Discovery

Discovery Annual Report 2007

Contents

Group highlights

Diluted HEPS +33% to 168.4 cents per share
New business annualised premium income +15% to R5.2 billion
Total dividend of 37 cents per share
Operating profit +20% to R1.5 billion
Net profit after tax excluding BEE +34% to R1.1 billion

A step-change in Discovery's prospects

It was a successful and fundamental year for Discovery, with significant innovation in each business. Additional businesses have been constructed as well, creating a step-change for Discovery and its prospects.

Group at a glance

Discovery

Operates in insurance markets in South Africa, the US and the UK and strives to develop financial services products that clients need and want.

Discovery Health

100%

South Africa's leading private healthcare funder
Established in 1992
Covers over two million lives

Discovery Vitality

100%

Science-based wellness programme, differentiator and value creator
Established in 1997
Covers 1,3 million lives

Discovery Life

100%

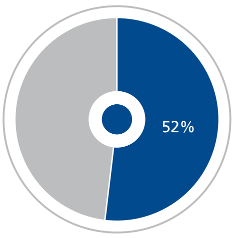
South Africa's fastest growing major life assurer
Established in 2000
Covers 545 000 lives

Discovery Health and Discovery Vitality

New business annualised premium income

	R million
2007	**2 677**
2006	2 612
2005	2 869
2004	2 184
2003	2 346
2002	1 869
2001	2 071

Contribution to group

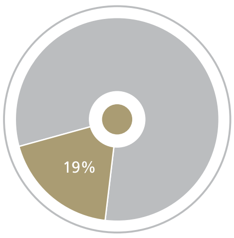


Discovery Life

New business annualised premium income

	R million
2007	**971**
2006	789
2005	629
2004	535
2003	423
2002	264
2001	94

Contribution to group



New business annualised premium income ("new business API") measures the annualised premiums generated by clients who have purchased Discovery products over the past financial year.

Discovery's core purpose is to make people healthier and enhance and protect their lives

The Discovery ethos of consumer-engaged financial services flows through all our businesses. It creates consumer demand for our products, ensuring strong organic growth and driving profitability for shareholders.

Destiny Health

98%

US-based health insurance company innovating in consumer-directed care
Established in 2000
Covers 49 000 lives

PRU PROTECTION
It pays to be healthy

50%

UK-based joint venture with Prudential plc, recently renamed and expanded to include:

PRU HEALTH

UK-based health insurer leading change in the private medical insurance market
Established in 2004
Covers 130 000 lives

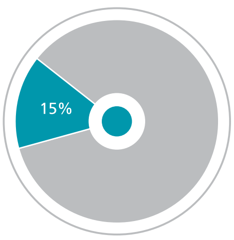
PRU PROTECT
It pays to be healthy

UK-based life assurer introducing pure-risk products in the protection market
Established in 2007

Destiny Health
New business annualised premium income

R million	
2007	**768**
2006	796
2005	809
2004	494
2003	379
2002	206
2001	12

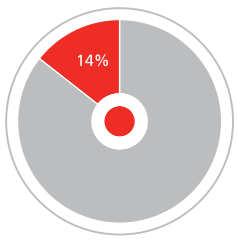
Contribution to group



PruHealth
New business annualised premium income

R million	
2007	**743**
2006	282
2005	35
2004	0
2003	0
2002	0
2001	0

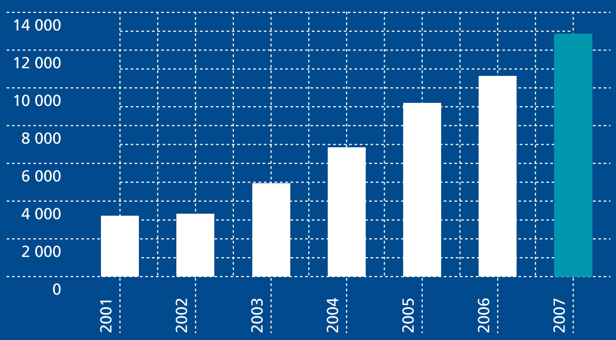
Contribution to group



Group financial highlights

The results

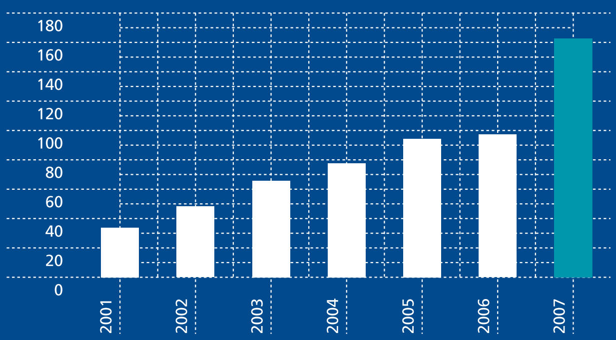
Embedded value
(R million)



R million	
2007	**12 826**
2006	10 587
2005	9 173
2004	6 832
2003	4 928
2002	3 321
2001	3 212

Embedded value is an actuarial calculation of the current value of Discovery as it exists today. An embedded value calculation assumes no growth in the current business. The continual growth of the embedded value shows continuous shareholder value created by Discovery.

Diluted headline earnings per share before abnormal items
(Cents)

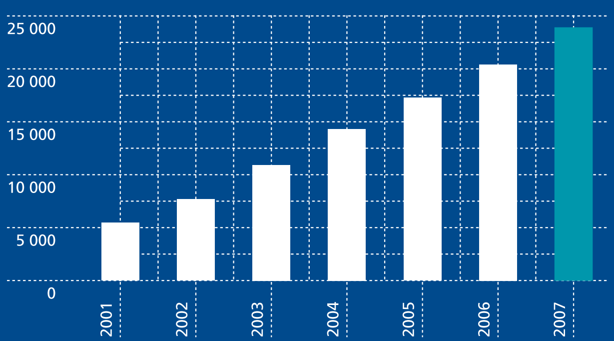


Cents	
2007	**162,2**
2006	97,0
2005	94,2
2004	77,4
2003	65,7
2002	48,1
2001	33,6

Diluted headline earnings per share before abnormal items measures the sustainable earnings attributable to ordinary shareholders.

Value creators

Gross inflows under management
(R million)

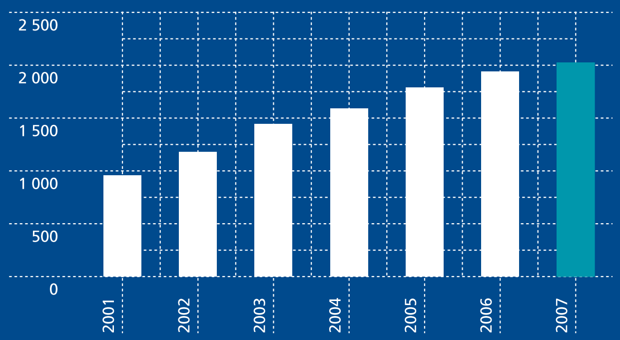


R million	
2007	**23 911**
2006	20 427
2005	17 295
2004	14 345
2003	10 946
2002	7 739
2001	5 494

Gross inflows under management measures the total funds managed and received by Discovery and is an accurate measure of the continual growth of Discovery.

Value creators (continued)

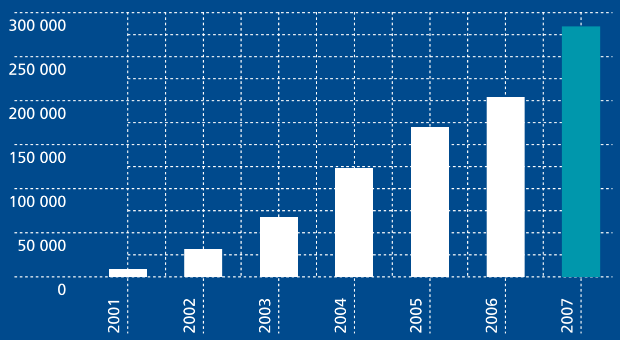
Discovery Health clients
(Thousand clients)



Clients	
2007	**2 025 650**
2006	1 939 339
2005	1 788 566
2004	1 593 975
2003	1 446 371
2002	1 180 121
2001	960 494

This is the number of lives administered by Discovery Health at 30 June. This large and diverse membership base reduces the reliance on any one member or employer who purchases Discovery products.

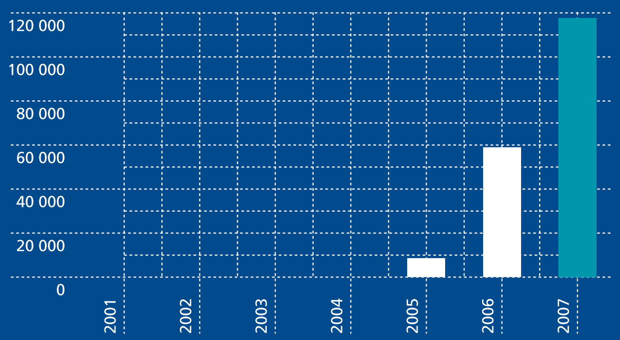
Discovery Life individual policyholders
(Clients)



Clients	
2007	**284 162**
2006	204 891
2005	170 642
2004	123 977
2003	67 998
2002	31 918
2001	9 331

This is the number of principal lives on risk at 30 June. As premiums collected from individual policyholders are recurring, each policyholder adds to Discovery Life's value.

PruHealth clients
(Clients)



Clients	
2007	**117 535**
2006	58 912
2005	8 426
2004	0
2003	0
2002	0
2001	0

This is the number of lives administered by PruHealth at 30 June. Each life adds to PruHealth's value.

Chief executive’s report

NEW FOUNDATIONS FOR FUTURE GROWTH

“The period featured significant innovation within our existing businesses, as well as the construction of new businesses in South Africa and in the United Kingdom, which will roll out during the year ahead.”

Adrian Gore Chief Executive Officer, Discovery

Financial highlights

	30 June 2007	30 June 2006	% change
Group operating profit before BEE	**R1 510 million**	R1 263 million	20
Net profit after tax before BEE	**R1 107 million**	R827 million	34
Diluted headline earnings per share (before BEE)	**168.4 cents**	126.4 cents	33
DHMS solvency	**R3 886 million**	R3 260 million	19

This year's performance

The 2006/2007 financial year was a successful period for Discovery, with the group's operating performance delivering pleasing results. Our profits and new business figures grew strongly, driven by a continued focus in its underlying businesses on product leadership and operational efficiency.

The period featured significant innovation within our existing businesses, as well as the construction of new businesses in South Africa and in the United Kingdom, which will roll out during the year ahead. The year was therefore characterised by a parallel focus on building on existing foundations and laying new foundations for future growth.

Discovery's methodology

Discovery's core purpose is to make people healthier and enhance and protect their lives. The manifestation of this core purpose is an organisation that:

- Seeks to grow organically by offering consumers products that they desire, and in which they can become fully engaged;
- Seeks to deliver structural change in its chosen markets to the benefit of the consumer;
- Follows a values-centric approach, with no compromise.

An ethos of consumer engagement

Consumer engagement forms the basis of Discovery's ethos, and is evident in the product construct of both our health and life assurance businesses.

In healthcare, consumer engagement is focused on two aspects. First, it aims to improve consumers' health by incentivising participation in wellness activities that are scientifically proven to benefit health. Second, once in the healthcare system, it provides consumers with the information and incentives they need to empower them to make appropriate and prudent decisions.

In life assurance, consumerism is rooted in the desire to provide members with the incentives they need to manage their underlying risks and, in the process, to influence and improve their pricing on an ongoing basis. In effect, consumerism allows Discovery to compete in a commoditised market in a different way, and to provide price points that are lower on a sustainable basis.

A philosophy of market disruption

Discovery's methodology is to enter markets only where we believe our ethos of consumer-engaged financial services will bring about positive and lasting change to the benefit of consumers. Throughout our fifteen year history, the effect of Discovery's expansion into new markets has been to create disruption through radical product innovation, rapidly followed by mainstream adoption of its technologies.

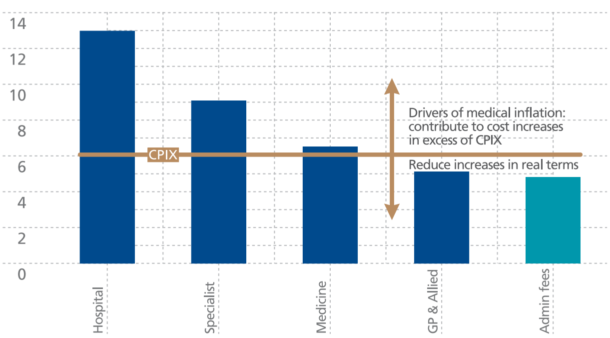
Value-centric, with no compromise

Central to Discovery's methodology is the ability to combine and balance the seemingly mutually exclusive competencies of innovation, financial prudence and consumer-centricity to create health and life assurance products that deliver value and efficiency. This stimulates consumer demand for our products, which in turn leads to rapid organic growth and profitability for shareholders.

Chief executive's report (continued)

Figure 1 – Discovery Health Medical Scheme costs per member per month

5-year compound annual inflation (2001 – 2006)
(%)



An outline of the key issues affecting our chosen industries

The health insurance industry

Within the South African market, the country's private healthcare sector delivers world-class care, but only to a small part of the population. The overburdened public health sector is unable to meet the remaining population's demand for care and is increasingly reliant on the private healthcare sector to grow its reach and ease the burden.

For the past number of years, the cost of healthcare – and the rate at which it inflates – have been the fundamental issues facing the private healthcare industry. In this context, the challenge of healthcare funders, like Discovery Health, is to balance the expectations of all stakeholders – for example, the providers of care who demand better remuneration and members who require lower contributions and the most comprehensive benefits.

Discovery Health pays around one third of the costs of the entire South African private healthcare market, and we therefore have access to the data required to calculate the drivers of costs in the sector. (See Figure 1)

It is clear that the primary drivers of medical inflation in South Africa are the increasing costs of hospitalisation and medical specialists. However, while both are escalating at rates significantly above consumer price inflation, we believe the underlying causes are different and therefore each needs to be addressed separately.

In the case of medical specialists, given the short supply of their skills relative to the extensive demand for their services, increased fees are inevitable and must be embraced. Discovery Health's market power enables it to influence meaningfully the overall remuneration levels received by the country's doctors, helping to retain their valuable skills.

Over the past year, direct reimbursement arrangements, like Discovery Health's Premier Rate for specialists, has brought about a significant increase in remuneration for participating doctors. In addition, Discovery Health's GP Network saw the introduction of US-style networks to increase GP remuneration and ensure members are protected against co-payments at point of service. Despite the debate these structures have raised in the provider environment, almost 75% of SA's doctors are now sharing in one of these arrangements and Discovery Health continues to engage with non-participating doctors.

