

**PATHFINDER
MEDICAL SCHEME
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2007**

PATHFINDER MEDICAL SCHEME – ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The reports and statements set out below comprise the annual financial statements presented to members:

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PATHFINDER MEDICAL SCHEME – ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The trustees are responsible for the preparation, integrity, and fair presentation of the financial statements of Pathfinder Medical Scheme. The financial statements presented on pages 15 to 45 have been prepared in accordance with International Financial Reporting Standards (IFRS) and include amounts based on judgements and estimates made by management.

The trustees consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The trustees are satisfied that the information contained in the financial statements fairly presents the results of operations for the year and the financial position of the Scheme at year-end. The trustees also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements.

The trustees have responsibility for ensuring that accounting records are kept. The accounting records should disclose with reasonable accuracy the financial position of the Scheme to enable the trustees to ensure that the financial statements comply with the relevant legislation.

Pathfinder Medical Scheme operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled.

The going concern basis has been adopted in preparing the annual financial statements. The trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. The annual financial statements support the viability of the Scheme.

Whilst Investec Bank will continue to support the fund in terms of the R5 million guarantees lodged with the Council for Medical Schemes, the trustees are of the view that there is sufficient reason for the Scheme to now not need further funding from the sponsor.

Pathfinder finds itself in a position of stagnation in membership, risk sharing on all its options to prevent unnecessary peaks and troughs as was the scenario in 2006-2007 with solvency ratio's operational expenditure in line with the size of the Scheme and a possible merger with another Medical Scheme. The board of trustees and the management of Pathfinder Medical Scheme are extremely positive and passionate about future of the "new" Pathfinder.

Pathfinder executive and management understands the current predicament that they are under and that similar suggestions and motivations from the past did not realise, but we believe that the recent culture and focus change has already started reaping benefits. Enormous capital was ploughed into the Scheme as a specific strategy to assist with the roll out of Government's focus on uncovered members.

The Code of Corporate Practices and Conduct has been adhered to. The Scheme's external auditors, SAB&T Chartered Accountants Incorporated, audited the financial statements, and their report is presented on page 14.

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The financial statements were approved by the board of trustees on _____
and are signed on its behalf by:

Dr. JM Laubsher
Chairperson

Mr. M Coetzee
Trustee

Mr. P Niemand
Acting principal officer

24 April 2008

PATHFINDER MEDICAL SCHEME – ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

REPORT OF THE BOARD OF TRUSTEES

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

1. DESCRIPTION OF THE MEDICAL SCHEME

1.1 Terms of registration

Pathfinder 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. In term of the registration a guarantee has been issued by Investec Bank in favour of Pathfinder Medical Scheme and has been lodged with the Registrar.

1.2 Benefit options within the Pathfinder Medical Scheme

The Medical Scheme offers 4 benefit options to employers and members of the public during the 2007 year benefit year.

These were:

- Trail Option
- Lane Option
- Terrace Option
- Avenue Option

During the process of registration of the Scheme rules and the benefit structure for 2008, it was proposed that the Lane and Avenue options should be merged. This was duly approved and registered by the Council for Medical Schemes.

1.3 Savings Plan

It was decided to cancel the savings facility on the Avenue option with effect 1 January 2007 and to provide a traditional benefit structure for 2007. The Scheme has not paid interest on positive savings accounts or charged interest on negative savings accounts in terms of the rules of the Scheme.

1.4 Risk Transfer Arrangements

The Scheme has also entered into a capitation agreement with Calabash Health Solutions (Pty) Ltd, whereby the claims risk on all it's options are transferred to Calabash Health Solutions (Pty) Ltd. This arrangement ensures that the Scheme's future risk will always be less than the net contributions received.

In view of certain strategic proposed changes for 2008 it was decided to cancel the capitation agreement with Calabash Health Solutions (Pty) Ltd with effect 31 December 2007. The Scheme will be responsible for its own risk during the benefit year of 2008.

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2. MANAGEMENT

2.1 Board of Trustees in office during the year under review

Board of Trustees		Appointed	Resigned
Mr K Laubscher	Chairperson	1 December 2006	
Mr T Jacobs	Vice Chairperson	1 September 2002	
Ms C van der Spuy	BOT member	3 August 2002	15 October 2007
Mr P Niemand	BOT member	1 December 2006	
Mr M Coetzee	BOT member	6 June 2007	
Mr K van Dyk	BOT member	18 September 2006	25 September 2007
Mr J Motswe	BOT member	18 September 2006	6 June 2007
Ms V Mahlangu	BOT member	16 October 2006	
Mr J Prinsloo	BOT member	16 October 2006	

2.2 Acting Principal Officer

Ms N Harding was appointed as principal officer with effect 1 June 2007. She replaced Ms A. Jordaan who was acting principal officer since 1 August 2006. Ms Harding resigned as principal officer on 31 July 2007. Mr P Niemand is acting principal officer from August 2007 till date.

Mr P Niemand
Lakefield Office Park
Building A
272 West Street
Centurion

PO Box 11465
Centurion
0046

2.3 Registered office address and postal address

Lakefield Office Park
Building A
272 West Street
Centurion

PO Box 11465
Centurion
0046

2.4 Medical scheme administrator during the year

Full Circle Health a division of Triangular Health (Pty) Ltd
Lakefield Office Park
272 West Street
Centurion

PO Box 7687
Centurion
0046

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2. MANAGEMENT (continued)

2.5 Actuaries

No actuaries are appointed as all claims risk is transferred to Calabash Health Solutions (Pty) Ltd.

2.6 Auditors

SAB & T Chartered Accountants Incorporated
119 Witch-Hazel Avenue
Highveld Technopark
Centurion

PO Box 10512
Centurion
0046

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.

All investment decisions are made by the board which met at regular intervals 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 and cash instruments during 2007. 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.

