTY AND EQUIPMENT

There has been no change in the nature of property and equipment or in the policy regarding their use.

DIRECTORS AND SECRETARY

At the annual general meeting held on 14 June 2005 at the Lost City Convention Centre, Sun City, South Africa, the following changes to the composition of the board of directors took place:



<i>Remained in office</i>	<i>Eligible for re-election and re-elected</i>	<i>Retired</i>	<i>Newly elected</i>
G Abrahams	BL Khan	MT Chaora	J Broomberg
B Brooks	M Mxenge	WJ du Plessis	J Mathekga
TEG Borrill	RJ Parsons	KA Ebineng	A Meyer
BM Dick	AO Rijnen	KPC Hollis	SG Motuba
RP Gush		JA Kotzé	FK Robertson
PW Mboniso		S Matisonn	MCT Schultz
Y Motsisi		J Seoloane	
B Nkosi		J van Vught	
A September			
B Swartzberg			

DIRECTORS AND SECRETARY continued

At the board of directors meeting held on 21 July 2005 at the offices of the company, the board of directors resolved, in terms of Article 56 of the Articles of Association, to re-appoint the following persons:

Appointed

MT Chaora
KA Ebineng

On 30 April 2005 PM Tlhabi (the then managing director) resigned and on 12 November 2005, the then deputy chairman, RP Gush, tendered his resignation from the board of directors. This was accepted by the board of directors on 24 November 2005. The current managing director, ZH Zokufa, was appointed with effect from 15 November 2005. Subsequent to the end of the financial year A September was appointed deputy chairman on 23 February 2006. Particulars of the present directors and secretary are given on page 11.

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NUMBER OF EMPLOYEES

The average number of employees during the year was 34 (2004: 34).

SETTLEMENT OF LITIGATION***Practice Code Numbering System***

In December 2000 Bestmed Medical Scheme (Bestmed) advised Board of Healthcare Funders of Southern Africa (BHF) that Bestmed were of the opinion that BHF did not own the copyright to the Practice Code Numbering System (PCNS). This resulted in a litigation process between Bestmed and BHF which culminated in an application by BHF for leave to appeal to the Appellate Division, which was granted in August 2003. The appeal was due to be heard on 17 August 2004.

However, before the appeal was heard, an out of court settlement was reached with Bestmed on 11 August 2004. The details of the settlement are:

- purchase of the copyright in PCNS for R2 500 000. An initial payment of R1 000 000 was made on 10 September 2004, with the balance of R1 500 000 repayable over 36 months;
- an additional payment of R350 000 in respect of the Bestmed costs of litigation;
- outstanding amounts were subject to interest that was at a rate of prime less 4% and;



SETTLEMENT OF LITIGATION *continued*

Practice Code Numbering System continued

- Bestmed and/or its successors-in-title is/are granted a free licence, in perpetuity, in relation to PCNS, up to a maximum number of members being its then current membership plus 20%.
- the balance of the amounts owing to Bestmed were paid in full on 15 August 2005. Upon this payment Bestmed assigned all of its copyright in PCNS to BHF.

TAXATION

Prior to its incorporation as a Section 21 company BHF was an unincorporated association, exempt from income tax. After incorporation under S21 of the Companies Act, BHF had to reapply for a tax exemption certificate.

Simultaneously, the provisions of the Income Tax Act with regard to tax exempt organisations were revised and section 10(1)(cN) (dealing with Public Benefit Organisations) and section 10(1)(d) (dealing, inter alia, with representative bodies) was introduced. All exempt bodies had to reapply for exempt status in terms of one of the above sections.

SARS has established a small exemption unit to deal with these applications and priority is being given to Public Benefit Organisations at this stage. SARS has recently published the regulations called for in section 10(1)(d) which will govern the conditions under which exempt status will be granted to representative bodies.

Because SARS did not issue the section 10(1)(d) regulations timeously, representative bodies have continued to enjoy exempt status in terms of the old, now superseded, provisions of the Income Tax Act. However, because BHF was newly established as a Section 21 company, the superseded exemption will not apply to it.

While BHF lodged its exemption application, SARS continue to give priority to Public Benefit Organisations over representative bodies.

There is therefore a risk that between incorporation as a Section 21 company and the time of approval of the section 10(1)(d) application, BHF may not enjoy exemption from income tax.

For the reasons stated above, BHF has again accrued for taxation in the annual financial statements (refer to note 8 to the financial statements).



PRIVATE HEALTHCARE FORUM

BHF is a participant in the Private Healthcare Forum, with the private healthcare funding industry functionaries being past and present directors and senior management. The cost of participation in 2005 was R197 026 (2004 - R350 458).

HEALTH MONITOR COMPANY

In February 2004 BHF entered into an agreement with the Health Monitor Company (HMC), whereby HMC would develop and implement the National Health Monitor for BHF. This will be delivered in four phases, with completion in mid 2005 and a contract term running until mid 2007. The cost of this agreement in 2005 was R1 050 000 (2004 - R863 158).

EVENTS SUBSEQUENT TO YEAR END

There have been no facts or circumstances of a material nature that have occurred between the accounting date and the date of this report.