In the case of private hospitals, the rate of inflation in costs is unacceptable and must be challenged and reduced. We do not believe that hospitals should be less profitable; in fact, our country needs well-capitalised and successful private hospitals. But there is a need for collaboration between the hospital groups and other industry stakeholders to rein in inflation. Discovery Health's size and scale places it in a position to negotiate more effectively with the hospital groups to the benefit of the consumer.

The life insurance industry

The life insurance industry remains largely commoditised, with competition based on price rather than innovation. Yet the industry is not without innovation. Rather, innovation creates a step-change as the entire industry adopts the new methods and structures introduced, which is then rapidly followed again by commoditisation.

Discovery Life's approach has been to break the cycle of commoditisation by innovating continuously. For example, with Discovery Life's entry into the market in 2000, we introduced a pure-risk approach to life insurance in contrast to the hybrid life insurance products – combining risk protection with an element of investment – that were the market norm at the time.

Both insurers and consumers have embraced the new-generation pure-risk products, creating a fundamental change in the market. Discovery Life will continue to innovate in order to maintain its competitive advantage and consistently offer consumers the best value.

As the market has become more transparent, it has also become more efficient with consumers clearly discerning the value proposition offered by the new-generation products. One of the consequences has been an increase in the switching of risk policies between various life offices. While we support industry calls to ensure that no perverse incentives exist within the industry that encourage reckless switching, we believe that, as long as consumers are switching to a product that offers superior benefits or better value, the practice holds no threat.

The investment industry

As indicated previously, the health and life assurance industries made attractive targets for entry for Discovery given the structural inefficiencies that existed in those markets. By contrast, the investment industry is already largely efficient, with the impact of consumerism having already significantly changed the structural dynamics of the market. Consumerism has resulted in greater choice and lower prices, as well as enhanced innovation and transparency – all to the benefit of the consumer.

From a structural perspective, the consequence of consumerism has been a forced convergence of industries; first, insurance companies have evolved from product solution houses, to effectively becoming conduits for asset managers. Conversely, the asset managers have moved from wholesale, third-party distribution platforms to consumer-centric models.

Given these moves in the industry, Discovery is set to launch Discovery Invest in the last quarter of 2007. Discovery Invest's challenge is to harness the power of the industry dynamics while at the same time adding value to the consumer in different ways. Uniquely, Discovery is the only large financial services player not to possess a legacy in investments. This clean slate enables us to introduce a full suite of products and investment vehicles as well as a comprehensive range of fund choices to meet investors' investment goals and objectives.

Discovery Invest has leveraged Discovery's existing research and development capability and the expertise of leading global and local asset managers – Investec Asset Managers and Deutsche Bank – to develop a comprehensive investment product range that offers investors a unique choice of performance guarantees. These products address the gaps that currently exist in the market to offer investors greater protection against poor investment choices.

The fundamental issues in the market are efficiency and fees. Using the power of integration across the Discovery range of products, investors who integrate their investment with their Discovery LIFE PLAN and Vitality membership can benefit from lower fees – and in some cases, pay no fees at all.

The year under review

Discovery Health

With over two million lives under management and a market share of around 30%, Discovery Health is South Africa's largest manager of private healthcare. Given its scale, it has an important role to play in building a stable private healthcare system and reducing the overall cost of care.

Chief executive's report (continued)

As outlined in the previous section, however, the private healthcare sector is fraught with complexity and Discovery's challenge is to balance and align the competing needs of different stakeholder groups.

Given these challenges, Discovery Health's consumer-engaged model is more relevant than ever. It employs tools like the Vitality wellness programme and Medical Savings Account to empower consumers to manage costs at the micro level. It also leverages Discovery Health's robust scale to negotiate directly with the providers of care on consumers' behalf at a macro level.

As outlined in Neville Koopowitz's report, significant strides have been made in the following areas:

1. Controlling costs and inflation on members' behalf and eradicating gaps in cover
2. Building reserves to ensure sustainable access to care
3. Building relationships with healthcare professionals
4. Enhancing efficiencies to reflect the benefits of Discovery Health's scale
5. Working closely with pharmaceutical companies, the Board of Healthcare Funders and hospital groups to bring about structural change
6. Improving operational efficiencies to reduce administration fees.

In the year ahead, Discovery Health will continue to apply its consumer-driven model and scale to improve remuneration for healthcare professionals and reduce costs for medical scheme members. Working with all stakeholder groups, its goal is a better, more sustainable healthcare system based on lower costs and removing perverse incentives.

Discovery Life

Discovery Life's success in the period flowed from two distinct but related strategic advantages. The first is its continued position of leadership in the risk protection market, which resulted in strong new business growth. The second was its positive risk experience, which produced significant underwriting profits.

These factors prove the efficiency and uniqueness of the Discovery Life product model, which accurately predicts and manages risks by actively engaging policyholders in looking after and improving their health.

1. Discovery Life's product leadership resulted in rapid growth within the independent financial adviser risk market. Discovery Life now holds an approximate 40% share of this market and 75% of brokers in this market increased the volume of business they wrote with us year-on-year. Discovery Life was voted risk assurer of the year by independent financial advisers in the 2007 SAFSIA Awards.
2. Discovery Life's strategy of integration with the other Discovery offerings plays an important role in encouraging and rewarding the right behaviour. The growth in Discovery Life's embedded value, and the positive experience within it, reflect the quality of the business written by Discovery Life.

Our strategy during the period also focused significantly on building the company's distribution capacity with the introduction of a high-quality, tied agency force. We have recruited reputable agents with significantly above-average new business production. While still in its infancy with 100 agents as at September 2007, the channel is delivering positive results, accounting for almost 10% of current overall new business production.

In the year ahead, Discovery Life will maintain its focus on building its distribution capability and continuing product innovation in its risk business.

PruHealth

At an increase of 163% in new business premium income in the past year and with over 130 000 lives (as at September 2007) on its books, PruHealth's performance since inception in 2004 has been exceptional.

Over the past year, PruHealth has achieved strong growth and must now turn its attention to achieving profitability. In this regard, PruHealth has applied particular focus to pricing, underwriting and managed care in order to maximise the quality of business.

Another key area of investment has been to build a distribution franchise model that enables efficient service delivery to the individual and corporate intermediary markets, with the creation of 10 independent franchises across the market. This model will not only support PruHealth's distribution of its private medical insurance products, but also provide the footprint for the future distribution of PruProtect's protection products.

Strategically, PruHealth's product leadership in the UK private medical insurance market continues, with the introduction of exciting initiatives to secure its continued competitive advantage. It has just recently announced enhancements to the Vitality offering, which will see Vitality members earning points for healthy choices at Sainsbury's, a leading UK supermarket chain. It has also significantly restructured its contracts with some of the UK's top gym chains, broadening its footprint and securing long-term exclusivity.

Given the market's continued receptiveness to the product offering and the initiatives outlined above, we are positive about the future growth prospects of our UK operations.

Destiny Health

Destiny Health's performance over the period was disappointing and Discovery has made it clear that the last 24 months were particularly difficult for Destiny. A new management team was put in place to address these difficulties and move the company on to a path of growth and profitability. As part of the process, Discovery established a number of strategic criteria for Destiny's progress to ensure the appropriate focus and rigour.

Considerable progress was made in relation to many of the key operational, product and market strategies. These included: restructuring the partnerships with Tufts and Guardian; the announcement of a partnership with one of the world's largest insurers AEGON; selling Vitality as a stand-alone, non-risk product to large companies; and expansion into new markets with more favourable pricing and a more favourable competitive landscape.

However, from a financial perspective, the performance fell short of the criteria. From a financial perspective, the Board had set two criteria:

1. Operating losses cannot exceed 5% of the Group's overall operating profit – which was disclosed publicly
2. Each six-month period must be better than the last.

At the interim stage, Destiny's financial performance was in line with budget and these measures and this favourable performance continued from January through to April of this year. Unfortunately, the financial performance in May and June was disappointing, resulting in an operating loss of R102 million over the period (5.9% of Discovery's operating profit). In effect, therefore, the Board's two conditions were breached.

During the period under review and following Discovery's results announcement, intensive work was done to evaluate the strategy going forward, taking into account the unique assets of the Discovery Group and how they have been best positioned in the US. At the time of writing, a preferred alternative had been identified and discussions are ongoing.

Discovery Vitality

While Vitality is profitable in its own right – and performed well financially during the period – its greatest contribution to the group's success is its role as differentiator and value creator. Vitality makes Discovery's core purpose of making people healthier tangible, and underpins each of our businesses. While loyalty programmes tied to credit card offerings continue to multiply in local and international consumer markets, Vitality remains unique in its science-based wellness focus.

Both Vitality and the DiscoveryCard provide platforms for integration and value-creation across the various Discovery lines, driving both customer loyalty and better risk experience. In particular, the Discovery Life Card Integrator was launched during the period, bringing together the LIFE PLAN, Vitality and the DiscoveryCard. The results have exceeded expectation with 17% of sales of the LIFE PLAN utilising the Card Integrator.

Chief executive's report (continued)

In the period ahead, Discovery will focus intensely on understanding those behaviours that make people healthier, and develop ways to include these in Discovery's businesses. Initiatives planned for 2008 include the personalisation of Vitality – in other words, helping individuals identify their most important health risks and equipping them to address them – and enhanced rewards, such as the introduction of international travel discounts with British Airways.

New initiatives

Discovery Invest

As outlined in the industry overview given earlier in this report, Discovery is set to launch Discovery Invest in the last quarter of 2007.

PruProtection

PruProtection is the expanded consumer-engaged offering announced by Discovery and Prudential plc in March 2007, which now spans both the health assurance and protection markets in the UK. The new entity, PruProtection, houses the joint venture and is set to build on the strong foundation created by the partners' ongoing collaboration on PruHealth. The 50/50 joint venture houses PruHealth and PruProtect.

The expansion and consolidation of Discovery's partnership with the Prudential positions Discovery to capitalise on the prospects presented by the UK protection market. This market is highly efficient, but competes on price, not product design. PruProtect's product construct is based on integration with Vitality, allowing it to compete on price – with sustainable lower price points – as well as offering a highly-differentiated product.

Transformation within our organisation and beyond

Discovery was founded in 1992, making our organisation just two years older than democracy in South Africa. As our company has evolved and expanded, we have also seen our society and the economy grow and transform. Discovery is deeply committed to South Africa and to the process of transformation and upliftment taking place in our country. Our BEE transaction, announced in 2005, has contributed to the empowerment of previously disadvantaged individuals, both at Board and employee level, and through WDB – our major empowerment partner, within the broader community too. However, we believe there is still much to be done within Discovery to ensure that our company's employee profile reflects our country's rich diversity – especially at senior management level.

Beyond our organisation, we are committed to the transformation of the broader community through our corporate social investment initiatives, in which we invest close on 2% of after-tax profits. Our CSI approach includes support for healthcare delivery and infrastructure through the Discovery Fund, while we invest in medical education through the Discovery Foundation. We also aim to bring about social transformation in wellness through our partnership with the Laureus Sport for Good Foundation. These initiatives are supported through an active Employee Volunteer Programme.

(More information is available in Discovery's online sustainability report at www.discovery.co.za)

Fairness and consumerism

A consumer-centric approach is central to Discovery's strategy, and ties in with the world-wide trend to consumer empowerment. This ethos of consumer-engagement holds Discovery to a higher standard of care in its interactions with its clients. Fairness is therefore an integral part of our approach.

Discovery therefore recently launched its Fairness Charter encouraging all employees to commit themselves to fairness. Our clients can hold us to our commitment, embodied in the principles below:

1. We draw on the best independent advice to ensure that we carefully balance the needs of the individual client with those of all our clients as a whole.
2. We structure and price our products to be both sustainable and competitive. Even though our products are sophisticated, we make sure that they are easy to use.
3. We communicate clearly, simply and transparently.
4. We protect our clients' information and keep it confidential.
5. We take our clients' questions and complaints seriously. We address them quickly and learn from them.
6. We respect our clients' rights to disagree with us. We will facilitate escalation to independent arbitrators, if a client so wishes.
7. Above all, we respect and value our clients.

During the past year, we have adopted a number of voluntary initiatives to enhance corporate governance and fair treatment of our clients which includes, amongst others, an Ethics and Advisory Board that advises on moral issues. Importantly, the Ethics and Advisory Board allows us to elevate complex moral and ethical issues to an external panel of independent experts and thought leaders in the arena, to ensure that our decisions are fair – not only to individual clients or employees, but to the Discovery community as a whole.

Thank you to Discovery's exceptional people

It has been a challenging and busy year for Discovery, but also a highly successful one. We never underestimate the power of our people, and our growth and success is a clear indication of their quality. I am grateful to them for their effort and commitment during the period under review.

"Beyond our organisation, we are committed to the transformation of the broader community through our corporate social investment initiatives, in which we invest close on 2% of after-tax profits."

Discovery Health

OUR GOAL IS TO ENSURE A VIABLE PRIVATE HEALTHCARE SYSTEM FOR SOUTH AFRICA

"Discovery Health remained the dominant player in the medical scheme management market in 2007, with strong membership growth and the lowest lapse rates in the industry."

Neville Koopowitz Chief Executive Officer, Discovery Health

Financial highlights

	30 June 2007	30 June 2006	% change
New business	**R2 577 million**	R2 505 million	3
Operating profit	**R736 million**	R655 million	12
Membership	**2 025 650**	1 939 339	4
DHMS solvency	**R3 886 million**	R3 260 million	19

This year's performance

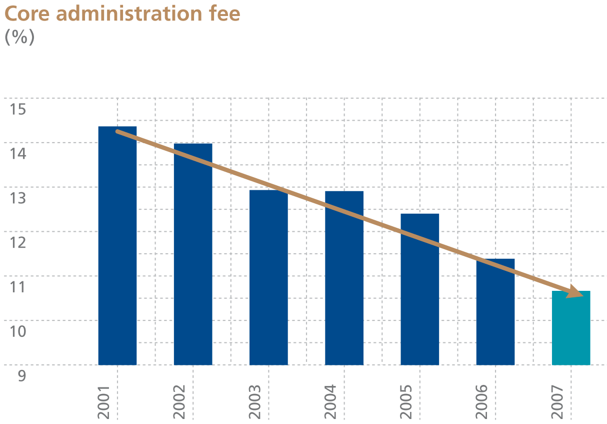
Discovery Health delivered strong financial growth for the Group

Discovery Health remained the dominant player in the medical scheme management market in 2007, with strong membership growth and the lowest lapse rates in the industry. The company continued to deliver strong financial growth for the Group with operating profit growing by 12% to R736 million. The number of lives under management grew to 2 025 650 in total. Discovery Health continued to grow profitability for the Group, ensuring that members of the Discovery Health Medical Scheme receive quality healthcare on a sustainable basis.