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4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

4.1 OPERATIONAL STATISTICS - 2007

	Trail	Lane	Terrace	Avenue	Total
Number of members at the end of the accounting period	1,023	87	98	521	1,729
Number of beneficiaries at the end of the accounting period	1,442	151	146	891	2,630
Proportion of dependants in the medical scheme at the end of the accounting period	419	64	48	370	901
Average number of members for the accounting period	1,196	102	115	609	2,022
Average number of dependants for the accounting period	487	74	56	430	1,047
Average net contributions per member per month	733	548	1,897	1,234	941
Average net contributions per beneficiary per month	521	317	1,276	724	620
Average claims incurred per member per month	563	653	1,281	837	691
Average claims incurred per beneficiary per month	400	377	862	491	455
Average administration cost per member per month	200	196	196	196	198
Average administration cost per beneficiary per month	142	113	132	115	131
Beneficiaries per member at 31 December	1.41	1.74	1.49	1.71	1.52
Net claims as % of Gross Contributions	77%	119%	68%	68%	73%
Non-health expenses as a percentage of gross contributions	27%	37%	10%	16%	21%
Number of new members	1,077	92	103	548	1,820
Numbers of members leaving the scheme	1,447	123	139	737	2,445
Average accumulated funds per member					(470)
Return on investments as a percentage of investments					3%
Average number of beneficiaries per month	1,683	176	170	1,039	3,069

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4.1 OPERATIONAL STATISTICS – 2006

	Trail	Lane	Terrace	Avenue	Total
Number of members at the end of the accounting period	1,718	180	83	373	2,354
Number of beneficiaries at the end of the accounting period	2,588	367	148	777	3,880
Proportion of dependants in the medical scheme at the end of the accounting period	870	187	65	404	1,526
Average number of members for the accounting period	1,520	159	73	330	2,083
Average number of dependants for the accounting period	1,013	144	58	304	1,519
Average net contributions per member per month	501	1,243	1,966	1,529	773
Average net contributions per beneficiary per month	290	719	1,137	884	447
Average claims incurred per member per month	95	204	312	245	134
Average claims incurred per beneficiary per month	57	107	174	127	78
Average administration cost per member per month	110	220	312	243	146
Average administration cost per beneficiary per month	63	127	180	140	85
Beneficiaries per member at 31 December	1.51	2.04	1.78	2.08	1.65
Net claims as % of Gross Contributions	81%	84%	84%	84%	83%
Non-health expenses as a percentage of gross contributions	22%	17%	16%	14%	18%
Number of new members	1,461	153	71	317	2,002
Numbers of members leaving the scheme	947	99	46	206	1,297
Average accumulated funds per member					(807)
Return on investments as a percentage of investments					3%
Average number of beneficiaries per month	2,629	275	127	571	3,602

4.2 RESULTS OF OPERATIONS

The results of the medical Scheme are set out in the annual financial statements set out in page 15 to 45, and the trustees believe that no further clarification is required.

4.3 ACCUMULATED FUNDS RATIO

	2007	2006
	R	R
Total Members funds per balance sheet	(812,173)	(1,898,644)
Accumulated funds per Regulation 29	(812,173)	(1,898,644)
Gross Contributions	22,654,390	20,219,933
Solvency Ratio	(3.59%)	(9.39%)

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4.4 RESERVE ACCOUNTS

The Scheme does not have reserve accounts.

5. ACTUARIAL SERVICES

The Scheme no longer makes use of actuaries as the risk of claims has been taken over by Calabash Health Solutions (Pty) Ltd.

6. INVESTMENT COMMITTEE

An Investment Committee was not established but the duties are done by the Board of Trustees.

7. GUARANTEES RECEIVED BY THE SCHEME FROM A THIRD PARTY

In terms of section 33(3) of the Medical Schemes Act, Investec Bank has provided a guarantee of R 5 million (2006: R 5 Million) to the Scheme.

8. POST BALANCE SHEET EVENTS

The Scheme is in negotiations with another medical scheme for a possible merger.

The Scheme has ended the capitation agreement with Calabash Health solutions (Pty) Ltd as of 31 December 2007.

The Scheme merged the Lane and Avenue options from 1 January 2008.

9. GOING CONCERN

As at 31 December 2007 the Scheme had a negative solvency ratio of 3.59%. The management of the Scheme is currently in communication with the Council for Medical Schemes to rectify this problem. Business plans, budgets and management accounts were submitted to the Council of Medical Schemes.

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

Pathfinder holds no investments in participating employers of medical scheme members. Full Circle Health is the contracted administration company with Calabash Health Solutions (Pty) Ltd being the Scheme's sponsor who also provides managed health care and risk taking services to the Scheme. The Scheme has a signed service level agreement in place with all outsourced parties to ensure that contracted services are delivered in terms of set turnaround criteria.

**PATHFINDER MEDICAL SCHEME – ANNUAL FINANCIAL STATEMENTS
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11. TRUSTEE MEETING ATTENDANCE AND REMUNERATION

The following schedule sets out Board of Trustees meeting attendances. Trustee remuneration is disclosed in Note 11 to the annual financial statements.

<i>Trustee/Sub-committee member</i>	<i>Board Meetings</i>		<i>Management meetings</i>		<i>Investment Committee Meetings</i>		<i>Audit Committee meetings</i>	
	A	B	A	B	A	B	A	B
Pieter Niemand	8	8					5	5
Theodore Jacobs	8	6						
Charne vd Spuy	7	3						
Marnus Coetzee	6	3					4	4
Koos van Dyk	5	4					3	1
Johnny Motswe	3	2						
Johan Prinsloo	8	4						
Vuyiswa Fihla Mahlangu	8	7						
Kobus Laubscher	8	8					5	5

A - Total possible number of meetings could have attended
B - Actual number of Meetings attended

12. NON-COMPLIANCE WITH THE ACT

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

12.1 Contravention of Regulation 29

The Scheme's solvency ratio of (3.59%) is below the required rate of 25%. This matter was reported to and discussed with Council and its resolution will be dealt with in the business plan to be completed and submitted to council in due course.

12.2 Contravention of Regulation 30

The Scheme's minimum accumulated funds to be maintained plus liabilities exceeds assets held (excluding accounts receivable) with an amount of R 7,576,107 as at 31 December 2007 (2006: R 7,804,748)

12.3 Contravention of Section 33(2)(b)

This section provides, inter alia, that the Registrar shall not approve any benefit option unless the Council is satisfied that such benefit option shall be self supporting in terms of membership and financial performance.

For the year under review, the Trail and Avenue options, made losses as set out in the financial statements. The Trustees are addressing this situation going forward.

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12.4 Audit Committee

Paragraph 36(10) of the Medical Schemes Act states: “The board of trustees of a medical scheme shall, subject to the provisions of sections (13), appoint an audit committee of at least five members of which at least two shall be members of the board of trustees.”

Pathfinder Medical Scheme did have an audit committee during the 2007 financial year but only three members were appointed and not the required five members.

Due to resignations of Pathfinder personnel which was part of the audit committee, vacancies for 2 non board members has not been filled as yet. The Scheme will correct this in the near future.

12.5 Non-compliance with International Accounting Standards (IAS)16

The useful lives of assets are not assessed annually as prescribed by paragraph 51 of International Accounting Standard 16.

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STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

Pathfinder Medical Scheme is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The trustees are proposed and elected by the members of the Scheme and the Employers.

BOARD OF TRUSTEES

The trustees meet regularly and monitor the performance of the administrators. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

All trustees have access to the advice and services of the principal officer and, where appropriate, may seek independent professional advice at the expense of the Scheme.

INTERNAL CONTROL

The administrators of the Scheme maintain internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability for its assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

No event or item has come to the attention of the board of trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.