Income Statement

Annual Report 2005

for the year ended 31 December 2005

	Notes	2005 R	Restated 2004 R
Revenue	3	16 503 315	16 175 467
Other income		2 908 812	2 412 266
Operating expenses		(18 161 766)	(20 416 935)
Operating surplus/(deficit)	4	1 250 361	(1 829 202)
Interest received	5	761 686	793 938
Interest paid	6	(79 697)	(48 309)
Exceptional item	7	-	(500 000)
Net surplus/(deficit) before taxation		1 932 350	(1 583 573)
Taxation	8	(616 762)	129 610
Net surplus/(deficit) for the year		1 315 588	(1 453 963)



Balance Sheet

at 31 December 2005

	Notes	2005 R	Restated 2004 R
Assets			
Non-current assets			
Property and equipment	9	1 403 081	1 560 389
Intangible asset	10	1	1
Deferred tax asset	11	593 518	835 321
Current assets			
Trade and other receivables	12	1 159 488	740 705
Bank balances and cash	13	4 448 720	5 211 000
Total assets		7 604 808	8 347 416
Equity and liabilities			
Reserves			
Accumulated funds	14	2 804 725	1 489 137
Non-current liabilities			
Interest bearing loans and borrowings	15	–	933 334
Current liabilities			
Trade and other payables	16	4 116 950	3 682 930
Taxation		171 051	524 418
Provisions	17	504 898	751 122
Interest bearing loans and borrowings	15	–	780 833
Income received in advance		7 184	185 642
Total equity and liabilities		7 604 808	8 347 416



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Statement of Changes in Equity

Annual Report 2005

for the year ended 31 December 2005

	Note	Accumulated funds R
Balance at 31 December 2003		2 943 100
As previously reported		2 860 822
Prior year adjustment	23	82 278
Restated net loss for the year		(1 453 963)
As previously reported		(1 651 276)
Prior year adjustment	23	197 313
Balance at 31 December 2004		1 489 137
Surplus for the year		1 315 588
Balance at 31 December 2005		2 804 725



Cash Flow Statement

for the year ended 31 December 2005

	Notes	2005 R	Restated 2004 R
Cash flows from operating activities		1 299 969	1 667 872
Cash receipts from customers/members		19 425 643	16 067 235
Cash paid to suppliers and members		(18 079 337)	(14 779 537)
Cash generated by operating activities	21.1	1 346 306	1 287 698
Interest received		761 686	793 938
Interest paid		(79 697)	(48 309)
Taxation paid	21.2	(728 326)	(365 455)
Cash flows from investing activities		(348 082)	(386 603)
Investment to maintain operations: Replacement of property and equipment		(358 540)	(387 230)
Proceeds on disposal of property and equipment		10 458	627
Cash flows from financing activities		(1 714 167)	(1 230 833)
Acquisition of PCNS copyright		(1 666 667)	(1 183 333)
Long term loans repaid		(47 500)	(47 500)
Net (decrease)/increase in cash and cash equivalents		(762 280)	50 436
Cash and cash equivalents at the beginning of the year	21.3	5 211 000	5 160 564
Cash and cash equivalents at the end of the year	21.3	4 448 720	5 211 000

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at 31 December 2005

1 CORPORATE INFORMATION

The financial statements of Board of Healthcare Funders of Southern Africa (Association incorporated under Section 21 of the Companies Act) (the "company") for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the directors on 8 June 2006. The company is an association incorporated under Section 21 of the Companies Act incorporated and domiciled in South Africa with its membership comprising medical schemes and societies in South Africa, Botswana, Namibia and Zimbabwe.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements set out on pages 14 to 47 are prepared on the historical cost basis except where disclosed otherwise in the notes below, in accordance with South African Statements of Generally Accepted Accounting Practice.

2.2 Summary of significant accounting policies

Property and equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when the cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful life of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

When each major inspection is performed, its cost is recognised in the carrying amount of property and equipment as a replacement if the recognition criteria are satisfied.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.



2 ACCOUNTING POLICIES continued**2.2 Summary of significant accounting policies continued*****Intangible assets***

Intangible assets acquired separately are measured on initial recognition cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets are not capitalised and expenditure is charged against surpluses in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate and treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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Research costs

Research costs are expensed as incurred.

Impairment of assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's or cash generating unit's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless that asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount.



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2 ACCOUNTING POLICIES continued**2.2 Summary of significant accounting policies****Impairment of assets** *continued*

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus or deficit unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over the remaining useful life.

Financial instruments**Initial recognition and measurement**

All financial instruments are recognised on the balance sheet at the trade date. Financial instruments are initially recognised when the company becomes party to the contractual terms of the instruments and are measured at cost, which is the fair value of the consideration given (financial asset) or received (financial liability or equity instrument) for it. Financial liabilities and equity instruments are classified according to the substance of the contractual agreement on initial recognition. Transaction costs are included in the initial measurement of the financial instrument. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets**Accounts receivable**

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the company will not be able to collect the debts. Bad debts are written off when identified. Trade receivables are non-interest bearing and are generally settled within 30 – 90 days.

Bank and cash balances

The accounting policy for bank and cash is dealt with under cash and cash equivalents as set out below.

Financial liabilities

The company's principal financial liabilities are interest bearing debt, non-interest bearing debt and accounts payable.