The Discovery Health Medical Scheme is the strongest open medical scheme in South Africa

The Discovery Health Medical Scheme is the strongest open medical scheme in South Africa, as reflected by the scheme's AA credit rating. The AA credit rating, the highest credit rating in the industry, was awarded by independent international credit rating agency, Global Credit Ratings, for its strong claims paying ability and sound risk management practice. The Discovery Health Medical Scheme boosted its reserve levels from R3.26 billion in January to R3.88 billion. The technical reserve level, which is made up of members' gross contributions after normal claims have been paid, is currently at 22%, and the scheme is firmly on track to meet the required reserve level of 25% of gross contributions, at the end of 2008.

Figure 1 – Reducing administration fee reflects economies of scale



Our operational efficiency drives value for our members and ultimately, profitability

During the past year, we continued to focus strongly on improving operational efficiencies that create value for our members and ultimately value for our shareholders. The Discovery Health Medical Scheme has seen a decrease in its administration fees over time. We continuously benchmark the fees and services provided by Discovery Health locally and internationally, to ensure our fees compare favourably to those charged by other private healthcare funders. Increased operational efficiency allows us to drive down management costs while at the same time creating shareholder value.

Discovery Health (continued)

Discovery Health also continued to use technology to improve and personalise service delivery to the members of the Discovery Health Medical Scheme. Our strategy of improving efficiencies across the board ensures lower costs for members:

1. *We have lowered our administration fees through our focus on efficiencies:* We expect administration fees to continue to decline as a percentage of total gross contributions to approximately 10% in 2008 – building on the trend of declining administration fees over the past five years. This will mean a cost saving for the medical scheme of between R40 million and R50 million annually.

2. *We are seeing continuous savings for the medical scheme through the ongoing implementation of managed care interventions:* Managed care interventions and initiatives reduce abuse and ensure that our members receive appropriate medical care. We expect that these initiatives will deliver a cost saving of R70 million by the end of 2008 for the Discovery Health Medical Scheme.

Our strategy

Our goal is to help create a sustainable and viable healthcare system for South Africa

Changes in the healthcare environment brought about by regulatory impacts, medical and technological advances and changing consumer behaviour, have led to rising costs for consumers and medical schemes. Although these advances are positive for consumers, they also increase medical scheme contributions. Medical inflation today is rising steadily at a rate higher than salary inflation. As medical schemes strive to contain contribution increases, and medical costs continue to increase, members face more gaps in their cover. This leads to consumers either choosing to buy less cover or choosing to fund their own healthcare expenses.

This in turn has raised the debate whether the healthcare industry would be viable and sustainable without medical schemes. Medical schemes, by collectively pooling members' funds, make it possible for many South Africans to afford private healthcare, thereby freeing up resources in the public sector. Without medical schemes, the burden on the public sector resources would increase, as only 1% of the seven million people currently covered by medical schemes could afford to self-fund private healthcare.

The challenge for medical schemes therefore is to manage the impact of rising healthcare costs, so that cover remains affordable in the long term. Discovery Health is best positioned to meet this challenge for the following reasons:

1. *We use our scale, size and expertise to drive down the cost of healthcare:* As South Africa's largest medical scheme manager, Discovery Health has an immense responsibility to the scheme's two million members, and to the South African healthcare sector as a whole. We believe we have both the capacity and commitment to contribute positively and meaningfully to the future of private healthcare.

   We therefore use our size and scale to drive down the cost of healthcare with the large corporate providers of medical care, such as hospitals and pharmaceutical companies, for the benefit of our members. Through the scale and financial solidity of the Discovery Health Medical Scheme, we have also managed to contain average contribution increases to single digits for the past three years, while improving and maintaining benefits and also adding to members' certainty of cover.

2. *We act responsibly to balance the needs of the individual and the group:* Every year, advances in medical research and science deliver new drugs, treatments and diagnostic tools. While these new treatments are promising for the consumer, many of them are extremely expensive because of the significant resources used to develop them. While we want individuals to have access to the latest medical technology, we also have the responsibility of looking after the needs of all our members. Often the costs of these treatments are so high that funding a new treatment in full for one member could mean increased contributions or benefit cuts for the group as a whole.

   We therefore work with the different stakeholders in the industry to find ways to reduce costs. We also do extensive clinical and costing research to develop funding policies that are sustainable and fair. During the past year, we negotiated with several pharmaceutical manufacturers to lower the cost of certain drugs. This enabled us to offer our members full cover for these specific drugs.

   We will continue to work with pharmaceutical manufacturers and other suppliers in the healthcare industry on behalf of our members to eradicate waste in the system, introduce greater transparency and reduce costs.

This year's key focus areas

Certainty of cover for members and increased remuneration for doctors through direct payment arrangements

In 2007, Discovery Health embarked on establishing direct payment arrangements with healthcare professionals to ensure that members enjoy certainty of cover and healthcare professionals, direct payment. These direct payment arrangements ensure that members who use participating healthcare professionals enjoy full cover.

During the year, we rolled out the Premier Rate direct payment arrangement and at the time of writing, 75% of South Africa's specialists have decided to take part in this agreement.

We also established the Discovery GP Network where members can visit one of the 3 500 GPs taking part in the agreement, and only pay R95 for the consultation from their day-to-day benefits.

Overcoming barriers to entry to extend access to care

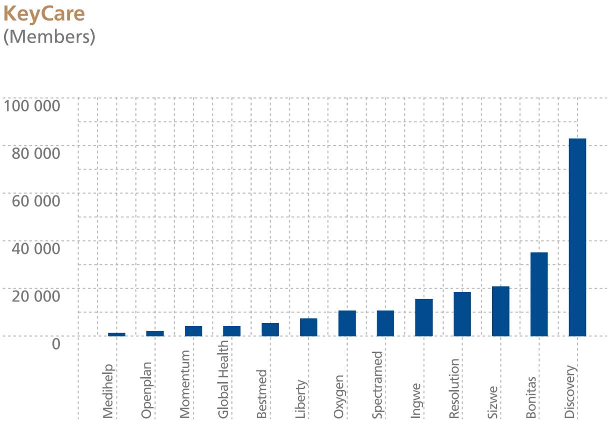
South Africa has a highly developed private healthcare sector that provides world-class healthcare services to approximately 16% of South Africa's population, or seven million people. The medical scheme industry is faced with the challenge of making private healthcare available and affordable to the low-income market, and in doing so, freeing up more resources in the public sector. Discovery Health has been closely involved in the industry initiative to develop a medical scheme product for the low-income market, and we continue to work towards making private healthcare accessible to more South Africans.

Our product range for the previously uninsured market, KeyCare, continues to grow. KeyCare now provides healthcare cover to 140 000 members, and continues to outperform competitors with 38% compound annual growth. (See Figure 2).

Funding solutions for medical advances and new technologies

In January 2007, we introduced the first structured benefit in South Africa for the cover of high-cost biological drugs. The Specialty Medication Benefit is a sustainable funding mechanism that provides members with certainty of cover for expensive biological drugs and

Figure 2 – KeyCare continues to outperform competitors' annual growth



Discovery Health (continued)

treatments. Our responsibility is to ensure that we provide funding in a way that balances the needs of the individual with the interests and needs of the group who carries the cost of funding these advances.

Through the Specialty Medication Benefit, members have access to high-cost biological drugs that are used in the treatment of a number of conditions such as rheumatoid arthritis, breast cancer, colorectal cancer, and multiple myeloma. We remain committed to providing our members with access to the best quality care that includes new medical advances in technology.

Ensuring flexibility and choice to meet different members' needs

In May this year, we introduced the Executive Plan to complement the range of Health Plans offered by the Discovery Health Medical Scheme. The Executive Plan is aimed at the higher end of the market and provides the most comprehensive cover in the South African market. The scheme now offers a range of plans that cater for the needs of all members – from KeyCare to the Executive Plan. Members enjoy choice and flexibility in their cover, and can choose the most appropriate plan to cover their healthcare needs.

Increasing efficiency while ensuring personalised, quality service

Our approach to service delivery is to offer small company service to our members, backed by large company infrastructure and technology. Our scale creates great opportunity to unlock efficiencies – we pay 120 000 claims per day and we pay out R7 million per hour. One Discovery Health member is hospitalised every 56 seconds, and we answer 35 000 calls per day.

This scale also creates great complexity and because of this, an average 2% of complex queries we receive are escalated to a dedicated channel of escalation experts. While 35 000 calls are handled daily by around 500 call centre consultants, another 160 escalation experts, or customer relationship managers, look after around 700 complex escalations each day. This illustrates our commitment to delivering personalised service that meets the needs of members. And to improve our service offering, we send out daily surveys to our members to measure their perception of our service. Our success in improving our service is evident in what our customers think of us – since 2005, the rating our customers give us, has improved from an average 8.60 out of 10, to an average 9.20 in 2006.

Our prospects for the coming year

We are excited and positive about Discovery Health's prospects for 2008. We aim to continue to provide stability, certainty and value to Discovery clients in an environment that is highly complex, regulated and driven by high costs. We will continue to use our scale and expertise to contribute to a viable private healthcare system in South Africa, not only through the benefits we offer the members of the schemes we manage; but also in terms of using our leadership role positively in the industry.

Contributing to a better and more balanced healthcare system

Discovery Health is working towards contributing to a more balanced and better healthcare system, which aligns the conflicting demands of different stakeholders. We will continue to use our scale and size to negotiate deals that will benefit our members. Our goal is to provide quality healthcare cover without compromising the future sustainability of the Discovery Health Medical Scheme. We aim to achieve and ensure long-term sustainability through initiatives that contain and drive down the cost of healthcare.

One of our most important goals for 2008 is to continue open engagement with healthcare professionals and in doing so, establish meaningful partnerships with different societies and groups. Our aim is always to support the doctor-patient relationship. However, we also have the responsibility to balance the need to support this relationship, with the need to ensure the medical scheme remains sustainable. In 2008, we will continue to work on various risk management initiatives with representative bodies that will help healthcare professionals and Discovery Health make appropriate funding decisions.

Ensuring that the Discovery Health Medical Scheme meets the reserve level requirements

The Discovery Health Medical Scheme is firmly on track to meet the required reserve level of 25% by the end of 2008. The 25% requirement aims at protecting medical schemes and their members against uncertainty of benefit cuts and inabilities to pay claims. This requirement is, however, based on a single measure at a certain time, making it difficult for successful and growing schemes to continue to meet the target. Since 2001, the scheme's reserves have grown to just under the R4 billion mark – making it the largest reserve fund in the open medical schemes market.

Continuing to improve operational efficiency that ensures value for money

We will continue to improve our operational efficiency through economies of scale that enable Discovery Health to reduce its administration fees while improving and maintaining service to members of the Discovery Health Medical Scheme.

Drive wellness through Vitality and Integrated Corporate Health Solutions

At the beginning of the year, we introduced an integrated corporate wellness programme to corporate clients. Vitality WellPoint used the knowledge and expertise we have gained through our disease management infrastructure and Vitality – our science-based wellness programme – to help companies improve and manage the health and wellness of their employees. Since the launch of this product in the corporate market, we have received valuable feedback from employers that has enabled us to refine our corporate wellness offering further.

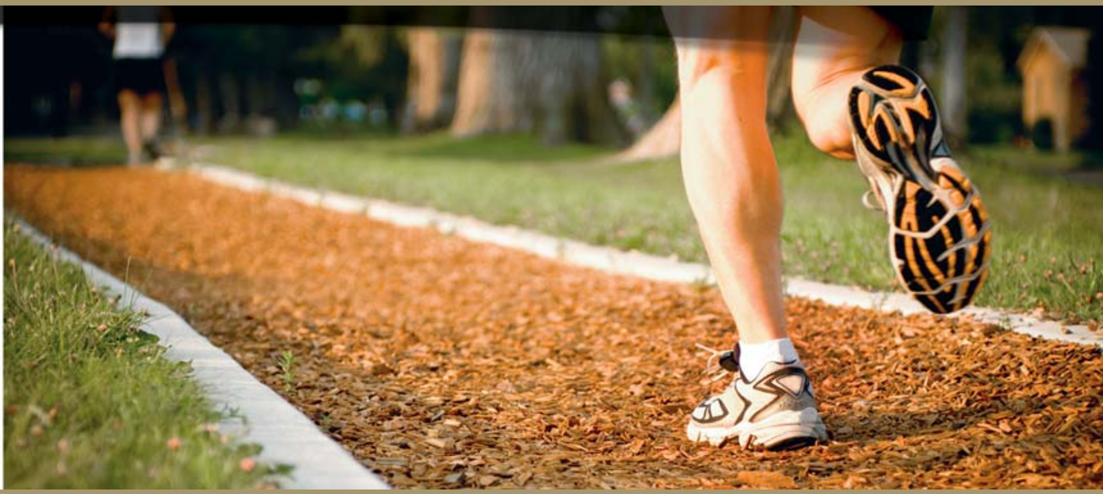
From 2008, all employer groups with 100 members and more will have access to Integrated Corporate Health Solutions that offer them Corporate Wellness programmes and HIVCare for Discovery Health members. Integrated Corporate Health Solutions provides a new comprehensive platform of benefits and tools to improve and monitor the health and productivity of employees. Through this service offering, we will help companies with 100 and more employees, to create a culture of wellness at no additional cost. Employers will have access to wellness days that include preventive screening tests such as cholesterol and glucose tests, health risk assessments and other fun elements to encourage employees to take part. We will also give employers additional tools and support to improve the overall health of their company.

With more than a 1 000 companies with around 500 000 insured employees as part of the Discovery Health Medical Scheme, the workplace presents a unique opportunity to create awareness and increase knowledge and change behaviour in South Africa. Discovery HIVCare, as one of the components of Integrated Corporate Health Solutions, offers employers a comprehensive employer-based HIV and AIDS strategy. The programme:

- Provides the management team of the employer with a financial assessment of the impact of HIV and AIDS on their employees and company
- Creates an environment where education is done to reduce stigma associated with HIV and AIDS and increase knowledge around the disease, prevention and treatment
- Funds treatment for Discovery Health members
- Helps to improve enrolment onto Discovery's Disease Management Programme
- Maximises the participation of employees in voluntary counselling and testing
- Assists the company to develop a HIV and AIDS policy
- Facilitates Knowledge, Attitudes and Practices surveys
- Facilitates the training of HIV peer educators in the workplace.