Dr. JM Laubsher
Chairperson

Mr. M Coetzee
Trustee

Mr. P Niemand
Acting principal officer

24 April 2008

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<p>ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006</p>

REPORT OF THE INDEPENDENT AUDITORS

To the members of Pathfinder Medical Scheme

We have audited the annual financial statements of Pathfinder Medical Scheme that are set out on pages 13 to 35 for the year ended 31 December 2007. These financial statements are the responsibility of the trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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,
- assessing the accounting principals used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Scheme at 31 December 2007 and the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

SAB&T Chartered Accountants Incorporated
Registered Accountants and Auditors
Chartered Accountants (SA)
Centurion

24 April 2007

**PATHFINDER MEDICAL SCHEME – ANNUAL FINANCIAL STATEMENTS
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**BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Notes	2007 R	2006 R
ASSETS			
Non-current assets			
Property, plant and equipment	2	56,106	71,903
		<u>56,106</u>	<u>71,903</u>
Current assets			
Trade and other receivables	3	2,287,711	3,649,079
Cash and cash equivalents	4	1,046,380	1,100,551
		<u>1,241,331</u>	<u>2,548,528</u>
Total assets		<u>2,343,817</u>	<u>3,720,982</u>
FUNDS AND LIABILITIES			
Member's funds			
Accumulated funds		(812,173)	(1,898,643)
		<u>(812,173)</u>	<u>(1,898,643)</u>
Current liabilities			
Savings plan liability	5	3,155,990	5,619,625
Trade and other payables	6	712,719	1,627,420
		<u>2,443,271</u>	<u>3,992,205</u>
Total funds and liabilities		<u>2,343,817</u>	<u>3,720,982</u>

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**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	2007 R	2006 R
Net contribution income	7	22,831,384	19,311,911
Relevant healthcare expenditure		(16,761,630)	(15,950,342)
Net claims incurred	8	130,272	(21,109)
Claims incurred		130,272	(21,109)
Net expense on risk transfer arrangements	9	(16,891,902)	(15,929,233)
Risk transfer arrangements premiums paid		(16,891,902)	(15,929,233)
Gross healthcare result		6,069,754	3,361,569
Acquisition costs	10	(414,797)	(451,788)
Administration expenses	11	(4,806,742)	(3,658,427)
Net impairment income/(losses) on healthcare receivables	12	113,903	295,011
Net healthcare result		962,118	(453,635)
Other income		124,355	74,612
Investment income	13	45,994	71,578
Other income		78,361	3,034
Net surplus / (deficit) for the year		1,086,473	(379,023)

**PATHFINDER MEDICAL SCHEME – ANNUAL FINANCIAL STATEMENTS
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STATEMENTS OF CHANGES IN FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER 2007
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	Accumulated funds R	Total Members' funds R
Balance as at 1 January 2006	(1,519,623)	(1,519,623)
Net deficit for the year	(379,023)	(379,023)
Balance at 31 December 2006	<u>(1,898,646)</u>	<u>(1,898,646)</u>
Net surplus for the year	1,086,473	1,086,473
Balance at 31 December 2007	<u>(812,173)</u>	<u>(812,173)</u>

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**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	2007	2006
		R	R
Cash flows from operating activities			
Cash flows from operations before working capital changes	18	951,826	(727,970)
Working capital changes		(2,295,563)	(983,411)
- (Increase) / decrease in trade and other receivables		(150,519)	(455,439)
- Increase / (decrease) in trade and other payables		(1,548,934)	232,831
- Decrease in outstanding claims provision		-	(14,794)
- Decrease in savings plan liability		(596,111)	(746,009)
Cash utilized in operations		(1,343,737)	(1,711,381)
Net cash from operating activities		(1,343,737)	(1,711,381)
Cash flows from investing activities			
		36,541	32,576
- Purchase of property, plant and equipment		(18,178)	(39,002)
- Proceeds from sale of property, plant and equipment		8,725	-
- Interest received		45,994	71,578
Net decrease in cash and cash equivalents		(1,307,196)	(1,678,805)
Cash and cash equivalents at beginning of period	4	2,548,528	4,227,333
Cash and cash equivalents at the end of the year		1,241,331	2,548,528

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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1. PRINCIPAL ACCOUNTING POLICIES

The following are the principal accounting policies used by the Scheme, which are in compliance with International Financial Reporting Standards (IFRS).

1.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards on the historical cost basis, except for available-for-sale investments, investments held at fair value through the income statement, and investment properties, which are carried at fair value.

Certain new accounting standards, amendments and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2007 or later periods which the Scheme has not early adopted. The Scheme's assessment of the impact of these new standards and interpretations is set out below:

Title	Effective date – financial year commencing on or after	Applicable/ not applicable
IFRS 8 - Operating Segments	1 January 2009	Not Applicable
IFRIC 11- Group and Treasury Share Transactions	1 March 2007	Not Applicable
IFRIC 12 - Service Concession Arrangements	1 January 2008	Not Applicable
IFRIC 13 - Customer loyalty programmes	1 July 2008	Not Applicable
IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008	Not Applicable
IAS 1 - Presentation of Financial Statements	1 January 2009	Applicable
IAS 23 (Revised) - Borrowing costs	1 January 2009	Not Applicable

IAS 1 – Presentation of Financial statements (effective 1 January 2009)

IAS 1 changes the titles of the financial statements. The new titles will be used in the accounting standards, but are not mandatory for use in the financial statements.

- The “balance sheet” will become “statement of financial position”
- The “income statements” will become “statement of comprehensive income”
- The “cash flow statement” will become “statement of cash flows”.

The main changes to be effected are the following:

- All non-owner changes in equity should be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity.
- A statement of financial position (balance sheet) as at the beginning of the earliest comparative period should be presented in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement.
- Disclose reclassification adjustments relating to the components of other comprehensive income.

The Medical Scheme does not foresee that the above will have a material effect on the financial statements.

**PATHFINDER MEDICAL SCHEME – ANNUAL FINANCIAL STATEMENTS
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<p>NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007</p>
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1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.2 Property, plant and equipment

Property, plant and equipment are reflected at historical cost less accumulated depreciation and accumulated impairments. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets after taking into consideration the assets' residual value. The estimated maximum useful lives of items of property, plant and equipment are:

Computer equipment	3 years
Office equipment	5 years

Maintenance and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are charged against a surplus.

Surpluses and deficits on disposal of property, plant and equipment are recognised in the income statement.

Carrying amounts of all items of property, plant and equipment are reduced to their recoverable amount, where this is lower than the carrying amount. In determining the recoverable amount of property, plant and equipment, the expected future cash flows attributable to such assets are considered.

1.3 Leased assets

Leases of assets to the Scheme under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.4 Financial instruments

Financial assets and liabilities are recognised on the Scheme's balance sheet when it becomes a party to the contractual provisions of the instrument.