Non-interest bearing debt (including related parties)

Non-interest bearing debt is recognised at fair value (present value cashflows) and subsequently carried at amortised cost using a market related interest rate.



2 ACCOUNTING POLICIES continued**2.2 Summary of significant accounting policies****Financial instruments** *continued*

Accounts payable

Accounts payable are carried at amortised cost. Trade payables are non-interest bearing and are normally settled on 60 day terms. Other payables are non-interest bearing and have an average term of six months.

Derecognition

Financial assets

Financial assets (or a portion thereof) are derecognised when the company realizes the rights to benefits specified in the contract, the rights expire or the company surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in accumulated funds and are included in the income statement.

Financial liabilities

Financial liabilities (or a portion thereof) are derecognised when the obligation specified in the contract is discharged, cancelled or expires. On derecognition, the difference between the carrying amount of the financial liability, including related amortised costs and amount paid for it are included in the income statement.

Impairment of financial assets

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Fair value methods and assumptions

The carrying amount of financial assets and liabilities with a maturity of less than one year is assumed to approximate their nominal amount.



2 ACCOUNTING POLICIES continued**2.2 Summary of significant accounting policies continued***Cash and cash equivalents*

Cash and cash equivalents are measured at their fair value. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call and investments in money market instruments all of which are available for use by the company unless otherwise stated.

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of that amount of the obligation. Where the company expects some or all of a provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Post employment benefits

Post retirement benefits are made up of those obligations which the company has towards retired employees.

Defined contribution fund

Contributions in respect of defined contribution plans are recognised as an expense in the year to which they relate.

Post retirement medical benefits

The company operates a defined medical benefit plan which requires contributions to be made to a separately administered fund. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit actuarial valuation method. Actuarial gains and losses for the plan at the end of the previous reported year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised reduced by past service cost not recognised and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.



2 ACCOUNTING POLICIES continued**2.2 Summary of significant accounting policies continued****Leases**

The determination of whether an arrangement is, or contains a lease based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Levy income

Levy income from members and user income from the Practice Code Numbering System is accounted for on the accrual basis where there is reasonable assurance that the levy will be received.

Sale of goods

Revenue from the sale of ICD-10 compact discs is recognised when the significant risks and rewards of ownership are transferred to the buyer.

Interest income

Interest is recognised on a time proportion basis that takes into account the effective yield on the asset.

All other income is accounted for on the accrual basis.



2 ACCOUNTING POLICIES *continued*

2.2 Summary of significant accounting policies *continued*

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable surplus or deficit.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable surplus will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting surplus nor taxable surplus or deficit.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable surplus will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable surplus will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against tax liabilities.



2 ACCOUNTING POLICIES *continued***2.2 Summary of significant accounting policies****Taxes *continued***

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset, or as part of the expense item, as applicable.

Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Comparatives

Where necessary, comparative figures have been adjusted to take effect of changes in presentation in the current year.

2.3 Significant accounting judgments and estimates**Estimation of uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below:

Plant and equipment

Estimation is used in approximating the useful lives and residual values of plant and equipment. These assessments are made on an annual basis and use historical evidence and current economic factors to estimate the values.

Post retirement medical benefits

The provision for post retirement medical benefits was based on the actuarial assumptions from Old Mutual actuarial revaluation. Management determined that the assumptions used are reasonable. A valuation is obtained every year; the original principles are reviewed for any significant changes. The details of the post retirement medical benefits are listed in note 17.



2 ACCOUNTING POLICIES continued**2.4 Adoption of International Accounting Statements (IAS) during the year**

The company has adopted the following standards (some only revised) during the year and comparative figures have been amended as required. Adoption of revised standards does not have any effect on accumulated funds as at 1 January 2004.

- IAS 1 (AC 101) Presentation of Financial Statements;
- IAS 8 (AC 103) Accounting Policies, Changes in Accounting Estimates and Errors;
- IAS 10 (AC 107) Events after the Balance Sheet Date;
- IAS 16 (AC 123) Property, Plant and Equipment;
- IAS 17 (AC 105) Leases;
- IAS 18 (AC 111) Revenue;
- IAS 21 (AC 112) The effects of changes in foreign exchange rates;
- IAS 24 (AC 126) Related Party Disclosures;
- IAS 32 (AC 125) Financial Instruments: Disclosure and Presentation;
- IAS 39 (AC 133) Financial Instruments: Recognition and Measurement.

2.5 Accounting Statements issued, not yet effective

IFRS 6 (AC 143) Exploration for and Evaluation of Mineral Sources

Effective date: 1 January 2006.

Effect: Based on the current nature of the business, the statement should have no effect.

IFRS 7 (AC 440) Financial Instruments: Disclosure

Effective date: 2 January 2007.

Effect: Only disclosure changes and amendments. No quantification possible at the date of the annual financial statements.

IFRIC 4 (AC 437) Determining whether an arrangement contains a lease

Effective date: 1 January 2006.

Effect: Based on the current nature of the business, the statement should have no effect, but will be closely monitored.

IFRIC 5 (AC 438) Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Effective date: 1 January 2006.

Effect: Based on the current nature of the business, the statement should have no effect.

IFRIC 6 (AC 439) Liabilities arising from participating in a specific Market-Waste Electrical and Electronic Equipment

Effective date: 1 December 2005.