Discovery Life

A YEAR OF INNOVATION AND INTEGRATION



"Discovery Life is still the fastest-growing major life assurer in South Africa, with a share of approximately 40% of the independent intermediary risk market in South Africa."

Herschel Mayers Chief Executive Officer, Discovery Life

Discovery Life

Financial highlights

	30 June 2007	30 June 2006	% change
New business	**R971 million**	R789 million	23
Gross inflows	**R2 357 million**	R1 768 million	33
Operating profit	**R707 million**	R546 million	29
Value of in-force (FSV basis)	**R5 826 million**	R4 322 million	35

This year's performance

Discovery Life's performance has again exceeded our expectations

Discovery Life posted an outstanding performance. It has continued to grow rapidly, and at the financial year-end, 545 000 lives were covered by Discovery Life. Discovery Life is still the fastest-growing major life assurer in South Africa, with a share of approximately 40% of the independent intermediary risk market in South Africa. Discovery Life also grew operating profits strongly by 29%, contributing significantly to the overall performance of the Group. As in previous years, Discovery Life's good risk experience added to the company's profitability.

Our strategy

Discovery Life is an innovative leader in the life assurance market

The life assurance sector in South Africa has in the past few years seen a loss of consumer confidence. Consumer dissatisfaction stems from a lack of transparency, hidden fees and lower than expected benefit payments. The industry has made an effort to improve its image in the past two years and according to the Life Offices Association's 2006/7 annual report and recent industry surveys[1], South African consumer confidence is returning. However, the life assurance industry faces dual pressure – from consumers and from its regulators – to find new ways of doing business that deliver value, fairness and transparency to consumers. Discovery Life, with its innovative and consumer-engaged approach is ideally placed in this environment.

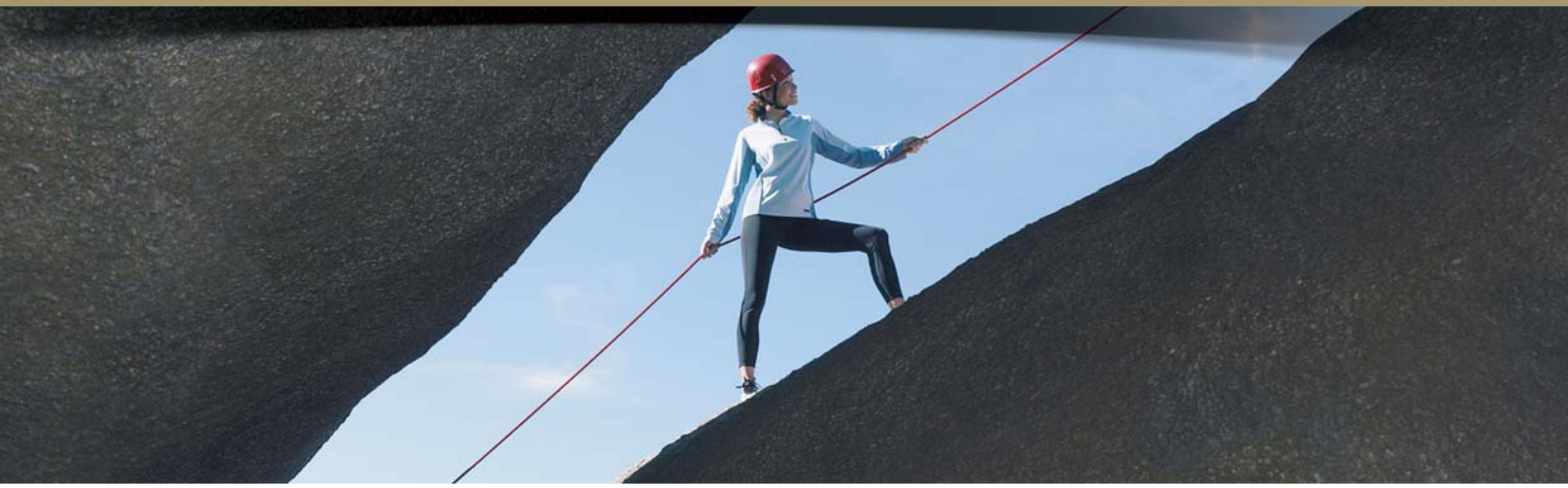
Discovery Life focuses on bringing value, efficiency and flexibility to the life assurance market. It entered the local market in 2000, and at the time, led an industry-shift to pure risk life insurance products that separated risk and investment. Its consumer-engaged approach, which encourages policyholders to manage their health and lower their risk, has led to significant savings for South African consumers. We estimate that by 2010, the move to pure risk policies will have saved consumers as much as R5 billion.

Service is another important area of innovation focus. Discovery Life's SmartService™ and SmartDoctor™ services, for example, add convenience and value for intermediaries and policyholders alike. These services send a doctor or nurse to potential clients to help them fill in the initial application and claims forms, and do the necessary tests and examinations at a time and place that is convenient for the applicant. Discovery Life also introduced case managers a few years ago who offer confidential counselling and support services to policyholders and their families once a severe illness has been diagnosed. This allows Discovery Life to develop a personal relationship with its clients in their time of need, offering additional services and access to Discovery's clinical expertise.

Discovery Life continues to lead the market with its innovative products and services – in June 2007, the South African Financial Services Intermediaries' Association voted it the long-term insurer of the year.

[1] Ernst & Young Life Insurance Index, 2nd quarter of 2007 – published in July 2007.

Discovery Life (continued)



Our integrated products add value and create demand

A key feature of Discovery Life's products is their modular structure, which allows them both to stand alone or to integrate seamlessly with Discovery's other product offerings. Through integration – with the offerings of Discovery Health, Discovery Vitality and the DiscoveryCard – Discovery Life creates additional value, savings and efficiencies for its policyholders. The innovative DiscoveryCard Integrator, launched last year, illustrates the point. Policyholders who choose the DiscoveryCard Integrator receive an initial premium reduction of up to 30%, linked to their Vitality status and future card expenditure. Their future premium increases then adjust automatically based on their actual card expenditure and Vitality status.

Most importantly, integration allows Discovery Life to contribute meaningfully to Discovery's core purpose of making people healthier and enhancing and protecting their lives. The multiple links to Vitality across our product range mean that we are able to encourage and reward healthy behaviour. Benefits like Discovery PayBack™ encourage and reward policyholders for actively managing their health. PayBack, introduced five years ago, pays policyholders back a percentage of their premiums every five years based on their Discovery Health claims and Vitality status. We paid our first PayBack, amounting to R7.5 million, to almost 600 policyholders earlier this year.

It is this wellness capability that sets Discovery Life apart. Our claims experience proves that policyholders who also belong to Vitality, are healthier, and this accounts for Discovery Life's better-than-average morbidity and mortality experience.

This year's key focus areas

Innovation that puts consumers first in the UK too

In last year's report, I mentioned that Discovery Life had worked with the Prudential plc to launch integrated protection products in the form of Prudential's Flexible Protection Plan to a small number of brokers in the UK market. The market's response has been excellent.

The UK risk assurance market has been hard hit by the consumerist trend discussed earlier, leading to regulatory interventions such as the Financial Services Authority's "Treat Customers Fairly" regulations. The UK protection market is three and a half times the size of its South African counterpart. However, there is still little differentiation in terms of product and price at present and consumers are ready for a change – for innovation that delivers more dynamic, tailored benefits more cost-effectively.

As detailed in Shaun Matisonn's report on page 32, Discovery Life's consumer-engaged, pure risk assurance model will now form the basis of the products offered by PruProtect, the joint venture between Prudential plc and Discovery, announced earlier this year. The decision to expand the offering under the PruProtect banner is based on the positive response to the products.

As is the case in South Africa, the entire structure will be underpinned by the Vitality programme, allowing UK consumers to manage their health and unlock greater savings and better cover as a result of improvements in their health.

Discovery's entry into the long-term savings market

A key area of focus for us during the period under review has been to build the operations, infrastructure and resources internally to support our entry into the long-term savings market with Discovery Invest. We are excited about applying the same principles of innovation and integration that underlie our other offerings to long-term savings products to create efficiencies and unlock consumer value. The products will be launched during the last quarter of 2007.

Our goal with Discovery Invest is to improve the transparency and lower costs of investment products but add to them guarantees and protection features associated with insurance. By tapping into Discovery's risk management expertise and integration capabilities, we aim to protect investors against the impact of incorrect investment decisions and against some of the volatility associated with the investment markets. We believe consumers will respond positively to the best-of-both-worlds value proposition associated with Discovery Invest's innovative approach.

"Our goal with Discovery Invest is to improve the transparency and lower costs of investment products but add to them guarantees and protection features associated with insurance."

An update on Discovery Life's group risk offering

Discovery Life currently covers 1 200 employer groups, and 140 000 families through its Group Risk offering. Similar to Discovery Life's individual LIFE PLAN, Discovery Life Group Risk has posted a positive risk performance in terms of mortality and morbidity rates. Over the past two years, Discovery Life's Group Risk premium increases were well below inflation and most of our clients experienced zero percent increases.

Discovery Life's expanding distribution capability

Late last year, Discovery launched Discovery Financial Consultants, our agency force. Previously, Discovery Life relied entirely on independent financial advisers to distribute our products and this remains our primary distribution channel. We have already recruited 15 franchise executives and 112 agents to Discovery Financial Consultants and while it is still early days, the strategy is certainly helping to bolster new business growth and is already contributing close to 10% of the total monthly activated business.

Our prospects for the coming year

The year ahead holds exciting expansion and innovation opportunities for Discovery Life. Going into 2008, we will focus on:

1. **Supporting Discovery's protection joint venture with Prudential in the UK, PruProtect:** We have completed the initial product development and the first PruProtect products went to market on 25 September 2007. In the year ahead, our focus will be on providing the operational and infrastructural support to facilitate the successful roll-out of these innovative protection products in the UK market.

2. **Ensuring our successful entry into the long-term savings market with Discovery Invest:** As outlined above, we are extending our consumer-centric approach to the area of investment products with the launch of our new investment product range. Our aim is to provide clients with responsible and transparent products that offer value, and protect them against a changing financial environment and incorrect decisions. In the next year we will focus on the marketing of these products and will continue building the operational and service infrastructure and processes to support their successful roll-out.

In closing, I would like to thank everyone at Discovery Life for their hard work and commitment during the year. They are responsible for the company's exceptional growth, strong financial performance and most importantly, for the significant role we have been privileged to play in securing the financial wellbeing of Discovery Life's 545 000 policyholders.

Discovery Vitality

MAGNIFYING THE IMPACT OF VITALITY

"Vitality is an innovative wellness programme that helps people to proactively achieve and maintain their optimal level of health."

Alan Pollard Chief Executive Officer, Discovery Vitality

Financial highlights

	30 June 2007	30 June 2006	% change
New business	**R100 million**	R107 million	(7)
Gross inflows	**R721 million**	R654 million	10
Operating profit	**R43 million**	R41 million	5
Vitality membership (lives)	**1 289 006**	1 229 333	5

This year's performance

Discovery Vitality posted a pleasing financial and growth performance and continued to create value for Discovery clients across the business. We added 60 006 lives to Vitality during the year under review and revenues increased to R721 million from R654 million in 2006. Operating profit remained stable at R43 million (2006: R41 million) despite the start-up costs of Vitality WellPoint, a corporate wellness product launched at the beginning of the year.

Our strategy

Discovery Vitality: creating competitive advantage

Although Vitality is not the strongest profit performer in the Group, its value lies in the strategic and competitive advantage it creates for the Discovery range of products. Vitality's role is to differentiate Discovery from our competitors through superior product competitiveness and reduced lapse rates. Vitality is an innovative wellness programme that helps people to proactively achieve and maintain their optimal level of health.

By taking part in health and wellness activities that can be tracked and measured, such as working out at the gym and doing regular medical and preventive check-ups, Vitality members have access to significant lifestyle benefits and rewards. Vitality also enables Discovery to integrate products across its subsidiaries' product ranges to provide members with a holistic product offering that not only helps them lead healthier lives, but also protects and enhances their lives.

Vitality is the manifestation of Discovery's vision of making people healthier

We designed the Vitality Programme to have a far-reaching impact on the health and wellness of people. With the rising cost of healthcare and increased usage due to increased lifestyle-related diseases, Vitality provides the necessary tools for people to improve their health and ultimately, reduce their healthcare costs. Vitality has been clinically proven to encourage the necessary healthy behaviour that reduces long-term healthcare costs.

This year's key focus areas

Vitality creates value for our clients across the Discovery product range

During the year under review, Vitality continued to perform its crucial role of creating value for Discovery members across the business. This ability of integrating products also adds to Discovery's competitiveness, making our products difficult to replicate.

An example of how product integration adds to Discovery's success, is the achievement of the DiscoveryCard Integrator with Discovery Life. We launched the Card Integrator during the year under review, bringing together the benefits and value offered by the LIFE PLAN, Vitality and the DiscoveryCard. From a distribution point of view, the majority of intermediaries now sell both Discovery Health and Discovery Life, as the overarching benefits and product innovation provides unique value to clients.

Discovery Vitality (continued)

It is, however, the total savings that members can accumulate through using the benefits of the DiscoveryCard and Vitality that shows the real value of product integration. The example below shows how a single member can easily generate savings of a similar value to his entire medical scheme contributions. (See Figure 1).

DiscoveryCard has paid back over R100 million to cardholders

The DiscoveryCard has continued to generate tangible value for DiscoveryCard-holders during the period under review. Since its launch in October 2004, we have paid back over R100 million in cash to DiscoveryCard-holders through the discounts offered by DiscoveryCard partners. Every time a DiscoveryCard holder who belongs to Vitality uses the DiscoveryCard at a retail partner store, they qualify for cash back of up to 15% – and at Pick 'n Pay, 10% – depending on their Vitality status. The money is paid into their DiscoveryCard-account at the end of every month.

Vitality WellPoint was a first important step to offer corporate South Africa a structured wellness product

At the beginning of 2007, Discovery launched Vitality WellPoint, an integrated corporate wellness programme aimed at helping large corporates manage employee wellness and the impact of HIV and AIDS. Discovery is uniquely positioned to provide corporates with a range of wellness tools, based on our experience in managing health and wellness through Vitality and our disease management infrastructure.