Measurement

Financial instruments are initially measured at fair value plus, in the case of financial assets and liabilities not at fair value through the income statement, transaction costs that are directly attributable to acquisition or issue of the financial asset or liability. Subsequent to initial recognition, these instruments are measured as set out below.

Trade and other receivables

Trade and other receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost, using the effective interest method. An appropriate allowance for estimated irrecoverable amounts is recognised in the income statement when there is objective evidence that the asset is impaired. This allowance is measured as the difference between the asset's carrying amount and the recent value of the estimated future cash flows discounted at the effective interest computed at initial recognition. Permanent impairments are written off to the income statement when identified

Cash and other equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value and bank overdrafts.

Financial liabilities

Financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Offset

Where legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

1.5 Savings plan liability

The savings plan liability is measured at cost because it has a demand feature. Savings plan contributions are credited on the accrual basis and withdrawals on a cash basis, i.e. no provision is made for outstanding claims at year-end.

1.6 Provisions

Provisions are recognised when the Scheme has a present or legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

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1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.6 Provisions (continued)

Outstanding claims provision

Claims outstanding comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the balance sheet date and related internal and external claims handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claim patterns, claims settled patterns, changes in the nature and number of members according to gender and age, trends in claim frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

Estimated co-payments and payments from saving plan accounts are deducted in calculating the outstanding claims provision.

1.7 Contribution income

Net contributions are received monthly. Net contributions represent gross contributions after deduction of savings plan contributions. The earned portion of net contributions received is recognised as revenue. Net contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis.

1.8 Claims

Gross claims incurred comprise the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether or not reported by the end of the year.

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments and savings plan accounts;
- claims for services rendered during the previous year not included in the outstanding claims provision for that year, net of recoveries from members for co-payments and savings plan accounts; and
- Services rendered to members from the Scheme's own facilities.

Anticipated recoveries under risk transfer arrangements are disclosed separately as assets and are assessed in a manner similar to the assessment of the outstanding claims provision and claims reported not yet paid.

1.9 Managed care: management services expenses

These expenses represent internal expenditure and the amounts paid or payable to third party administrators, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Scheme.

1.10 Risk transfer arrangements

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

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

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1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.11 Liabilities and related assets under liability adequacy test

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets (i.e. the value of the business acquired). Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficiency in income for the year.

1.12 Employee benefits

Post retirement benefits

Contributions to the defined contribution fund are recognised in the income statement for the year in which they are incurred.

1.13 Impairment Losses

The carrying amounts of the Scheme's assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

The recoverable amount of other assets is the greater of their net selling price and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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2. PROPERTY, PLANT & EQUIPMENT

	Computer equipment R	Office equipment R	Total R
Year ended 31 December 2007			
COST			
At beginning of year	66,398	107,565	173,963
Additions	18,178	-	18,178
Disposals	(8,725)	-	(8,725)
At the end of the year	<u>75,851</u>	<u>107,565</u>	<u>183,416</u>
ACCUMULATED DEPRECIATION			
At beginning of year	28,618	73,442	102,060
Depreciation charge	26,108	7,867	33,975
Accumulated depreciation on disposals	(8,725)	-	(8,725)
At the end of the year	<u>46,001</u>	<u>81,309</u>	<u>127,310</u>
CARRYING AMOUNT AT END OF YEAR	<u>29,850</u>	<u>26,256</u>	<u>56,106</u>
Year ended 31 December 2006			
COST			
At beginning of year	27,396	107,566	134,962
Additions	39,002	-	39,002
Disposals	-	-	-
At the end of the year	<u>66,398</u>	<u>107,566</u>	<u>173,964</u>
ACCUMULATED DEPRECIATION			
At beginning of year	20,881	62,881	83,762
Depreciation charge	7,738	10,561	18,299
Accumulated depreciation on disposals	-	-	-
At the end of the year	<u>28,619</u>	<u>73,442</u>	<u>102,061</u>
CARRYING AMOUNT AT END OF YEAR	<u>37,779</u>	<u>34,124</u>	<u>71,903</u>

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	2007	2006
	R	R
3. TRADE AND OTHER RECEIVABLES		
Gross contributions outstanding	1,075,516	1,082,291
Recoveries from members for co-payments	184,122	66,255
Savings plan account advances (Note 5)	183,957	599,121
	<u>1,443,595</u>	<u>1,747,667</u>
Less: Provision for impairment of losses	<u>(595,063)</u>	<u>(708,964)</u>
	848,532	1,038,703
<i>Sundry accounts receivable</i>		
Pre payments	4,454	4,825
Sundry accounts receivable	193,394	57,023
	<u>1,046,380</u>	<u>1,100,551</u>

The carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets.

Receivables on 30 Days	428,838	377,444
------------------------	---------	---------

All the non impaired receivables are of a current nature and therefore not provided for.

Details of receivables that were assessed for impairment:

Over 60 days		
Debtors for Contributions	1,075,516	1,082,291
Savings Debtors	183,957	599,121
	<u>1,259,473</u>	<u>1,681,412</u>

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Movement of provision for impairment losses

2007	Debtors for contributions R	Savings Debtors R	Total R
Balance as at 1 January 2007	461,996	246,968	708,964
Amount recognised in the income statement for the period (Refer note 12)	(76,776)	(37,125)	(113,901)
Additional provisions made in the period	-	-	-
Unused amounts reversed during the period	-	-	-
Amounts utilised during the period	(76,776)	(37,125)	(113,901)
Balance as at 31 December 2007	<u>385,220</u>	<u>209,843</u>	<u>595,063</u>
2006	Debtors for contributions R	Savings debtors R	Total R
Balance as at 1 January 2005	595,302	409,327	1,004,629
Amount recognised in the income statement for the period (Refer note 12)	(133,305)	(162,360)	(295,665)
Additional provisions made in the period	-	-	-
Unused amounts reversed during the period	-	-	-
Amounts utilised during the period	(133,305)	(162,360)	(295,665)
Balance as at 31 December 2006	<u>461,997</u>	<u>246,967</u>	<u>708,964</u>

Factors in determining impairment

Impairment is calculated on the total value of all accounts for members who have resigned from the Scheme which are provided for 100%.

4. CASH AND CASH EQUIVALENTS

	2007 R	2006 R
Call accounts	507,215	963,792
Current accounts	733,265	1,583,677
Cash and cash equivalents	<u>1,240,480</u>	<u>2,547,469</u>
Bank overdrafts	-	(192)
Petty Cash	851	1,251
Cash and cash equivalents per balance sheet	<u>1,241,331</u>	<u>2,548,528</u>

The weighted average effective interest rate on current and call accounts was 4.9% and 9.1% respectively (2006: 3.5% and 6.55%). Call accounts have an average maturity of one day and 32 days respectively.

The carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

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	2007 R	2006 R
5. SAVINGS PLAN LIABILITY		
Balance on savings plan liability at the beginning of the year	1,627,420	2,373,430
Less: Advances on savings plan accounts	(599,121)	(540,234)
Balance on savings plan liability at the beginning of the year	1,028,299	1,833,196
Add:		
Savings plan account contributions received or receivable	137,766	1,448,255
For the current year (Note 7)	(176,994)	908,021
Allocated to settle prior year advances	314,760	540,234
Less:		
Claims paid on behalf of members	(500,943)	(616,650)
Less:		
Refunds on death or resignation	(136,360)	(1,636,502)
Add:		
Advances on savings plan accounts	183,957	599,121
Balance on savings liability at the end of the year	<u>712,719</u>	<u>1,627,420</u>

In accordance with the rules of the Scheme, the savings plan is underwritten by the Scheme.

The savings plan liability contains a demand feature in terms of regulation 10 of the Medical Schemes Act that any credit balance on a member's personal medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and then enrolls in another benefit option or medical scheme without a personal medical savings account or does not enrol in another medical scheme.

6. TRADE AND OTHER PAYABLES

Net contributions received in advance	494,245	465,433
Sundry accounts payable	1,949,026	3,526,772
	<u>2,443,271</u>	<u>3,992,205</u>

The carrying amount of trade and other payables approximate their fair values due to the short-term maturities of these liabilities

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	2007 R	2006 R
7. NET CONTRIBUTION INCOME		
Continuing operations		
Gross contributions	22,654,390	20,219,933
Less:		
Savings contributions	176,994	(908,022)
Net contribution income	<u>22,831,384</u>	<u>19,311,911</u>

8. NET CLAIMS INCURRED		
Current year claims	370,671	652,553
Movement in outstanding claims provision	-	(14,794)
Under/ (over) provision in prior year	<u>-</u>	<u>(14,794)</u>
Less: Claims paid/charged to savings account (refer note 5)	<u>(500,943)</u>	<u>(616,650)</u>
	<u>(130,272)</u>	<u>21,109</u>

9. NET INCOME / (EXPENSE) ON RISK TRANSFER ARRANGEMENTS

The essence of the agreement is that Calabash will, in consideration for a capitation fee from Pathfinder, be liable for reimbursement of all service providers in terms of the Rules:

1. Pathfinder will pay over to Calabash certain payments in respect of capitation fees due per month in advance.
2. Calabash will discharge all legitimate claims made by service providers in respect of service provided to beneficiaries in terms of the Pathfinder rules.
3. This agreement will not absolve Pathfinder from its responsibility to its members in the event of Calabash being in default of its obligations in terms of this Agreement.
4. No beneficiary may be held liable by Calabash for any amount due in respect of the services provided in terms of the Rules of Pathfinder.
5. No co-payment or deductible shall be required for a beneficiary unless it is in terms of the Rules of Pathfinder.

This agreement shall commence on 1 January 2005 and was in effect till 31 December 2007 when the agreement was cancelled.

	2007 R	2008 R
Premiums paid	16,891,902	15,929,233
Net recoveries from risk transfer arrangements	-	-
Claims incurred in respect of related risk transfer arrangements	<u>26,083,321</u>	<u>15,348,486</u>
Recoveries received	<u>(26,083,321)</u>	<u>(15,348,486)</u>
Net expense on risk transfer arrangements	<u>16,891,902</u>	<u>15,929,233</u>

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	2007	2006
	R	R
10. ACQUISITION COSTS		
Brokers' fees	414,797	451,788
11. ADMINISTRATIVE EXPENSES		
Total trustees' remuneration and consideration expenses	4,400	24,600
Principal officer's fees	425,000	401,838
Administrator's fees	356,656	403,517
Depreciation	25,250	18,298
Audit fees		
- Audit services	88,864	57,000
Fidelity guarantee and professional indemnity insurance	8,088	43,694
Registrar's levies	-	13,844
Other expenses	3,898,484	2,695,636
	<u>4,806,742</u>	<u>3,658,427</u>

PATHFINDER MEDICAL SCHEME – ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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11. ADMINISTRATIVE EXPENSES (continued) (TRUSTEES' REMUNERATION)

Trustees' name								
2007	Fees for Meeting attendance	Holding of Office 2006	Fees for consultancy services	Allowances	Total remuneration	Travel and accommodation	Other disbursements and reimbursements	Total considerations
Mr. JM Wagener	-	-	-	-	-	-	-	-
Mr. J Motswe	-	-	-	-	-	-	-	-
Mr. T Jacobs	-	-	-	-	-	-	2,000	2,000
Ms. M Hendricks	-	-	-	-	-	-	-	-
Ms. V Mahlangu	-	-	-	-	-	-	1,600	1,600
Mr. J Prinsloo	-	-	-	-	-	-	(200)	(200)
Ms. C van der Spuy	-	-	-	-	-	-	200	200
Mr. K van Dyk	-	-	-	-	-	-	600	600
Mr. M Coetzee	-	-	-	-	-	-	200	200
TOTAL	-	-	-	-	-	-	4,400	4,400
2006								
Mr. JM Wagener	-	22,000	-	-	22,000	-	-	22,000
Mr. J Motswe	-	-	-	-	-	-	-	-
Mr. T Jacobs	-	-	-	-	-	-	1,400	1,400
Ms. M Hendricks	-	-	-	-	-	-	800	800
Ms. V Mahlangu	-	-	-	-	-	-	400	400
Mr. J Prinsloo	-	-	-	-	-	-	200	200
Ms. C van der Spuy	-	-	-	-	-	-	(200)	(200)
TOTAL	-	22,000	-	-	22,000	-	2,600	24,600

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	2007 R	2006 R
12. NET IMPAIRMENT GAINS		
Contributions that are collectable	113,903	295,011
Movement in provision	113,903	295,668
Written off	-	(657)
Advances from savings plan accounts that are not recoverable	-	-
	113,903	295,011
13. INVESTMENT INCOME		
Interest income from bank and call accounts	45,994	71,578
	45,994	71,578
14. OTHER OPERATING INCOME		
Sundry income	78,361	3,034
	78,361	3,034
15. SURPLUS / (DEFICIT) FROM OPERATIONS PER BENEFIT OPTION		

For management purposes the Scheme is organised into 4 benefit options – Lane Option, Terrace Option, Trail Option and Avenue Option. Principle features of the benefit option are as follows:

- Lane Option – Contributions starts at R649 per month, with contributions not linked to income. Unlimited cover in any hospital at medical aid rates. Chronic PMB covered subject to an essential medicine formulary.
- Terrace Option - Contributions starts at R1,404 per month, with contributions not linked to income. Unlimited cover in any hospital at Private rates being 300% of medical aid rates. Combined day to day limit starting at R10,000 per annum, this can be spent on any out-of-hospital healthcare expenses, and is payable at private rates being 300 % of medical aid rates. 62 Chronic conditions covered subject to medicine protocol.
- Avenue Option - Contributions starts at R947 per month for an individual. Contributions are not linked to income. Unlimited cover in any hospital at medical aid rates. Combined day to day limit starting at R5,000 per annum, this can be spent on any out-of-hospital healthcare expenses, and is payable at medical aid rates. 62 Chronic conditions covered subject to medicine protocol.
- Trail Option - Contributions are linked to income and start at R380 per month for an individual with income less than R5,500, R635 per month for an individual with income between R5,500 and R7 500 and R745 for an individual with income more than R7,500. Unlimited chronic medication subject to a list of preferred drugs adjudicated through a unique on-line real time system removing manual applications for chronic medicine. An extensive GP, Dental and Optical network. Pool benefits for day-day benefits starting at R2,500 per annum for a single member and R5,000 for a family. Access to Private Hospitals within a comprehensive DSP hospital network providing quality care with very high hospital limits for this level of product.

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**16. SURPLUS / (DEFICIT) FROM OPERATIONS PER
BENEFIT OPTION**

	2007				
	Total R	Lane R	Terrace R	Trail R	Avenue R
Net contribution income	22,831,384	669,223	2,609,448	10,529,609	9,023,104
Net expense on risk transfer arrangement	(16,761,630)	(797,657)	(1,762,105)	(8,081,946)	(6,119,922)
Risk transfer arrangement expenses	(16,761,630)	(797,657)	(1,762,105)	(8,081,946)	(6,119,922)
Gross healthcare result	6,069,754	(128,434)	847,343	2,447,663	2,903,182
Managed care management services	-	-	-	-	-
Acquisition costs	(414,797)	(17,953)	(20,384)	(270,804)	(105,656)
Administration expenses	(4,806,742)	(239,296)	(269,640)	(2,866,477)	(1,431,329)
Impairment (losses) / gains on trade and other receivables	113,903	187,486	11,766	54,263	(139,612)
	962,118	(198,197)	569,085	(635,355)	1,226,585
	2006				
	Total R	Lane R	Terrace R	Trail R	Avenue R
Net contribution income	19,311,911	2,376,418	1,732,661	9,147,154	6,055,678
Net expense on risk transfer arrangement	(15,950,341)	(1,987,312)	(1,457,637)	(7,419,407)	(5,085,985)
Risk transfer arrangement expenses	(15,950,341)	(1,987,312)	(1,457,637)	(7,419,407)	(5,085,985)
Gross healthcare result	3,361,570	389,106	275,024	1,727,747	969,693
Managed care management services	-	-	-	-	-
Acquisition costs	(451,787)	(38,405)	(16,667)	(303,127)	(93,588)
Administration expenses	(3,658,427)	(420,662)	(274,844)	(2,001,938)	(960,983)
Impairment (losses) / gains on trade and other receivables	295,010	285,427	41,948	17,291	(49,656)
	(453,634)	215,466	25,461	(560,027)	(134,534)

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	2007	2006
	R	R
17. COMMITMENTS		
Operating lease commitment		
The future minimum lease payments under a non-cancellable operating lease are as follows:		
Less than 1 year	153,340	223,163
	<u>153,340</u>	<u>223,163</u>
18. CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES		
Surplus / (Deficit) for the year	1,086,473	(379,023)
Adjustments for:		
- Depreciation	25,250	18,299
- Impairment gains	(113,903)	(295,668)
- Investment income	(45,994)	(71,578)
- Other realised gains	-	-
Cash flows from operations before working capital	<u>951,826</u>	<u>(727,970)</u>

19. GUARANTEE RECEIVED BY THE SCHEME FROM A THIRD PARTY

In terms of section 33(3) of the Medical Schemes Act, Investec Private Bank has provided guarantees for an amount of R5,000,000 (2006: R5,000,000) to the Registrar.

20. POST BALANCE SHEET EVENTS

The Scheme is in constant communication with the Council regarding the solvency and going concern issues it faces.

The Scheme has cancelled the capitation agreement with Calabash Health Solutions as of 31 December 2007.

The Scheme is currently in communication with another Scheme for a possible merger.

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21. RELATED PARTY TRANSACTIONS

The Scheme had the following material transactions with related parties during the year under review:

Full Circle Health a division of Triangular Health (Pty) Ltd

Administration fees paid for 2007 amounted to R356,656 (2006: R403,517) (refer to note 11). Administration fees were charged at market prices and in accordance with the provisions of the Medical Schemes Act 131 of 1998, as amended. Administration costs decreased as the capitation agreement entered into with Calabash resulted in Calabash being responsible for fulfilling of payment of claims payment processes and managed care services in managing the risk accepted by Calabash.

Calabash Health Solutions (Pty) Ltd

Capitation fees to the amount of R16,891,902 (2006: R15,929,233) (Refer note 9) were incurred during 2007. The balance outstanding on 31 December 2007 was R177,299 (2006: R1,478,874). For terms and conditions regarding the agreement refer to note 9.

Trustee and Principal Officer Remuneration

Employees of Full Circle Health and Calabash Health Solutions (Pty) Ltd are members of Pathfinder Medical Scheme. (Refer note 11)

Trustee contributions and claims

The following trustees were also members of the Scheme:

Trustee	Member number	Contributions for the year	Claims paid
Mr T Jacobs	110027591	R11,364	R124,608
Ms C van der Spuy	110029832	R11,364	R6,931
Mr J Prinsloo	110027504	R22,884	R35,500
Mr K van Dyk	110100942	R6,629	R29,798
Mr J Motswe	110101086	R10,482	R2,711
Ms V Mahlangu	110058742	R12,321	R2,696

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22. INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. These risks relate to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling, centralised management of risk transfer arrangements as well as the monitoring of emerging issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risk insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

Insurance events are, by nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The following table summarises the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred (before and after risk transfer arrangements), by age group and in relation to the type of risk covered/ benefits provided. Where appropriate prescribed minimum benefits (PMB) and non-PMB claims have been split:

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22. INSURANCE RISK MANAGEMENT (continued)