Effect: Based on the current nature of the business, the statement should have no effect.



2 ACCOUNTING POLICIES continued**2.5 Accounting Statements issued, not yet effective** continued

IFRIC 7 (AC 440) Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economics

Effective date: 1 March 2006.

Effect: Based on the current nature of the business, the statement should have no effect.

IFRIC 8 (AC 441) Scope of IFRS 2 Share Based Payments

Effective date: 1 May 2006.

Effect: Based on the current nature of the business, the statement should have no effect.

AC 503 Accounting for Black Economic Empowerment Transactions

Effective date: 1 May 2006.

Effect: Based on the current nature of the business, the statement should have no effect.

IAS 1 Presentation of Financial Statements - Capital Disclosure

Effective date: 1 January 2007.

Effect: The impact will be on disclosure only.

IAS 39 Amendment: Financial Instruments: Recognition and Measurement – The Fair Value Option

Effective date: 1 January 2006.

Effect: No impact.

IAS 39 and IFRS 4 Amendment: Financial Instruments: Recognition and Measurement and Insurance Contracts – Final Guarantee Contracts

Effective date: 1 January 2006.

Effect: No impact.

IFRIC 9 Reassessment of Embedded Derivatives

Effective date: 1 June 2006.

Effect: No impact.



Notes to the Financial Statements

at 31 December 2005 *continued*

Annual Report 2005

	2005 R	2004 R
3 REVENUE		
Revenue comprises		
Levy income	13 790 723	13 316 980
Practice Code Numbering System income	2 617 921	2 851 955
Sale of ICD-10 compact discs	94 671	6 532
	16 503 315	16 175 467

	2005 R	Restated 2004 R
4 OPERATING SURPLUS/(DEFICIT)		
The operating surplus/(deficit) is stated after:		
Income		
(Loss)/surplus on disposal of: - property and equipment	(7 989)	627
Expenses		
Auditors' remuneration	328 360	291 341
- audit fee	174 276	135 996
- prior year under-provision	7 804	66 361
- other services	146 280	88 984
Depreciation	497 401	340 830
- on owned assets		
- Motor vehicles	15 131	-
- Furniture and fittings	68 432	62 856
- Office equipment	60 081	45 074
- Computer equipment	191 144	92 508
- Computer software	79 857	57 923
- Leasehold improvements	54 438	54 151
- on capitalised leased assets		
- Office equipment	28 318	28 318



Notes to the Financial Statements

at 31 December 2005 *continued*

	2005 R	Restated 2004 R
4 OPERATING SURPLUS/(DEFICIT) continued		
Foreign exchange differences	162 141	150 433
Impairment of intangible asset	–	2 849 999
Staff costs	6 813 345	6 705 181
- salaries and wages	6 801 670	6 589 753
- actuarial gain on benefit obligation	(253 000)	–
- interest cost on benefit obligation	39 000	7 499
- contributions to pension funds	185 299	49 666
- post retirement medical benefit expense (refer to note 17)	40 376	58 263
Directors' emoluments (refer to note 22)	758 101	1 277 202
Operating lease expense	1 030 124	959 703
- office equipment	65 259	109 611
- premises	964 865	850 092
Research costs	219 276	360 058
5 INTEREST RECEIVED		
Interest received on - cash and short term deposits	761 686	793 938
6 INTEREST PAID		
Interest paid on - capitalised finance leases	12 799	13 069
- acquisition of Practice Code Numbering System copyright	66 898	31 196
- other	–	4 044
	79 697	48 309



Notes to the Financial Statements

Annual Report 2005

at 31 December 2005 *continued*

	2005 R	Restated 2004 R
7 EXCEPTIONAL ITEM		
Settlement payment made to the Competition Commission, in terms of a settlement agreement	–	500 000
8 TAXATION		
South African normal tax		
- Current tax	362 272	535 500
- Prior year under-provision	12 687	–
- Deferred tax		
- attributable to timing differences arising in the current year	241 803	(665 110)
	616 762	(129 610)
Reconciliation of tax rate	%	%
Standard tax rate	29,00	(30,00)
Adjusted for:		
Permanent differences	2,92	21,82
Effective tax rate	31,92	(8,18)