Since 2006, 15 000 employees attended Wellness Days. We have also learnt much from our clients about their wellness needs and have since restructured our product offering for 2008. Vitality WellPoint, which will be known as Integrated Corporate Health Solutions in 2008, will offer clients flexibility to meet their individual employee needs.

Vitality has grown into an international brand

The success of Vitality is not only limited to the local market, but is also growing in the UK and US market. Vitality is currently the largest science-based wellness programme in the world and with exclusive partners in these international markets; it is developing into an international brand in its own right.

In the UK market, Vitality is expanding its national footprint through exclusive deals with a wide range of health clubs, giving PruHealth members access to a third of specialist health clubs in Britain (see Figure 2). PruHealth Vitality also announced another exclusive deal with Sainsbury's, aimed at encouraging Britons to follow a healthy diet. Vitality members will earn one Vitality point for every £2 spent in-store or online on fruit and vegetables. Members will also be able to receive discounts on the contributions through Vitality Underwriting, as they improve their points and status level.

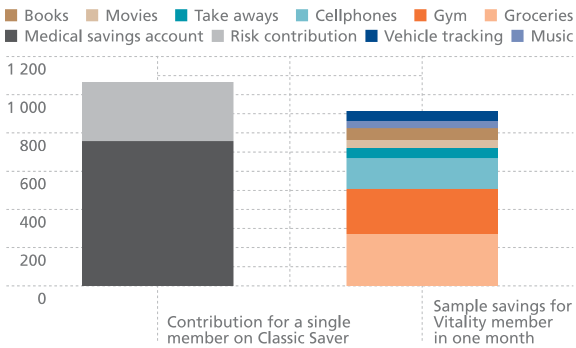
Figure 1 – Vitality members can earn significant financial rewards

Case study for a single member

Medical scheme contribution		
Premium	R1 032	pm
Vitality Savings generated		
Pick'n Pay	R240	pm
Autopage	R120	pm
Ster Kinekor	R50	pm
Look & Listen	R45	pm
Virgin Active	R213	pm
Nando's	R75	pm
Exclusive Books	R45	pm
Netstar	R30	pm
Total cash back	R838	pm

Effective premium R194 = 81% saving

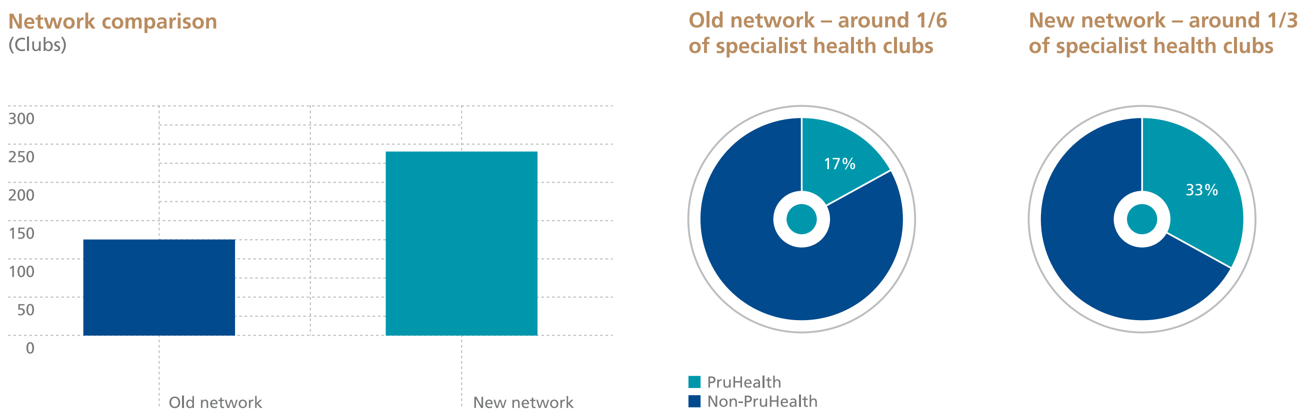
Vitality savings generated
(Rand)



Case study assumed expenditure at DiscoveryCard partners

Pick'n Pay	R3 000	Virgin Active	R695
Autopage	R800	Nando's	R250
Ster Kinekor	R60	Exclusive Books	R300
Look & Listen	R300	Netstar	R200

Figure 2 – New UK gym deals increase club penetration and include 5-year exclusivity arrangements



Our prospects for the coming year

We have included exciting new partners to offer members more value and exclusivity

We have realised that the success of Vitality in changing people's behaviour, rests in rewarding them for engaging in their health. Ultimately, this leads to changes in behaviour and habits – the real reward over the long term. We therefore continually look at ways to improve the Vitality offering to be more compelling. For 2008, we introduced the International Travel Benefit with British Airways. Through this benefit, Vitality members qualify for discounted airfares to 15 international destinations in the US and Europe, and having a DiscoveryCard and Discovery Miles could boost flight discounts up to 60% on all classes. Other new partners include Contiki Holidays and the new Panasonic range and Apple iPods on VitalityMall – our online shopping facility.

Personalise Vitality to cater for the individual

Over the past ten years, Vitality has been extremely successful in encouraging people to adopt positive habits that help them look after and improve their health. Members who engage with the Vitality programme, are likely to be more active and more involved in preventive care. On average, engaged members undertake 35% more cholesterol tests, pap smears and prostate screening tests than their counterparts who are not engaged with the programme.

While our approach of rewarding points for 'standard' medical tests and check-ups have been successful in creating awareness of preventive health measures, our goal for 2008 is to personalise Vitality for individuals to have an even greater impact on personal health. Although every individual can improve their health by following basic guidelines and taking preventive measures, some areas need more attention to benefit overall health. In 2008, Vitality will give bonus Personal Points to members who make changes with the biggest impact based on their individual risk profile. Based on their willingness to change behaviour, Vitality will provide them with a personalised guideline to help them reach their goals by using the Vitality Wellness Network and partners.

Using Vitality to improve the health and wellness of children

Research suggests that the foundation for good health and wellness in adulthood, is formed during childhood. The health and wellbeing of children today, however, require urgent attention. The Medical Research Council recently published findings that show at least 38% of children today are not active enough, 17% are overweight and 21% are smokers. For 2008, we have enhanced Vitality to encourage healthy lifestyles and general children's wellness to address these issues.

Discovery Vitality remains the foundation of Discovery's product range and going into 2008, it will continue to add to the group's success through its unique integration capabilities and product differentiation that it creates.

Destiny Health

A STRATEGICALLY SIGNIFICANT YEAR

"The US spends around 16% of its gross domestic product (around $2 trillion annually) on healthcare and projections see this number increasing."

Arthur Carlos Chief Executive Officer, Destiny Health

Destiny Health

Financial highlights

	30 June 2007	30 June 2006	% change
New business	**$107 million**	$123 million	(13)
Members	**48 793**	62 250	(22)
Operating loss ($)	**($14 million)**	($23 million)	39
Operating loss (R)	**(R102 million)**	(R151 million)	32

This year's performance

Excellent operational progress

Although Destiny Health's financial performance did not meet our expectations, operationally the business made significant progress during the year under review. Under leadership of a new management team, appointed in September 2006, Destiny Health successfully undertook a number of important initiatives, including:

- Restructuring its partnerships with Tufts and Guardian
- Announcing a partnership with one of the world's largest insurers, AEGON – underwritten by Stonebridge Life Insurance Company
- Successfully selling Vitality as a stand-alone, non-risk wellness product to large companies on a national basis
- Expanding into new markets, Colorado and Michigan, with more favourable pricing and a more favourable competitive landscape
- Repositioning Destiny Health as the sole wellness-based insurer in the US to capitalise on Vitality as a market leading asset and on the US healthcare push into wellness as a means of health cost mitigation

At the interim stage, these operational successes had contributed to an improved financial performance. Unfortunately, the financial performance in May and June of this year fell short of expectation, giving rise to an operating loss of R102 million for the financial year. As Destiny Health transitioned its business partners, the regulatory filing process resulted in a period of sales inactivity. Destiny Health's largest market (Illinois) stalled for several months in this last reporting period while awaiting state regulatory approval.

Critically, while Destiny Health had achieved all its operational targets, losses exceeded the financial benchmarks set by the Discovery Board. Previously, the Board had committed to containing losses to 5% of the Group's operating profits overall. However, the actual losses incurred during the period equated to 5.9% (5.2% currency adjusted). The Board also stipulated that Destiny Health's performance in every six-month period should improve continually when measured against the previous six-month period. Destiny Health's performance in the second half of the past financial year had deteriorated when measured against the previous half.

Our strategy

Destiny Health's wellness-based strategy engages US consumers in managing their healthcare costs

While the United States of America boasts one of the world's largest and most sophisticated private healthcare markets, it is subject to the same inflationary pressures, ever-increasing demand and limitations on access to resources as other, smaller markets. The US spends around 16% of its gross domestic product (around $2 trillion annually) on healthcare and projections see this number increasing.

Annual health insurance premium increases, at close on 10% on average, far outstrip consumer inflation and there have been

widespread calls for regulatory reform to help bring costs under control. In this context, over the past few years, US interest in consumer-directed private healthcare products has grown significantly, supported by favourable changes to tax legislation.

However, the consumerist trend, supported by the emergence of the Internet and consumer-friendly regulatory reform in financial services markets around the world, is only just beginning to have an impact in the US healthcare market.

Conceptually, these market conditions are ideally suited to the wellness-based strategy of the Destiny Health Plans, which combine features of consumer-directed healthcare – generally defined in the USA as plans that use health savings accounts and high deductibles – with Vitality, Discovery's scientifically-proven wellness programme. As is the case with Discovery in South Africa and PruHealth in the UK, Destiny Health uses Vitality to integrate health insurance with the key pillars of the Vitality wellness programme: education, fitness, prevention and lifestyle management. For consumers and their employers, this translates into more efficient health insurance in the shorter term and lower healthcare expenses in the long term.

This year's key focus areas

To support the successful roll-out of Destiny Health's unique consumer-directed healthcare and wellness expertise to the US market during the period under review, we focused on two key areas:

- Product design
- Distribution.

In the sections that follow, we provide an overview of the key initiatives in this regard.

Product design

This year, Destiny Health introduced a "soft landing" for employers not yet ready to plunge headlong into consumer-directed healthcare

While there is growing support for consumer-directed healthcare, and the Bush administration has openly supported the shift, many critics are fearful that it will disadvantage the sick and elderly. Discovery's South African experience with medical savings accounts has shown that these concerns are largely unfounded, as long as consumers are given the tools to make informed healthcare decisions and have access to comprehensive cover for unforeseen and uncontrollable expenses.

However, Destiny Health has also acknowledged the need to offer hybrid options that combine consumer-directed healthcare with elements of the more familiar, traditional insurance plans to ease the transition.

During the period under review, Destiny Health therefore significantly reengineered the Destiny Health Plan – and renamed it the Destiny Health Empowerment Plan. The Destiny Health Empowerment Plan, underpinned by Vitality, offers employers a variety of choices, including:

- A health insurance plan coupled with a health reimbursement arrangement, allowing employers to set aside funds for certain medical expenses for employees

- A health savings account, which must be coupled with a high deductible health plan
- A more traditional preferred provider organisation (PPO) plan option, which taps into provider networks
- Optional riders – additional benefits for preventive care, preventive medication for defined chronic conditions and prescribed medications.

Securing competitive provider networks to support its product design was a key focus of the past year's efforts and Destiny Health now boasts links to various successful networks including ECOH (the Employers Coalition on Health), PPOM (the largest independent network in the mid-West with over 60 000 health professionals and 480 hospitals) and HealthLink (a network with 25 000 health professionals and over 300 hospitals and facilities) among others.

Vitality as a stand-alone offering

While the move to consumer-directed healthcare in the US has been a measured and gradual one, the trend to wellness is progressing far more rapidly. More and more people are paying heed to the mounting scientific evidence pointing to the role of lifestyle in the prevention and management of disease. Employers, in particular, have become sensitised to the impact that employees' unhealthy lifestyles has on productivity and the role companies can play in facilitating better health management for their employees. The Vitality wellness programme has made US headlines on numerous occasions for its life-changing – and for employers, cost-saving – effect on employees' lifestyles.

Destiny Health announced in June that it would sell Vitality as a stand-alone product for employees of large corporates, on a nationwide basis. The market's reaction has been positive, with large companies like AOL signing up for the offering, which will come into effect on 1 January 2008.

Distribution

Expansion into Colorado and Michigan

A strategic obstacle to Destiny Health's success – and a problem we had identified and discussed in last year's report – was an over-concentration in the Illinois market and slower-than-anticipated expansion into new markets.

In this regard, we are particularly excited about the agreement we entered into with AEGON Direct Marketing Services, which we announced in May of this year. In terms of the agreement, AEGON will market the Destiny Health Empowerment Plan – underwritten by another AEGON subsidiary, Stonebridge Life Insurance Company – initially in the Illinois, Wisconsin, Colorado and Michigan markets, but rolling out to other markets nationwide.

Flowing from the announcement, Destiny in June 2007 launched operations in Colorado and Michigan. In each of these markets, rising costs and relatively low access to affordable health insurance is driving strong demand among employers for efficient, cost-effective coverage options for their employees. The stand-alone Vitality offering is available in these markets as well.

While the partnership with AEGON Direct Marketing Services is still in its infancy, progress to date has been promising.

We also restructured our alliance with Guardian and have made our PPO option available to employers in Texas and Illinois

During the period, Destiny Health also set out to restructure its partnership agreement with the Guardian Life Insurance Company of America. We have achieved this goal and the restructured partnership ensures greater flexibility for Destiny Health, enhanced risk management and greater control over the distribution process. In addition, the restructured contract permits flexibility for Destiny Health to pursue non-risk business, to offer its products more broadly and to partner with any entity it determines to be a strategic fit.

Guardian will continue to market the Destiny Health Plan to employer groups in Illinois, Virginia, Washington DC, Maryland and Texas, where Destiny Health now serves as a third party administrator and product specialist for Guardian-derived business. There are no plans to roll out the Guardian alliance to any new markets; therefore, these markets complete the risk sharing exposure between Guardian and Destiny.

The restructuring of the alliance with Guardian follows the termination of Destiny Health's joint venture with Tufts Health Plan of Massachusetts, which was announced last year.

Our prospects for the coming year

Looking forward to strategic changes

The US healthcare market remains vast, highly competitive and rapidly-evolving. Health insurers with scale have an inherent advantage in negotiating favourable rates for provider services. Destiny Health's success is contingent upon resolving comparable unit cost disadvantages and lack of distribution scale.