2007

Age grouping (in years)		General Practitioners	Specialists	Dentistry	Optometry	Medicines	Hospitals	Total
		R	R	R	R	R	R	R
< 24	Gross	862,615	1,167,265	259,516	75,018	466,213	3,368,614	6,199,241
< 24	Net	862,615	1,167,265	259,516	75,018	466,213	3,368,614	6,199,241
25-34	Gross	579,241	875,490	164,980	72,359	285,565	2,055,457	4,033,093
25-34	Net	579,241	875,490	164,980	72,359	285,565	2,055,457	4,033,093
35-49	Gross	647,530	1,368,771	179,889	126,607	622,288	2,220,638	5,165,724
35-49	Net	647,530	1,368,771	179,889	126,607	622,288	2,220,638	5,165,724
50-64	Gross	460,293	1,777,056	133,135	121,938	923,444	3,622,563	7,038,429
50-64	Net	460,293	1,770,056	133,135	121,938	923,444	3,622,563	7,031,429
>65	Gross	146,078	871,639	42,970	31,818	372,752	2,428,278	3,893,536
>65	Net	146,078	871,639	42,970	31,818	372,752	2,428,278	3,893,536
Total	Gross	2,695,758	6,060,222	780,490	427,740	2,670,262	13,695,551	26,330,023
Total	Net	2,695,758	6,053,222	780,490	427,740	2,670,262	13,695,551	26,323,023

2006

Age grouping (in years)		General Practitioners	Specialists	Dentistry	Optometry	Medicines	Hospitals	Total
		R	R	R	R	R	R	R
< 24	Gross	748,211	738,482	185,407	70,484	259,222	1,521,916	3,523,722
< 24	Net	748,211	738,482	185,407	70,484	259,222	1,521,916	3,523,722
25-34	Gross	643,295	684,562	138,468	65,534	213,804	1,397,233	3,142,897
25-34	Net	643,295	684,562	138,468	65,534	213,804	1,397,233	3,142,897
35-49	Gross	679,180	754,068	145,988	128,535	340,233	1,208,489	3,256,492
35-49	Net	679,180	754,068	145,988	128,535	340,233	1,208,489	3,256,492
50-64	Gross	350,499	1,119,381	59,339	96,532	478,649	1,543,882	3,648,281
50-64	Net	350,499	1,119,381	59,339	96,532	478,649	1,543,882	3,648,281
>65	Gross	108,593	532,432	34,462	13,416	282,192	1,088,867	2,059,963
>65	Net	108,593	532,432	34,462	13,416	282,192	1,088,867	2,059,963
Total	Gross	2,529,778	3,828,925	563,663	374,502	1,574,100	6,760,386	15,631,354
Total	Net	2,529,778	3,828,925	563,663	374,502	1,574,100	6,760,386	15,631,354

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22. INSURANCE RISK MANAGEMENT (continued)

In-hospital benefits cover all cost incurred by members, whilst they are in hospital to receive pre-authorised treatment for certain medical conditions.

Chronic benefits cover the cost of certain prescribed medicines consumed by members for chronic conditions/ diseases, such as high blood pressure, cholesterol and asthma.

Day-to-day benefits cover the cost (up to 100% of the National Health Reference Price List tariff) of all out of hospital medical attention, such as visits to general practitioners and dentist as well as prescribed non-chronic medicines.

The Scheme's strategy seeks diversity to ensure a balance portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

The strategy is set out in the annual financial business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof.

All contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract at renewal. Management information including contribution income and claims ratios by option, target market and demographic split is reviewed monthly.

Risk transfer arrangements

The Scheme entered into a capitation agreement with Calabash Health Solutions (Pty) Ltd. This agreement was cancelled with effect 31 December 2007.

Risk in terms of risk transfer arrangements

The Scheme cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks. The capitation agreement transfers the claims risk and therefore minimises the effect of losses. According to the terms of the capitation agreement, the suppliers provide certain minimum benefits to all Scheme members, as and when required by the members. The Scheme does, however, remain liable to its members with respect to the claims incurred if Calabash fails to meet the obligations it assumes.

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23. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

The Scheme's activities expose it to a variety of financial risks, including the effects of changes in equity market prices, foreign currency exchange rates and interest rates. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the Scheme holds to meet its obligations to its members.

Risk management and investment decisions are made under the guidance and policies approved by the Board of Trustees. Management identifies, evaluates and economically hedges (where appropriate) financial risks associated with the Scheme's investment portfolio.

Currency risk

The Scheme operates in South Africa and therefore its cash flows are denominated in South African rand.

The following table illustrates the concentration of currency risk to which the Scheme's investments are currently exposed:

As at 31 December 2007

Cash and cash equivalents	<u>R1,241,331</u>
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As at 31 December 2006

Cash and cash equivalents	<u>R2,548,528</u>
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23. FINANCIAL RISK MANAGEMENT (continued)

Cash and cash equivalents

Interest rate risk

The Scheme is exposed to interest rate risk, as it places excess funds at floating interest rates.

The table below summarises the Scheme's exposure to interest rate risk. Included in the table are the Scheme's investments at carrying amounts, categorised by the earlier of contractual reprising or maturity dates.

	Up to 1 month R	Non-Interest bearing R	Total R
2007			
Cash and cash Equivalents	1,240,480	851	1,241,331
Total	<u>1,240,480</u>	<u>851</u>	<u>1,241,331</u>
2006			
Cash and cash Equivalents	2,547,277	1,251	2,548,528
Total	<u>2,547,277</u>	<u>1,251</u>	<u>2,548,528</u>

The following table below summarises the effective interest rate by major currencies for financial instruments:

	2007 R	2006 R
As at 31 December	7.0%	6.5%

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23. FINANCIAL RISK MANAGEMENT (Continued)

Market risk sensitivity analysis

IFRS 7 sensitivity analysis the Scheme has used a sensitivity analysis technique that measures the estimated change to the income statement and equity of either an instantaneous increase of 1% (100 basis points) in market interest rates, from the rates applicable, for each class of financial instrument with all other variables remaining constant. The sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments.
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

Under these assumptions, a 1% increase or decrease in market interest rates for all currencies in which the Scheme had financial investments would increase or decrease profit and loss or funds and reserves by approximately R12,413 (2006: R25,485).

Fair value sensitivity analysis

The IFRS 7 sensitivity has been prepared and expresses information about potential changes in earnings and equity based on accounting policies applied by following the adaptation of IAS 32 and IAS 39 from July 2005. It is not possible to provide information on the same basis for dates prior to adoption of IAS 32 and IAS 39. This fair value sensitivity analysis expresses information about changes in fair value of financial instruments for both 2007 and 2006 on a comparable basis.

For financial instruments held the Scheme has used a sensitivity analysis technique that measures the change in the fair value of the Scheme's financial instruments from hypothetical changes in the market rates.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from those projected results due to financial markets which may cause fluctuations in interest rates to vary from the hypothetical amounts disclosed in the following table, which therefore should not be considered a projection of likely future events and losses.

The estimate changes in fair value for interest rate movements are based on an instantaneous decrease of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective, with all other variables remaining constant.