9 PROPERTY AND EQUIPMENT

	Owned assets Motor vehicles R	Furniture and fittings R	Office equipment R	Computer equipment R	Computer software R	Leasehold improvements R	Capitalised leased assets Office equipment R	Total R
31 December 2005								
At 1 January 2005, net of accumulated depreciation	1	416 869	259 892	342 779	143 873	324 911	72 064	1 560 389
Additions	117 906	-	63 601	134 585	21 894	20 554	-	358 540
Disposals	(1)	(8 896)	(2 903)	(6 579)	(68)	-	-	(18 447)
Depreciation charge for the year	(15 131)	(68 432)	(60 081)	(191 144)	(79 857)	(54 438)	(28 318)	(497 401)
At 31 December 2005, net of accumulated depreciation	102 775	339 541	260 509	279 641	85 842	291 027	43 746	1 403 081
At 1 January 2005, Cost	1	625 708	373 630	759 237	313 786	480 640	128 700	2 681 702
Accumulated depreciation	-	(208 839)	(113 738)	(416 458)	(169 913)	(155 729)	(56 636)	(1 121 313)
Net carrying amount	1	416 869	259 892	342 779	143 873	324 911	72 064	1 560 389
At 31 December 2005 Cost	117 906	587 782	381 737	603 761	335 680	501 194	128 700	2 656 760
Accumulated depreciation	(15 131)	(248 241)	(121 228)	(324 120)	(249 838)	(210 167)	(84 954)	(1 253 679)
Net carrying amount	102 775	339 541	260 509	279 641	85 842	291 027	43 746	1 403 081
31 December 2004								
At 1 January 2004, net of accumulated depreciation	1	472 768	154 035	243 295	166 462	377 046	100 382	1 513 989
Additions	-	6 957	150 931	191 992	35 334	2 016	-	387 230
Disposals	-	-	-	-	-	-	-	-
Depreciation charge for the year	-	(62 856)	(45 074)	(92 508)	(57 923)	(54 151)	(28 318)	(340 830)
At 31 December 2004, net of accumulated depreciation	1	416 869	259 892	342 779	143 873	324 911	72 064	1 560 389
At 1 January 2004 Cost	1	618 751	222 699	567 245	278 452	478 624	128 700	2 294 472
Accumulated depreciation	-	(145 983)	(68 664)	(323 950)	(111 990)	(101 578)	(28 318)	(780 483)
Net carrying amount	1	472 768	154 035	243 295	166 462	377 046	100 382	1 513 989
At 31 December 2004 Cost	1	625 708	373 630	759 237	313 786	480 640	128 700	2 681 702
Accumulated depreciation	-	(208 839)	(113 738)	(416 458)	(169 913)	(155 729)	(56 636)	(1 121 313)
Net carrying amount	1	416 869	259 892	342 779	143 873	324 911	72 064	1 560 389



9 PROPERTY AND EQUIPMENT *continued*

The useful life of the assets is estimated as follows:

	2005	Restated 2004
- Motor vehicles	3 years	5 years
- Furniture and fittings	6 to 16 years	6 to 16 years
- Office equipment	2 to 10 years	2 to 10 years
- Computer equipment	2 to 6 years	2 to 6 years
- Computer software	3 to 6 years	3 to 6 years
- Leasehold improvements	10 years	10 years

	2005 R	2004 R
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10 INTANGIBLE ASSET

PCNS Copyright		
Carrying value at beginning of year	1	-
Additions	-	2 850 000
Impairment	-	(2 849 999)
Carrying value at end of year	1	1

The PCNS copyright was purchased from Bestmed Medical Scheme, in terms of an out of court settlement.

The Council for Medical Schemes, which accredits BHF with the administration of PCNS, stipulated that no profit may be derived from PCNS. The excess PCNS income over the actual expenditure is refunded to subscribers.

The impairment was assessed on the date of acquisition of the copyright and represents the recoverable amount. The recoverable amount was determined at the PCNS cash-generating unit level and was based on the value in use of zero, as no profit may be derived from the PCNS administration.



Notes to the Financial Statementsat 31 December 2005 *continued*

	2005 R	Restated 2004 R
11 DEFERRED TAXATION		
Deferred tax assets		
Intangible asset	785 175	855 000
Provisions	146 420	225 337
Marketing research accrual	15 080	–
Operating lease accrual	–	27 638
Capitalised lease liability	–	12 500
	946 675	1 120 475
Deferred tax liabilities		
Property and equipment	180 792	213 492
Pre-payments	170 245	71 662
Operating lease liability	2 120	–
	353 157	285 154
Net deferred tax asset	593 518	835 321
The movement on the deferred tax balance is as follows:		
Balance at beginning of year	835 321	170 211
Income statement charge	(241 803)	665 110
Balance at end of year	593 518	835 321



	2005 R	2004 R
12 TRADE AND OTHER RECEIVABLES		
Trade receivables	126 063	–
Other receivables	221 575	23 215
Prepayments	587 053	238 872
Related party receivable (refer to note 22)	–	6 796
SARS - VAT	224 797	471 822
	1 159 488	740 705

For terms and conditions relating to related party receivables, refer to note 22.

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms.

13 BANK BALANCES AND CASH

Included in bank balances and cash is an amount of R15 548 (ZIM \$201 874 226) [2004 - R133 368 (ZIM \$131 917 089)] relating to a bank account held in Zimbabwe. The official exchange rate used for conversion was R0.000077 = ZIM \$1 (2004 - R0.001011 = ZIM \$1).

At 31 December 2005 the company had an outstanding letter of guarantee for R80 000 issued by Nedbank to Broll Properties (Pty) Ltd in respect of the lease agreement between BHF and Broll Properties (Pty) Ltd.

14 ACCUMULATED FUNDS

In terms of the Companies Act, these funds are not distributable to constituent members in the normal course of business and can be used to create a specific reserve.