Destiny Health has leveraged Discovery's intellectual property in the areas of consumerism and wellness in product concept and design. The intellectual property continues to be market-leading and resonates strongly with brokers, employers, our members and our key partners. Attaching the intellectual property to a vehicle with comparable unit cost pricing will result in a powerful delivery of our market-leading concepts.

Destiny Health will continue to focus on developing innovative products and creating demand for those products. Our implementation strategy for delivery will change in anticipation of market needs.

PruHealth

SOUND FOUNDATIONS FOR FUTURE GROWTH

"It was a good year for PruHealth, in which the company performed well – both in absolute terms and in terms of sales."

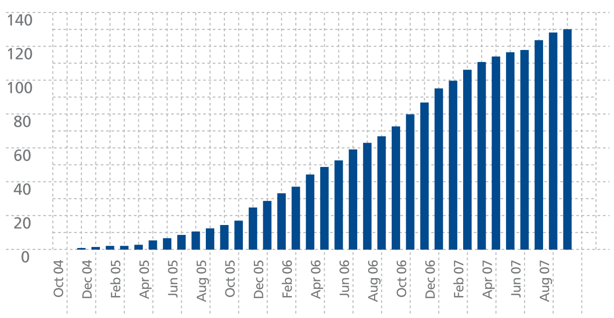
Shaun Matisonn Chief Executive Officer, PruHealth

Financial highlights

	30 June 2007	30 June 2006	% change
New business	**R743 million**	R282 million	163
Members	**117 535**	58 912	100
Operating loss (£)	**(£16 million)**	(£13 million)	(23)
Operating loss (R)	**(R218 million)**	(R146 million)	(49)

Figure 1 – PruHealth membership grew strongly over the period

PruHealth membership
(Thousands)



This year's performance

It was a good year for PruHealth, in which the company performed well – both in absolute terms and in terms of sales. New business grew strongly to R743 million in annualised premium income, bringing the number of lives covered at the time of writing to 130 000 lives.

We took a number of important strategic steps during the year, and invested significantly in the business in order to build sound foundations for future growth. As expected, PruHealth's operating losses increased to £16 million, reflecting our significant investment in the future expansion of the business, particularly through the launch of PruProtect – expanding Discovery's joint venture with Prudential plc.

Our strategy

Establishing PruHealth as an innovative brand and product leader in the UK market

PruHealth combines Discovery's innovative consumer-engaged product technology and service efficiency with the excellent track record and brand credibility enjoyed by Prudential plc, to offer UK consumers better value.

Our goal for the year under review was to expand the business to new markets on the back of PruHealth's early success, leveraging Discovery's product excellence and Prudential's credibility and reach.

PruHealth (continued)

To achieve this we focused on:

1. Enhancing the PruHealth value-proposition to ensure continued product leadership, while consolidating Vitality's position as a compelling wellness offering
2. Investing in our distribution channels, to ensure an efficient and diversified distribution footprint across the UK
3. Building the infrastructure to support our entry into the UK protection market.

This year's key focus areas

Establishing PruHealth's leadership position in the UK market

PruHealth enjoys a competitive advantage in the UK market through its dual strategy of offering competitive pricing and value-added benefits that encourage health and wellness. It is critical for us to maintain and strengthen this position by ensuring that our products and services remain differentiated and relevant in terms of price, quality and innovation. Vitality, our wellness programme, is integral to our approach.

During the 2007 financial year, we therefore concluded five-year exclusivity arrangements with various leading health clubs in the UK – including Virgin Active (incorporating Holmes Place), LA Fitness and Cannons Health Club and Nuffield – in effect giving PruHealth members access to a third of Britain's health clubs.

PruHealth also introduced an innovative approach to structuring Vitality members' gym fees. By applying the probability theory to fees, whereby members pay less the more they work out, they are encouraged to invest more time and effort in their wellbeing.

More recently, we entered into a partnership with Sainsbury's, one of the UK's top retailers, to promote healthy nutrition choices among Vitality members. The chain serves over 16 million customers each week and has 752 stores throughout the UK, making them the ideal partner to help us reach the British public and drive their awareness of the benefits of healthy living. Vitality members will earn one Vitality point for every £2 spent on fruit and vegetables, online or in-store.

By improving their overall health and wellness, Vitality members also benefit from reductions in their monthly contributions.

Investing in sustainable growth through diverse and efficient distribution channels

With the advantage of existing brand credibility and product excellence, which are critical factors for market success, PruHealth early on identified distribution as the third pillar required to ensure its sustained growth. Initially, our marketing efforts were concentrated on the highly-successful direct-to-consumer channels familiar to the UK market. Here, our strategy has been to drive online and telephonic sales through extensive advertising and PR campaigns in the consumer space, which explore the latest lifestyle and personal finance trends in relation to the products offered by PruHealth.

In April 2007, we launched a partnership with leading retail pharmacy chain, Boots, to distribute our products through their 1 500 UK stores, allowing us to reach potential clients in the retail environment. This "high-street" channel is still in its infancy, but we believe it provides an accessible and effective route to consumers who are unlikely to respond to our other channels based on their belief that private medical insurance is beyond their reach.

We have also worked hard over the three years since inception to garner the support of the broker fraternity – both the relatively small pool of specialist brokers that have traditionally marketed private medical insurance products and the larger group of "generalist" brokers, who offer their clients advice on a broad range of financial services products.

During the period under review, we have further bolstered our ability to distribute our products via brokers through the roll-out of ten franchise-based distribution offices across the UK. This regional presence will enhance our ability to support brokers in their marketing efforts.

Enhancing Discovery and Prudential's partnership to enter the UK protection market

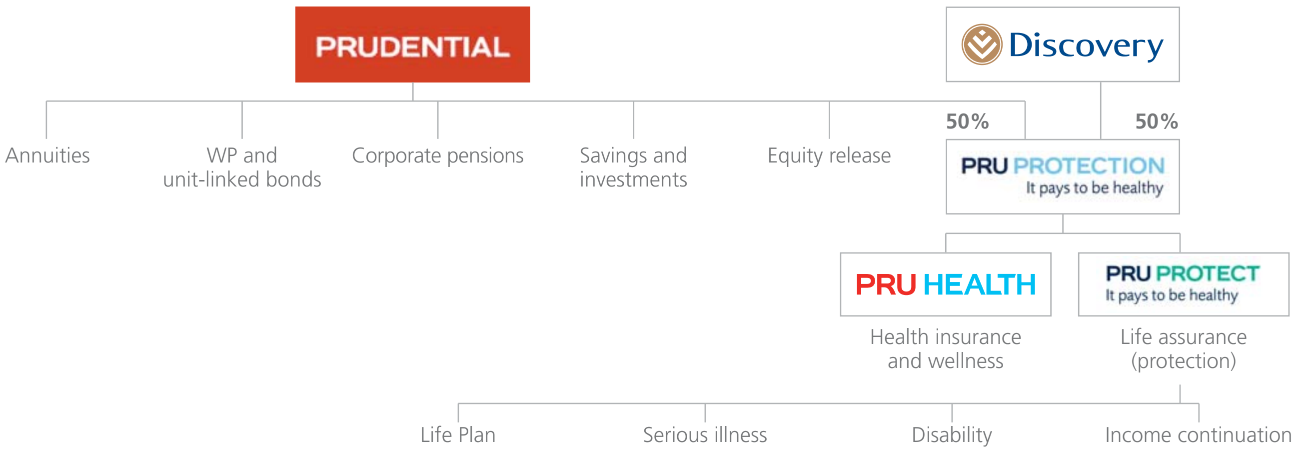
In March 2007, Discovery and Prudential plc announced the expansion and consolidation of their existing joint venture. This has led to the creation of a new UK-based holding company, PruProtection, which will house two distinct businesses – PruHealth and a new life assurance company, PruProtect.

Discovery and Prudential will make equal capital contributions to this venture. The amount of capital will be proportional to the success of the venture. Further funding will be provided in the form of financial reinsurance by Hannover Re. This in effect means Discovery will earn 50% of profits while providing less than 50% of the required capital, which it will fund from its existing and internally-generated cash resources.

The team applied considerable effort during the period to build the operational, service and distribution infrastructure and product technology to support our entry into the UK life assurance (risk protection) market. PruProtect, the life assurance arm of our operation, officially started operations on 25 September 2007.

PruProtect's consumer-engaged pure-risk assurance products are based on the successful Discovery Life business model, and will use the experience and expertise that the SA assurer has gained in the area of product integration to create differentiated and competitive products.

Figure 2 – PruProtection will house the health, wellness and protection businesses of Prudential in the UK



In the absence of similar consumer-engaged life assurance products in the UK market, it will address the following:

- PruProtect will provide value-added benefits to consumers by engaging them in the product and the benefits it offers
- It will offer competitive pricing through the integration of Vitality and Health products
- Underwriting turnaround times will be improved through real-time processing, ensuring that brokers are able to service their clients better
- Specialised and focused distribution to the different broker markets will ensure continued new business growth.

Our prospects for the coming year

We are optimistic about the potential for PruProtection's continued growth and profitability in the UK market.

In terms of PruHealth, our strategy will be to maintain our strong leadership position and start delivering returns on the significant investment we have made in the business to date.

For PruProtect, we will continue to build the infrastructural and operational framework required to support the business. We are also working towards establishing a firm leadership position in terms of brand credibility and product innovation similar to that of PruHealth. The UK life assurance market is worth £11 billion in annual new business, and given the fact that this market has seen little innovation or improvement in the past decade, we are excited about the opportunities it presents.

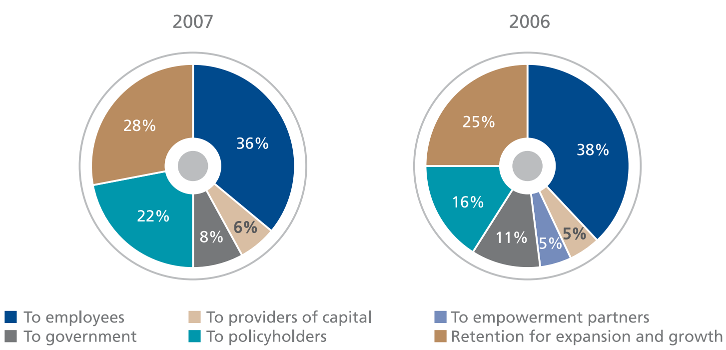
For both businesses, distribution remains of critical importance. The regional franchises created over the past year will play a central role in supporting our marketing efforts for both our private medical insurance and risk protection products among the generalist financial brokers mentioned above. Our aim is to have established 20 franchise offices nationwide by the end of the 2008 calendar year.

We will also explore product integration possibilities through the links with Vitality and the health and life assurance products. Discovery Life's experience in South Africa shows that successful product integration contributes to better loss ratios, lapse rates and benefit take-up, as well as improvements in disability and morbidity, while offering consumers cheaper cover and value-added benefits. We are excited about the possibilities product integration holds for the UK market and will be exploring these in the next review period.

Value-added statement

for the year ended 30 June 2007

	2007		2006	
	R million	%	R million	%
VALUE ADDED				
Net income of Group	5 980		4 988	
Investment income	380		318	
Financing costs	(21)		(21)	
Foreign exchange gain/(loss)	3		(7)	
Acquisition costs	(926)		(845)	
Payments to suppliers of material and services	(1 493)		(1 355)	
	3 923		3 078	
VALUE ALLOCATED				
To employees				
Salaries, wages and other benefits	1 428	36	1 160	38
To providers of capital				
Dividends to shareholders	239	6	160	5
To empowerment partners				
Empowerment benefits to external parties	–	–	142	5
To government	295	8	346	11
Normal taxation	139		217	
Value-added tax	108		94	
Capital gains tax	11		24	
Secondary tax on companies	32		4	
Other	5		7	
To policyholders	857	22	506	16
Policyholder claims	1 444		974	
Transfer from assets/liabilities arising from insurance contracts	(587)		(468)	
Retention for expansion and growth	1 104	28	764	25
Retained income	834		509	
Depreciation	67		90	
Deferred taxation	203		165	
	3 923	100	3 078	100



Group consolidated embedded value statement

for the year ended 30 June 2007

BUSINESS MODEL

The figures in this report represent the consolidated embedded value of Discovery Holdings Limited and its subsidiaries ("Discovery"). The embedded value is broken down by product category, as detailed below:

Health and Vitality

The Discovery Health Medical Scheme ("DHMS") insures members for healthcare related expenses. Discovery provides administration, managed care and risk management services to DHMS. Profits emerge from medical scheme administration and managed care services provided by Discovery Health (Pty) Limited ("Discovery Health"). The same services offered to DHMS are offered to other closed schemes through Discovery InHouse.

Vitality offers health and lifestyle benefits with selected partners to medical scheme members and Life policyholders. Vitality's function is foundational across Discovery, and it aims to create incentives for members and policyholders to improve their health. The value proposition for members on Vitality was enhanced by the launch of the DiscoveryCard during 2004 and its integration with both the Health and Life products.

KeyClub offers similar benefits to members on the KeyCare plans. Vitality and KeyClub membership are voluntary.

Life

Discovery Life offers policyholders a range of insurance and financial solutions. The Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives. Unique benefits are also offered that integrate with the benefits offered by Discovery Health and Vitality.

Discovery Life Plan – Individual Life

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. The plan includes:

- Life cover benefits
- Disability benefits
- Severe Illness benefits, and
- Income continuation benefits

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health plans in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit. The Health Plan Protector can be added to the Life Plan or can be bought on a stand alone basis.

DiscoveryCard Protector

The DiscoveryCard Protector will fund the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further covers DiscoveryCard spend related to key living expenses for a period of 12, 36 or 60 months. The DiscoveryCard Protector is sold on a stand alone basis.

Discovery Retirement Optimiser

The Retirement Optimiser offers funding for retirement and offers benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms.

Group Life

Discovery Group Life offers a comprehensive spectrum of protection benefits on a group basis. Life cover, Severe Illness, Disability and Income continuation cover is offered.

Destiny Health

Destiny Health Inc. ("Destiny Health") is a health insurer owned by Discovery Holdings and operating in the United States of America.

PruHealth

PruHealth is a joint venture between Discovery and Prudential UK. PruHealth has been providing innovative private medical insurance products to the UK market since October 2004.

EMBEDDED VALUE CALCULATION

An embedded value can be defined as:

- the excess assets over liabilities at the valuation date (ie, shareholders' funds); and
- the value of in-force business at the valuation date (less an allowance for the cost of capital and secondary tax on companies (STC)).