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23. FINANCIAL RISK MANAGEMENT (Continued)

Sensitivity analysis table	Estimated fair value	Fair value changes arising from 1% change in the interest rates
	R	R
at 31 December 2007		
Cash and cash equivalents	1,241,331	12,413
at 31 December 2006		
Cash and cash equivalents	2,548,528	25,485

Credit risk

The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution. The Scheme's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience is evidence of a reduction in the recoverability of the cash flows. For accounts receivable the Scheme has implemented the following to limit the credit risk:

- Members are suspended after 7 days if no contributions were received;
- All collections of contributions is aged for a maximum of 90 days; and
- After 90 days the member is terminated.

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23. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk

The Scheme manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised facilities are maintained.

The table below analyses the assets and liabilities of the Scheme into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date

	<i>Up to 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Total</i>
	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
2007					
ASSETS					
Non-Current assets			9,453	46,653	56,106
Property, plant and equipment	-	-	9,453	46,653	56,106
Current assets	1,949,336	338,375	-	-	2,287,711
Accounts receivable	708,005	338,375	-	-	1,046,380
Cash and Cash Equivalents	1,241,331	-	-	-	1,241,331
Total assets	1,949,336	338,375	9,453	46,653	2,343,817
Current liabilities	2,443,271	-	712,719	-	3,155,990
Accounts payable	2,443,271	-	712,719	-	3,155,990
Total liabilities	2,443,271	-	712,719	-	3,155,990

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23. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk (continued)

	<i>Up to 3 months R</i>	<i>3-12 months R</i>	<i>1-5 years R</i>	<i>Over 5 years R</i>	<i>Total R</i>
2006					
ASSETS					
Non-Current assets			1,435	70,468	71,903
Property, plant and equipment	-	-	1,435	70,468	71,903
Current assets	3,247,228	401,850	-	-	3,649,077
Accounts receivable	698,700	401,850	-	-	1,100,549
Cash and Cash Equivalents	2,548,528	-	-	-	2,548,528
Total assets	3,247,228	401,850	1,435	70,468	3,720,980
Current liabilities	3,992,206	1,627,420	-	-	5,619,626
Accounts payable	3,992,206	1,627,420	-	-	5,619,626
Total liabilities	3,992,206	1,627,420	-	-	5,619,626

Capital Adequacy Risk

The risk that there are insufficient reserves to provide for adverse variations on actual and future experience.

The solvency ratio was (3.59%) at 31 December 2007 and (9.39%) at 31 December 2006.

24. FIDELITY COVER

The Scheme participates in fidelity guarantee and Trustees professional indemnity insurance arranged by Investec amounting to R5,000,000 (2005: R 5,000,000).

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25. GOING CONCERN

In terms of Section 29 of the Regulations of the Medical Schemes Act, the Scheme is required to meet a solvency ratio of least 25% during its fourth year of operations, which was not met.

Paragraph 30 of the Medical Schemes Act requires its aggregate value of assets to exceed its aggregate value of liabilities; this was not met during 2007.

Whilst Investec Bank will continue to support the fund in terms of the R 5 million guarantees lodged with the Council for Medical Schemes, the trustees are of the view that there is sufficient reason for the Scheme to now not need further funding from the sponsor. This is evidenced by the results of the first quarter of 2008 which reflected a satisfactory surplus.

Pathfinder finds itself in a position of continuous growth in membership, risk sharing on its loss making network option, office expenditure in line with the size of the Scheme and a possible merger with another Medical scheme. The Board of Trustees and the management of Pathfinder Medical Scheme are extremely positive and passionate about the future of the "new" Pathfinder.

Pathfinder executive and management understands the current predicament that we are under and that similar suggestions and motivations from the past did not realise, but we believe that the recent culture and focus change has already started reaping benefits. Enormous capital was ploughed into the Scheme as a specific strategy to assist with the roll out of Government's focus on uncovered members.

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26. NON COMPLIANCE MATTERS

Nature and cause	Possible impact	Corrective action
<p>Paragraph 29(2) of the Medical Scheme Regulations states:</p> <p>“... a medical scheme must at any time maintain accumulated funds expressed as a percentage of gross annual contributions for the accounting period under review which may not be less than 25%.”</p> <p>Pathfinder Medical Scheme did not comply with the regulation as the Scheme had a negative solvency ratio of (3.59%) as at 31 December 2007. The ratio improved from the previous financial year where the Scheme had a negative solvency ratio of (9.39%)</p>	<p>Non-compliance with the Medical Schemes Regulations. These negative ratios may be an indication that the Scheme may not continue as a going concern.</p>	<p>Management and Board of Trustees are aware of this fact; Pathfinder management is currently in communication with the council for the medical scheme to rectify this problem.</p>
<p>Paragraph 30 of the Medical Scheme Regulations states:</p> <p>“A medical scheme must have assets of the kinds and categories specified in column 2 of Annexure B, the aggregate fair value of which, on any day, is not less than –</p> <p>(a).the aggregate of the aggregate fair value on that day of its liabilities and</p> <p>(b).the minimum accumulated funds to be maintained in terms of the Regulation 29; excluding accounts receivable and intangible assets.</p> <p>Pathfinder Medical Scheme’s assets were less than the aggregate fair value of its liabilities and the minimum accumulated funds to be maintained in terms of Regulation 29 at 31 December 2007 with an amount of R7,576,107 (R7,804,748 – 2006).</p>	<p>Non-compliance with the Medical Schemes Regulations.</p>	<p>Management and the Board of Trustees are aware of this fact, Pathfinder Board of Trustees is currently in communication with Council of Medical Schemes to rectify this problem</p>

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26. NON COMPLIANCE MATTERS

Nature and cause	Possible impact	Corrective action
<p>Paragraph 36(10) of the Medical Schemes Act states:</p> <p>“The board of trustees of a medical scheme shall, subject to the provisions of sections (13), appoint an audit committee of at least five members of which at least two shall be members of the board of trustees.”</p> <p>Pathfinder Medical Scheme did have an audit committee during the 2007 financial year but only three members were appointed and not the required five members.</p>	<p>Non-compliance with the Medical Schemes act.</p>	<p>Due to resignations of Pathfinder personnel which was part of the audit committee, vacancies for 2 non board members has not been filled as yet. The Scheme will correct this in the near future.</p>
<p>Section 33(2)(b) of the Medical schemes act states; “...shall be self supporting in terms of membership and financial performance”</p> <p>It was noted that the operations of the following options resulted in losses for the year under review:</p> <ul style="list-style-type: none"> • Trial option – R635,355 • Lane option – R198,197 	<p>Non-compliance with the Medical Schemes act.</p>	<p>Management and the Board of Trustees are aware of this fact, Pathfinder’s Board of Trustees is currently in communication with the Council of Medical Schemes to rectify this problem.</p>
<p>The useful lives of assets are not assessed annually as prescribed by paragraph 51 of IAS 16 (Property, Plant and Equipment).</p>	<p>The balance of property plant and equipment could be understated, and thereby also having an effect on the solvency ratio of the company.</p>	<p>It is proposed that this activity will form part of the duties of the audit committee.</p>