	2005 R	2004 R
15 INTEREST BEARING LOANS AND BORROWINGS		
Secured		
Capitalised finance lease liability secured over office equipment with a book value of R51 480 (2004 – R77 220) repayable in 36 monthly instalments of both interest and capital. The current lease instalment is R nil (2004 - R5 030). The lease bore interest at 20.65% per annum. The last instalment was repayable on 1 December 2005.	–	47 500
Less: current portion included under current liabilities	–	(47 500)
	–	–
Liability of R1 500 000 in terms of the settlement agreement with Bestmed Medical Scheme for the purchase of the Practice Code Numbering System copyright repayable in 36 monthly instalments, bearing interest at prime less 4%. The last instalment would have been repayable on 10 September 2007.	–	1 375 000
Less: current portion included under current liabilities	–	(500 000)
	–	875 000





	2005 R	2004 R
15 INTEREST BEARING LOANS AND BORROWINGS continued		
Liability of R350 000 in terms of the settlement agreement with Bestmed Medical Scheme for the cost of litigation over of the Practice Code Numbering System copyright repayable in 18 monthly instalments, bearing interest at prime less 4%. The last instalment would have been repayable on 10 March 2006.	-	291 667
Less: current portion included under current liabilities	-	(233 333)
	-	58 334
(2004 - the assignment of the PCNS copyright will be effected once all monies due and payable to Bestmed are paid.)		
Total liabilities	-	1 714 167
Total current portion	-	(780 833)
Total long term liability	-	933 334

16 TRADE AND OTHER PAYABLES

Trade payables	596 247	538 386
Accruals	125 144	248 106
Other payables	412 864	379 616
Membership levies credit notes	-	101 367
Refunds – PCNS over recovery	2 982 695	2 415 455
	4 116 950	3 682 930

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on 60-day terms. Accruals and other payables are non-interest bearing and have on average a term of six months.

The provision for the refund of PCNS over recoveries arises from the stipulation from the Council for Medical Schemes, which accredits BHF with the administration of PCNS, that no profit may be derived from PCNS. The excess PCNS income over the actual expenditure is refunded to subscribers.

at 31 December 2005 *continued*

	2005 R	2004 R
17 PROVISIONS		
Provision for leave pay		
Balance at beginning of year	358 201	360 445
Provision raised during year	135 229	30 899
Provision utilised during year	(163 453)	(33 143)
	<hr/>	<hr/>
Balance at end of year	329 977	358 201
	<hr/>	<hr/>

The principal assumptions used in determining the post employment medical benefit obligations are:

	2005 %	2004 %
Medical contribution escalation rate	6	8
Discount rate	7.5	10

	2005 R	2004 R
Post retirement medical benefit net expense:		
Interest cost on benefit obligation	39 000	7 499
Current year's contribution	40 376	50 764
	<hr/>	<hr/>
Net benefit expense	79 376	58 263
	<hr/>	<hr/>
Post retirement medical benefit obligation:		
Present value of obligation (included in provisions)	174 921	392 921
	<hr/>	<hr/>
Movements in the benefit obligation during the year are as follows:		
Opening net obligation	392 921	385 422
Interest cost on benefit obligation	39 000	7 499
Expected benefit payments	(4 000)	-
Actuarial gain	(253 000)	-
	<hr/>	<hr/>
	174 921	392 921
	<hr/>	<hr/>
Total	504 898	751 122
	<hr/>	<hr/>



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17 PROVISIONS continued

**Pensions and other post employment benefit plans
Defined contribution fund**

The company continues to contribute to the Board of Healthcare Funders Old Mutual Orion Pension Fund, a defined contribution plan. The fund is registered under and governed by the Pension Funds Act, 1956 as amended. Management is currently reviewing an alternative retirement funding structure. Nine percent of the company's employees belong to the defined contribution fund.

Post retirement medical benefits

The company contributes to a defined benefit medical aid scheme for the benefit of two retired employees. Post retirement medical benefits are provided to the employees by subsidising 12% of the medical aid contribution for one of the retired employees and 100% for the other employee. These benefits are unfunded.

Actuarial valuations were performed as at 31 December 2005. Full provision has been made for the liability relating to retired employees. The next actuarial valuation is due to be performed as at 31 December 2006.

Leave pay

A provision is recognised for the estimated value of the outstanding leave entitlement for all members of staff but not yet taken.



18 BHF CONFERENCE

	2005 R	2004 R
Other income and operating expenses are stated after:		
BHF conference income and sponsorship (included in other income)	2 663 600	1 957 599
Conference expenses (included in operating expenses)	(2 370 067)	(1 497 721)
Conference surplus	293 533	459 878

	2005 R	2004 R
19 COMMITMENTS AND CONTINGENCIES		
Operating lease commitments		
The company has entered into leases on property. The lease has an average life of six years. There are no restrictions placed upon the lessee by entering into the lease.		
Future minimum rentals payable under non-cancelable operating lease agreements at year-end are as follows:		
- Up to 1 year	969 034	1 144 797
- After one year but not more than five years	4 668 077	191 520
- More than five years	225 721	-
	5 862 832	1 336 317

Finance lease commitments

The company had a finance lease for an item of property and equipment. The lease did not have terms for renewal.

Future minimum lease payments payable under non-cancellable finance lease agreement at year-end are as follows:

	Up to 1 year R	Between 1 and 5 years R
2005		
- Total minimum lease payments	-	-
- Less: finance charges	-	-
- Present value of minimum lease payments	-	-
2004		
- Total minimum lease payments	60 361	-
- Less: finance charges	(12 861)	-
- Present value of minimum lease payments	47 500	-



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20 FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The company's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the company's operations. The company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Interest rate management

As part of the process of managing the company's interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Credit risk management

The company only deposits cash surpluses with financial institutions with a credit rating of not less than the equivalent of B+ with Global Credit Rating Company Limited.