Group consolidated embedded value statement (continued)

for the year ended 30 June 2007

Each of these elements is discussed in more detail below:

1. Shareholders' funds

Prior to 31 December 2005, Life based the embedded value on the Financial Soundness Valuation Method (FSV), and the net asset value was the audited value of the assets of Discovery in excess of its liabilities (including assets under insurance contracts determined using the FSV method).

A change in actuarial guidance (PGN107) effective for financial year-ends on or after 31 December 2005 required long-term insurers to base the embedded value on the Statutory Valuation Method (SVM). The key difference between the two bases for Life is that the value capitalised in the assets under insurance contracts on the FSV basis may not be reflected as an insurance asset under the SVM. The net asset value shown on the published balance sheet has been adjusted to reflect the elimination of the assets under insurance contracts as per the Life statutory accounts. The value of the assets under insurance contracts on the FSV basis is released in the value of in-force of the SVM over time. The capital maintained for Life throughout the projection term is based on the statutory capital as defined by the SVM.

2. Value of in-force business less an allowance for the cost of capital and the cost of STC

The value of in-force business is calculated as the value of the projected future after-tax profits of the business of Discovery Holdings in-force at the valuation date, discounted at the risk discount rate, less an allowance for the cost of capital and the cost of STC. These projections have been performed using best estimate assumptions of future experience.

The value of in-force is calculated by making assumptions about the major influences on the profits of Discovery in the future. For the Health and Vitality products, the future after-tax profit of in-force business represents the value of future profit elements, while the future after-tax profit for the Life product is the release of valuation margins on individual business and the value of future profit elements on Group business. The Life value of in-force includes expected future automatic premium increases.

For Destiny Health, no published value has been placed on the current in-force business. Due to fundamental changes to the alliances with Tufts and Guardian over the past 6 months as well as the changes to the business as a result of the marketing alliance with AEGON, the current book of in-force business is relatively small. Experience with regard to the key embedded value assumptions has also been volatile over the past 12 months. This has made it difficult to set reliable assumptions with regard to future experience. Embedded value calculations on a range of realistic assumption sets indicate that the value of in-force business is essentially zero.

For PruHealth, no value has been placed on the current in-force business due to the relatively small book of business which results in the underlying experience being statistically volatile.

The business of writing life insurance requires Discovery Life Limited to maintain solvency capital. The cost of capital in respect of the in-force business is calculated to equal the amount of solvency capital at the valuation date, less the discounted value, using the risk discount rate, of the expected annual release of this capital over the projection term, allowing for the return after tax and investment management charges on the expected level of solvency capital.

In line with Discovery's current dividend policy, the cost of STC is calculated assuming a 4.5 times dividend cover on the after-tax profits as they emerge over the projection term. The STC rate is assumed to decrease from 12.5% in 2007 to 10% for the remainder of the projection term. The total STC charge has been allocated between the different business entities based on their contribution to the total value of in-force.

EMBEDDED VALUE STATEMENT

Consolidated embedded value

The consolidated embedded value statement is shown in Table 1 below.

TABLE 1

Group embedded value

at 30 June

R million	2007 10 year term for Health and Vitality	2007 20 year term for Health and Vitality[1]	2006	% change[2]
Shareholders' funds	**5 362**	**5 362**	4 212	27
Elimination of assets under insurance contracts	**(2 813)**	**(2 813)**	(2 088)	
Shareholders' funds excluding assets under insurance contracts	**2 549**	**2 549**	2 124	
Value of in-force business before cost of capital	**10 556**	**11 776**	8 774	
Cost of capital	**(32)**	**(32)**	(60)	
Cost of STC	**(247)**	**(275)**	(251)	
Discovery Holdings embedded value	**12 826**	**14 018**	10 587	21
Number of shares (millions)	**538.7**	**538.7**	533.4	
Embedded value per share	**R23.81**	**R26.02**	R19.85	20
Diluted number of shares (millions)	**559.7**	**559.7**	553.2	
Diluted embedded value per share[3]	**R23.25**	**R25.38**	R19.47	19

1 *The term of the Health and Vitality projection is currently set at 10 years. There is significant value in the business after 10 years. Since it is managements' intention to move to a 20 year projection term for Health and Vitality in future, the result of the embedded value based on the extended term is also shown. For the 20 year term projection, the lapse rate assumption in the later years has been increased. The analysis of the change in embedded value below is based on a 10 year projection term. Note that the projection term of the Group Life product remains at 10 years.*

2 *This shows the change in values between June 2006 and June 2007 based on a 10 year term for Health and Vitality.*

3 *The diluted embedded value per share is calculated by increasing the embedded value by the value of the loan to the Discovery Holdings share trust, and by increasing the number of shares by the number of shares issued to the share incentive trust which have not been delivered to participants. An allowance has been made for Discovery's BEE transaction where the impact is dilutive ie, where the current embedded value per share exceeds the current transaction value.*

Shareholders' required return

The shareholders' required return, or risk discount rate, is used to calculate the discounted value of future profits. At 30 June 2007, a discount rate of 11.75% was used.

Value of in-force business

The value of in-force business is shown in Table 2 below:

TABLE 2

R million	Value before cost of capital and STC	Cost of capital	Cost of STC	Value after cost of capital and STC
at 30 June 2007 – ten year term for Health and Vitality				
Health and Vitality	**4 558**	**–**	**(107)**	**4 451**
Life[1]	**5 998**	**(32)**	**(140)**	**5 826**
Total	**10 556**	**(32)**	**(247)**	**10 277**
at 30 June 2007 – 20 year term for Health and Vitality				
Health and Vitality	**5 778**	**–**	**(135)**	**5 643**
Life[1]	**5 998**	**(32)**	**(140)**	**5 826**
Total	**11 776**	**(32)**	**(275)**	**11 469**
at 30 June 2006				
Health and Vitality	4 258	–	(122)	4 136
Life[1]	4 496	(45)	(129)	4 322
Destiny Health	20	(15)	(0)	5
Total	8 774	(60)	(251)	8 463

1 *On the SVM basis, the Life cost of capital is based on a capital adequacy requirement at June 2007 of R145 million. (June 2006: R94 million on the SVM basis).*

Group consolidated embedded value statement (continued)

for the year ended 30 June 2007

EMBEDDED VALUE EARNINGS

The change in embedded value from one year to the next represents the embedded value earnings for Discovery, adjusted for changes to the shareholders' funds.

TABLE 3

Embedded value earnings

for the year ended 30 June

R million	2007	2006
Embedded value at end of period	12 826	10 587
Less: Embedded value at beginning of period	(10 587)	(9 173)
Increase in embedded value	2 239	1 414
Net issue of capital	(45)	(12)
Dividends paid	239	1
Realised loss on minority share buy-back	1	1
Transfer to hedging reserve	6	(1)
Embedded value earnings	2 440	1 403
Return on opening embedded value	23.0%	15.3%

Components of embedded value earnings

The components of the embedded value earnings are explained below.

TABLE 4

Components of embedded value earnings

for the year ended 30 June

R million	2007	2006	% change
Total profit from new business (at point of sale)	685	572	20
Profit from existing business			
• Expected return	1 030	756	
• Change in methodology and assumptions	(13)	(540)	
• Experience variances	553	262	
Reversal of Destiny Health opening value of in-force	(5)	–	
Destiny Health and other new initiative costs[1]	(338)	(128)	
Acquisition costs[2]	(27)	–	
Adjustment for minority interest in Destiny Health	–	10	
Adjustment for Guardian profit share in Destiny Health	–	1	
Foreign exchange rate movements	3	(4)	
Cost of STC	16	–	
Return on shareholders' funds	536	474	
Embedded value earnings	2 440	1 403	74

1 *For 2006, the new initiative costs reflect the expenses relating to the establishment of PruHealth. For 2007, this includes the expenses relating to the establishment and support of PruHealth, PruProtect, the Life investment product and Destiny Health. These costs have not been projected on a recurring basis in the embedded value due to the fact that income from business sold under these initiatives has not been projected. The split between PruHealth, PruProtect and Destiny Health is shown in the segmental income statement.*

2 *Acquisition costs relate to commission paid on Life business that has been written over the period but that will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and thus the commission costs are excluded.*

Profit from new business

The value of one year of new business is determined at the point of sale as the projected future after-tax profits of the business sold during the year, less an allowance for cost of capital and the cost of STC and discounted at the risk discount rate.

In calculating the value of new business, Health new business is defined as individuals and members of new employer groups joining Discovery, irrespective of the size of the employer, and includes additions to first year business. Vitality new business includes all new members joining Vitality over the period. For Life, new business is defined as policies which incepted during the reporting period and which are on risk at the valuation date. Retirement Optimisers added to existing risk plans are included in the value of new business.

TABLE 5

Embedded value of new business

for the year ended 30 June

R million	2007 10 year term for Health and Vitality	2007 20 year term for Health and Vitality	2006	% change[1]
Health and Vitality				
Gross profit from new business at point of sale	**71**	**129**	115	
Cost of capital	**–**	**–**	–	
Cost of STC	**(2)**	**(3)**	(3)	
Net profit from new business at point of sale[2]	**69**	**126**	112	(38)
New business annualised premium income[3]	**1 011**	**1 011**	1 121	(10)
Life				
Gross profit from new business at point of sale	**639**	**639**	532	
Cost of capital	**(8)**	**(8)**	(7)	
Cost of STC	**(15)**	**(15)**	(15)	
Net profit from new business at point of sale	**616**	**616**	510	21
New business annualised premium income[4]	**695**	**695**	592	17
Annualised profit margin[5]	**10.1%**	**10.1%**	10.8%	
Destiny Health				
Gross profit from new business at point of sale	**–**	**–**	(50)	
Cost of capital	**–**	**–**	(0)	
Cost of STC	**–**	**–**	–	
Net profit from new business at point of sale	**–**	**–**	(50)	
New business annualised premium income	**–**	**–**	457	
New business annualised premium income (US$ million)	**–**	**–**	71	

1 *This shows the change in values between June 2006 and June 2007 based on a 10 year term for Health and Vitality.*

2 *The value of new business at 30 June 2007 using a 10 year projection term, net of acquisition costs incurred, was R232 million (30 June 2006: R292 million).*

3 *The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 30 June 2007.*

The total Health and Vitality new business annualised premium income written over the period was R2 677 million (June 2006: R2 612 million).

4 *The new business annualised premium income of R695 million shown above excludes automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R155 million and servicing increases of R121 million was R971 million. Single premium business is included at 10% of the value of the single premium.*

Discovery Retirement Optimisers added to existing Life Plans have been included in the value of new business (other policy alterations are shown in Table 7 as experience variances and not included as new business).

5 *The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.*

Group consolidated embedded value statement (continued)

for the year ended 30 June 2007

Expected return

The risk discount rate is the return investors would have expected to earn on the previous year's value of in-force business. This amount is reflected as the expected return of R1 030 million.

Change in methodology and assumptions

The assumptions used in the embedded value are changed using an active basis to realistically reflect changes in Discovery's operating conditions. The change in methodology and assumptions item will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail below (for previous periods refer to previous embedded value statements). The methodology and assumption changes for June 2007 are based on the SVM method. The methodology and assumption changes for June 2006 are based on the FSV methodology.

TABLE 6

Methodology and assumption changes

for the year ended 30 June 2007

	Health and Vitality		Life		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Total
Modelling changes[1]	–	–	(138)	158	20
Cost of capital modelling changes[2]	–	–	–	(97)	(97)
Economic assumptions	–	(2)	(2)	30	26
Lapse assumption[3]	–	–	4	(63)	(59)
VAT assumption[4]	–	(187)	–	–	(187)
Benefit enhancements[5]	–	–	1	(12)	(11)
Expenses[6]	–	218	(2)	(5)	211
Administration Fees[7]	–	(39)	–	–	(39)
Vitality Benefits	–	(22)	–	–	(22)
Mortality and Morbidity[8]	–	–	3	142	145
Total	–	(32)	(134)	153	(13)

1 The Life modelling changes primarily relate to the modelling of future commission payments and changes to the Global Linkage benefit model. In addition, negative reserves are now zeroised on a per policy level whereas in the past the negative reserve was zeroised on a portfolio level thus reducing the net worth but increasing the value of in-force.

2 The cost of capital modelling change primarily relates to a change in the projection of future capital requirements and the costs associated with future capital requirements. In addition, the cost of capital now assumes that the capital adequacy requirement is backed by assets consisting of 100% equities in all future periods. Previously, it was assumed to be backed by assets consisting of 70% equities and 30% fixed interest securities.

3 The Life lapse assumption has been increased following higher than expected lapse experience.

4 This reflects an increase in the average VAT rate modelled to 14%.

5 The Life benefit enhancements relate primarily to enhancements on the Health Plan Protector and Integrator products.

6 The renewal expense assumption change is based on the results of the most recent expense and budget information.

7 This reflects the present value impact of a R15 million reduction in the Health administration fees for the 2008 calendar year.

8 The Life mortality and morbidity assumption was weakened to partly reflect the significant and sustained historic claims experience variances.

Experience variances

The embedded value is based on a series of assumptions about the future. To the extent that actual experience differs from these assumptions, then the actual profits will differ from those expected. The experience variance items approximately quantify this difference.

The following table gives a breakdown of the main experience variances for the year ended 30 June 2007. The experience variances for June 2007 are shown on the SVM methodology. The experience variances for June 2006 are based on the FSV methodology.