Fair value

The directors are of the opinion that the book value of financial instruments approximates fair value.

Foreign Currency Risk

The company has foreign currency exposure as a result of a bank account in Zimbabwe. The company does not use forward exchange contracts to estimate the currency exposure as the amount is immaterial.



	2005 R	Restated 2004 R
21 NOTES TO THE CASH FLOW STATEMENT		
21.1 Reconciliation of net surplus/(deficit) before taxation to cash generated by operations		
Net surplus/(deficit) before taxation	1 932 350	(1 583 573)
Adjustments:		
Depreciation	497 401	340 830
Loss/(surplus) on disposals of property and equipment	7 989	(627)
Impairment of intangible asset	–	2 849 999
Interest received	(761 686)	(793 938)
Interest paid	79 697	48 309
(Decrease)/increase in provisions	(246 224)	5 255
	1 509 527	866 255
(Increase)/decrease in working capital	(163 221)	421 443
Increase in trade and other receivables	(418 783)	(108 232)
Increase in trade and other payables and income received in advance	255 562	529 675
	1 346 306	1 287 698
21.2 Taxation paid		
Amount owing at beginning of the year	524 418	354 373
Amount charged to income statement excluding deferred taxation	374 959	535 500
Amount owing at the end of the year	(171 051)	(524 418)
	728 326	365 455
21.3 Cash and cash equivalents		
Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Bank balances and cash	4 448 720	5 211 000



	2005 R	2004 R
22 RELATED PARTIES DISCLOSURES		
Director's loan		
Unsecured, interest free, loan (R6 796 advanced in December 2004 and repaid in January 2005).		
Compensation of key management personnel of the company		
Short term employee benefits	736 602	1 277 202
Post employment pension benefits	21 499	-
	758 101	1 277 202

23 PRIOR YEAR ADJUSTMENT

The useful lives and residual values of fixed assets were reviewed at 31 December 2005, in accordance with IAS 16 (AC123) – Property, plant and equipment. The assessment revealed that various items of plant and equipment had been depreciated over inaccurate useful lives. As a result, an adjustment has been made to comparative and current period figures to correct the inaccurate assessment of useful lives. Adjustments have been made to prior periods, as circumstances indicate that the inaccurate assessment should have been detected during periods prior to the earliest reporting of these financial statements.

The company previously expensed operating lease charges over on a cash payment basis. This was generally accepted practice in South Africa as the contractual payment basis was considered as being the most representative of the time pattern of the company's benefit obtained from the lease properties. The company's accounting policy treatment has now been changed to reflect the requirements of IAS 17 (AC105) Accounting statement on leases. Lease payments are recognised on a straight line basis.



23 PRIOR YEAR ADJUSTMENT continued

The change in accounting policy has been applied retrospectively and the comparative amounts have been restated. The effect of the change is tabulated below.

	Gross R	Tax R	Net R
Increase in retained income as at 1 January 2004 due to correction of depreciation	322 648	(96 794)	225 854
Increase in net profit due to the correction of depreciation expense in 2004	168 893	(50 669)	118 224
Decrease in retained income as at 1 January 2004 due to correction of lease expense	(205 109)	61 533	(143 576)
Increase in net profit due to the correction of the lease expense in 2004	112 984	(33 895)	79 089



General Information

for the year ended 31 December 2005

Annual Report 2005

MANAGEMENT TEAM

Humphrey Zokufa – Managing Director (2 months service)
 Tony Kreft – Chief Financial Officer (7 years service)
 Heidi Kruger – Manager: PR and Communication (6 years service)
 Rajesh Patel – Head: Benefit and Risk (1 year service)

ATTENDANCE AT MEETINGS

Board of Directors meetings 2005

Director	27 January	17 March	12 May	15 June	21 July	24 November
G Abrahams	•	A	a	A	A	A
TEG Borrill	•	•	•	•	•	•
B Brooks	•	•	•	•	•	•
J Broomberg	n/a	n/a	n/a	A	•	•
MT Chaora	A	A	•	n/a	A	•
B Dick	•	A	•	A	A	•
WJ du Plessis	•	•	•	n/a	n/a	n/a
KA Ebineng	A	A	A	n/a	•	•
RP Gush	•	•	•	•	•	n/a
KPC Hollis	•	•	A	n/a	n/a	n/a
BL Khan	•	•	•	•	•	A
JA Kotzé	•	•	•	n/a	n/a	n/a
J Mathekga	n/a	n/a	n/a	•	•	•
S Matisonn	•	A	A	n/a	n/a	n/a
PW Mboniso	•	A	•	•	A	•
A Meyer	n/a	n/a	n/a	•	•	•
Y Motsisi	•	A	•	A	•	•
SG Moyuba	n/a	n/a	n/a	•	•	•
M Mxenge	•	•	•	•	•	•
B Nkosi	•	A	•	A	•	A
RJ Parsons	•	•	•	•	•	•
AO Rijnen	•	A	A	•	•	A
FK Robertson	n/a	n/a	n/a	•	•	•
MCT Schultz	n/a	n/a	n/a	•	•	•
J Seoloane	A	•	A	n/a	n/a	n/a
A September	•	•	•	•	•	A
B Swartzberg	A	•	•	A	•	•
PM Tlhabi	•	A	n/a	n/a	n/a	n/a
J van Vught	A	•	•	n/a	n/a	n/a
ZH Zokufa	n/a	n/a	n/a	n/a	n/a	•

• attended meeting A - apologies given a - absent n/a - not a member of the board

AUDIT COMMITTEE

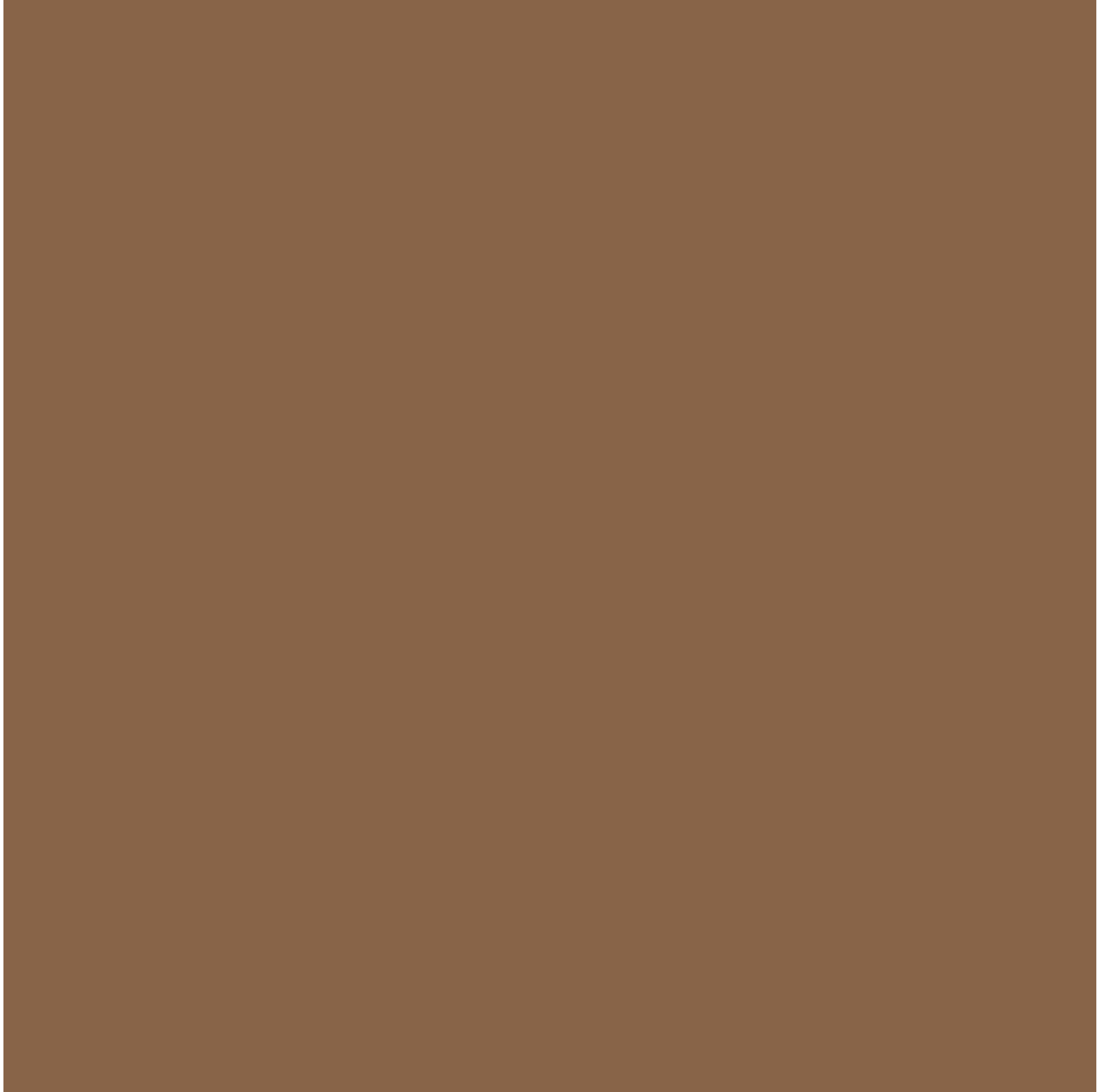
The role of the audit committee is fulfilled by the Finance and Audit Committee.

Finance and Audit Committee meetings 2005

Director	26 January	16 March	20 April	31 August	11 November
B Dick	•	A	•	•	•
RP Gush	n/a	n/a	n/a	A	•
BL Khan	A	A	A	A	•
Y Motsisi	•	•	A	n/a	n/a
SG Motuba	n/a	n/a	n/a	A	•
B Nkosi	n/a	n/a	n/a	•	•
RJ Parsons	•	•	•	•	•
MCT Schultz	n/a	n/a	n/a	•	n/a
J Seoloane	•	A	•	n/a	n/a
PM Tlhabi	•	A	•	n/a	n/a

• attended meeting A - apologies given a - absent n/a - not a member of the committee





Designed by Brendan Finnegan IGD