TABLE 7

Experience variances

for the year ended 30 June 2007

	Health and Vitality		Life		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Total
Renewal expenses	**44**	**–**	**11**	**–**	**55**
Non-recurring expenses[1]	**(8)**	**–**	**(9)**	**–**	**(17)**
Economic assumptions	**0**	**0**	**5**	**(17)**	**(12)**
Extended modelling term[2]	**–**	**235**	**–**	**8**	**243**
Lapses[3]	**11**	**109**	**(15)**	**(8)**	**97**
Cancellations[4]	**–**	**–**	**6**	**(26)**	**(20)**
Policy alterations	**–**	**10**	**(17)**	**124**	**117**
Premium increases	**–**	**–**	**3**	**9**	**12**
Mortality and morbidity[5]	**17**	**–**	**52**	**33**	**102**
Deferred profits released	**–**	**–**	**39**	**(39)**	**–**
Tax	**(12)**	**–**	**(10)**	**3**	**(19)**
Timing of cash flows[6]	**19**	**–**	**(25)**	**21**	**15**
Administration fees[7]	**11**	**(23)**	**–**	**–**	**(12)**
Other	**14**	**3**	**(25)**	**(0)**	**(8)**
Total	**96**	**334**	**15**	**108**	**553**

1 *The Health and Vitality non-recurring expenses relate to expenses incurred in the development of the WellPoint product. For Life, this relates to non-recurring expenses incurred in the establishment of the Smartcall Joint Venture and a new distribution channel.*

2 *The projection term for Health, Vitality and Group Life at 30 June 2007 has not been changed from the 10 year term used at 30 June 2006. Thus, an experience variance arises because the total term of the in-force business is effectively increased by one year.*

3 *Included in the Health and Vitality lapse experience variance is an amount of R373 million in respect of members joining existing employer groups during the period, offset by an amount of R282 million in respect of members leaving existing employer groups. A positive variance of R30 million is due to lower than expected lapses.*

4 *Backdated cancellations are in respect of policies cancelled to the inception date with a corresponding refund of premiums.*

5 *For Health, this relates to risk profits earned on the Select benefit options and the KeyCare capitation arrangement.*

6 *In practice certain cash flows occur earlier or later during the period than expected and thus gives rise to value differences.*

7 *In July 2007, Discovery Health agreed to reduce administration fees charged to Discovery Health Medical Scheme by approximately R3 million per month before tax for the 2007 calendar year (backdated to 1 January 2007). This reduction has been allowed for in the embedded value projection with effect from 1 January 2007 but has not been included in the income statement.*

Return on shareholders' funds

The return on shareholders' funds of R536 million represents the investment return earned on shareholder assets after tax and investment management charges.

Group consolidated embedded value statement (continued)

for the year ended 30 June 2007

EMBEDDED VALUE ASSUMPTIONS

The principal assumptions used in the calculation of the value of in-force business and the value of new business are set out below. These assumptions represent a best estimate view of the future:

General

- It was assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 100% equities for the purposes of calculating the cost of capital at risk. Allowance has been made for tax and investment expenses in the calculation of the cost of capital.
- The investment return assumption was based on a single interest rate derived from the risk free zero coupon yield curve. Other economic assumptions were set relative to this yield. The risk discount rate has been set relative to the risk-free rate, increased by a risk premium. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.
- In line with Discovery's current dividend policy, the cost of STC is calculated assuming a 4.5 times dividend cover on the after-tax profits as they emerge over the projection term.
- A notional allocation of corporate overhead expenses has been made to each of the subsidiary companies based on managements' view of each subsidiary's contribution to overheads. This includes allocations to the overseas operations (Destiny Health, PruHealth and PruProtect) which have not been projected on a recurring basis in the embedded value due to the fact that the income from business sold under these initiatives has not been projected in the embedded value. The corporate overhead expense allocation to Destiny Health has not been included under Destiny Health in the segmental income statement.

Health and Vitality

- The embedded value term has been set at 10 years for Health and Vitality. There is significant value in the business after 10 years. Since it is managements' intention to move to a 20 year projection term for Health and Vitality in future, the result of the embedded value based on the extended term is also shown. For the 20 year term projection, the lapse rate assumption in the later years has been increased.
- The Health administration and managed care fees are assumed to increase at the expense inflation rate.
- Lapse assumptions are based on the results of recent experience investigations. Negative turnover on employer groups is not modelled as lapses.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.

Life

- Mortality, morbidity and lapse assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.
- The embedded value projection term for group business has been set at ten years.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.

TABLE 8

Embedded value assumptions

for the year ended 30 June

		2007	2006
Risk discount rate (%)			
– Health and Vitality		**11.75**	12.00
– Life		**11.75**	12.00
– Destiny Health		**–**	10.00
Medical inflation (%)			
South Africa		**7.75**	8.00
United States		**–**	Current levels reducing to 13.00% over the projection period
Expense inflation (%)			
South Africa		**4.75**	5.00
United States		**–**	3.00
Pre-tax investment return (%)			
South Africa	– Cash	**7.25**	7.50
	– Bonds	**8.75**	9.00
	– Equity	**10.75**	11.00
United States	– Bonds	**–**	3.00
Dividend cover ratio		**4.5 times**	4.5 times
Income tax rate (%)			
– South Africa		**29.00**	29.00
– United States Federal Tax Rate[1]		**–**	34.00

1 *Various additional State taxes also apply.*

Group consolidated embedded value statement (continued)

for the year ended 30 June 2007

SENSITIVITY TO THE EMBEDDED VALUE ASSUMPTIONS

In order to illustrate the effect of using different assumptions, the sensitivity of the embedded value at 30 June 2007 to changes in the key assumptions is shown below. For each sensitivity illustrated, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

TABLE 9

Embedded value sensitivities

at 30 June 2007

R million	Shareholders' funds excluding assets under insurance contracts	Health and Vitality			Life			Embedded value	% change
		Value of in-force	Cost of capital	Cost of STC	Value of in-force	Cost of capital	Cost of STC		
Base	2 549	4 558	–	(107)	5 998	(32)	(140)	12 826	
Impact of:									
Risk discount rate +1%	2 549	4 395	–	(102)	5 532	(42)	(128)	12 204	(5)
Risk discount rate –1%	2 549	4 731	–	(112)	6 556	(20)	(155)	13 549	6
Lapses +10%	2 549	4 475	–	(105)	5,667	(29)	(133)	12,424	(3)
Investment return –1%[1]	2 549	4 558	–	(93)	5 673	(42)	(116)	12 529	(2)
Renewal expenses +10%	2 549	4 051	–	(95)	5 935	(32)	(139)	12 269	(4)
Mortality and morbidity +10%	2 549	4 558	–	(107)	5 450	(34)	(127)	12 289	(4)
Health and Vitality: Projection term +1 year	2 549	4 788	–	(112)	5 998	(32)	(140)	13 051	2

1 For Life, both investment return and inflation assumptions were reduced by 1%.

The following table shows the effect of using different assumptions on the value of new business.

TABLE 10

Value of new business sensitivities

at 30 June 2007

R million	Health and Vitality			Life			Value of new business	% change
	Value of in-force	Cost of capital	Cost of STC	Value of in-force	Cost of capital	Cost of STC		
Base	71	–	(2)	639	(8)	(15)	685	
Impact of:								
Risk discount rate +1%	62	–	(1)	517	(11)	(14)	553	(19)
Risk discount rate –1%	80	–	(2)	787	(5)	(17)	843	23
Lapses +10%	66	–	(2)	556	(7)	(14)	599	(13)
Investment return –1%[1]	71	–	(1)	556	(11)	(12)	603	(12)
Renewal expenses +10%	32	–	(1)	623	(8)	(15)	631	(8)
Mortality and morbidity +10%	71	–	(2)	516	(9)	(14)	562	(18)
Health and Vitality:								
Projection term +1 year	82	–	(2)	639	(8)	(15)	696	2
Acquisition expenses +10%	53	–	(1)	605	(8)	(14)	635	(7)

1 For Life, both investment return and inflation assumptions were reduced by 1%.

Directorate, secretary and corporate governance committees

DISCOVERY HOLDINGS DIRECTORATE

Executive

A Gore
NS Koopowitz
HP Mayers
A Pollard*
JM Robertson
B Swartzberg
SD Whyte**

Non-executive

Dr BA Brink
JP Burger
LL Dippenaar (Chairman)
Dr NJ Dlamini
SB Epstein (USA)
PK Harris***
MI Hilkowitz (Israel)
Dr TV Maphai
S Sebotsa
SV Zilwa

* *Appointed 30 August 2007*
** *Resigned 30 August 2007*
*** *Appointed 15 February 2007*

BOARD OF DIRECTORS

Dr Brian Brink (55)

BSc (Med), MBBCh, DA (SA)
Non-executive director

Dr Brian Brink has been employed by Anglo American South Africa for more than 20 years and in his current capacity as Senior Vice President: Health, he advises Anglo Group companies on a broad range of health related issues. Dr Brink also spends much of his time advising businesses on how to respond effectively to HIV and AIDS; he is currently the alternate board member representing the private sector on the board of the Global Fund to fight AIDS, TB and malaria.

Johan Burger (48)

BCom (Hons), CA (SA)
Non-executive director

Johan Burger is the chief financial officer of FirstRand Limited and financial director of FirstRand Bank Holdings.

Laurie Dippenaar (58)

MCom, CA (SA)
Chairman

Laurie Dippenaar was the chief executive officer of FirstRand Limited, until his retirement in January 2006. Prior to the creation of FirstRand in 1998, he was executive chairman of Momentum Life Assurers and played an integral part in the history of Rand Merchant Bank.

Dr Judy Dlamini (48)

MBChB, Diploma in Occupational Health, MBA
Non-executive director

Judy founded Mbekani Health & Wellbeing (Pty) Ltd, and is also the executive chairperson. Judy was previously employed as a senior manager at HSBC Investment Services (Africa) (Pty) Ltd in corporate finance, and prior to this, practiced as a family practitioner for many years. She also sits on the boards of Northam Platinum Ltd, Aspen Pharmacare Ltd and Gijima Ast Group Ltd.

Steven Epstein (64) (USA)

JD, Columbia University Law School, BA, Tufts University
Non-executive director

Steven is the founder and senior partner of Epstein Becker & Green, one of the largest US based health law firms that support clients in health practice on issues that range from health policy to strategic partnering to complex compliance issues. He sits on the board of Destiny and a number of health care companies and venture capital firms. For over 30 years, he has played a unique role in establishing the concept that health care organisations need a dedicated form of legal representation.

Adrian Gore (43)

BSc (Hons), FFA, ASA, MAAA, FASSA

Adrian started Discovery Health in 1992 after conceiving the idea of a specialist risk management company that offered clients innovation, flexibility, value and excellent service. He was chosen as the Ernst & Young Entrepreneur of the Year in 1998. He currently serves on the boards of Discovery Holdings, PruHealth (UK) and Destiny Health (USA), as well as the Ethics Institute of South Africa.

Paul Harris (56)

MComm (Stellenbosch)
Non-executive director

Paul Harris is currently the chief executive officer of FirstRand. Before his appointment in January 2006, he was the chief executive officer of FirstRand Bank. Paul was one of the founding shareholders of Rand Consolidated Investments Ltd that acquired Rand Merchant Bank in 1985. In 1987, Paul started the Australian Gilt Securities in Sydney. The company was later renamed RMB Australia and extended its business to the private equity, resources and energy markets in New Zealand and Australia. Paul is also a director of FirstRand Bank Holdings, Remgro Holdings, Momentum Group and RMB Holdings.

Monty Hilkowitz (67)

FIA
Non-executive director

Monty worked for Southern Life Association and Swiss Re prior to joining Liberty Life in 1971. Monty was appointed managing director in 1978. He was appointed as chief executive officer of Westpac Life in Australia in 1986. He has been self-employed since 1989 and involved in investment management, financial services and insurance interests in several countries. He is currently a director of The Dublin Network and Acuvest, specialist financial services companies in Ireland. He also serves as chairman of Pioneer International.

Directorate, secretary and corporate governance committees
(continued)

Neville Koopowitz (43)

BCom, CFP

Neville joined Discovery as marketing director in 1996 and has played a key role in defining and building the Discovery identity. A particular area of focus of his has been the development of Vitality and recently the DiscoveryCard. He also played an important role in the development of Discovery's sales and distribution environments. He is currently the chief executive officer of Discovery Health. He serves on the board of the Sports Science Institute of South Africa and the Board of Trustees of the Laureus Sport for Good Foundation's South African chapter.

Dr Vincent Maphai (55)

BA, BA (Hons), M PHIL, D PHIL, Advanced Management Program (Harvard)

Non-executive director

Dr Maphai is the chairperson of BHP Billiton SA, and he was formerly the corporate affairs director of SAB and non-executive chair of Castle Brewing Namibia. In an academic career spanning two decades, he taught at various universities both locally and abroad and consulted with several blue-chip companies on a range of HR issues. He was also a research executive director of social dynamics at the HSRC for three years. He has served on the boards of various companies as non-executive chair, and he has chaired the SABC, the Presidential Review Commission into the restructuring of the public sector, and the South African Responsible Gambling Trust. Dr Maphai is also the chairperson of the Discovery Foundation.

Herschel Mayers (47)

BSc (Hons), FIA, FASSA

Herschel joined Discovery in 2000 to set up and launch its life insurance arm, Discovery Life. Prior to that he spent twenty years in senior positions at Liberty Life heading up administration, underwriting, systems, technology, product development and finance for group and individual life business. He was also a director of Millennium, Guardbank, Oracle and Liberty Health Care.

Herschel was appointed CEO of Discovery Life in 2006. He also serves on the board of Discovery Holdings, Vitality and the Life Offices Association of SA.

Alan Pollard (38)

BSc (Hons), FIA, FSSA

Alan was employed by Liberty Life as Assistant Actuary, Product Development between 1990 and 1994. In 1994 he joined Discovery Health and headed up Research and Development, being responsible for the design and development of the Discovery Health products. He is currently the CEO of Discovery Vitality and is a member of the Executive Committee of the Discovery Group.

John Robertson (59)

BCom, CTA, CA (SA), HDipTax

John joined Discovery Health in April 1993 and was responsible for information technology strategy, systems development, information technology networks and finance. He is currently responsible for all aspects of information technology, e-commerce and all internal corporate operations at Discovery. He is also responsible for the strategic development of technology and information systems for Destiny Health Inc. and for the South African operations of the PruHealth joint venture.

Sonja Sebotsa (35)

LLB (Hons), MA

Non-executive director

Sonja has been an executive director at WDB Investment Holdings since 2002 playing an important role in the design and execution of transactions and the management of ongoing investment relationships. She was previously a vice president in the investment banking division of Deutsche Bank, where she gained more than five years experience in advisory work on Mergers & Acquisitions and Corporate Finance. She has specific experience in advising government on the sale of assets and potential investors on purchasing or disposing of equity stakes in companies.

Barry Swartzberg (42)

BSc, FFA, ASA, FASSA, CFP

Barry, a qualified actuary, joined Discovery Health at its inception in 1992. As one of the company's pioneers, he was instrumental in setting up the company's marketing division, as well as driving the evolution of Discovery Health's risk management and operational areas. He is currently the Group executive director of Discovery Health and serves on the boards of Discovery Holdings and Destiny Health.

Stewart Whyte (45)

Stewart started his career with Liberty Life. He worked in various departments of the life insurance division and set up the Medical Lifestyle division in 1991. In September 1992, he joined Discovery Health as one of its founding members.

Stewart was responsible for implementing all operational areas of the company. He has since relocated to the USA where he is a board member of Destiny Health.

Sindi Zilwa (40)

BCompt (Hons), CTA, CA (SA), Advanced Taxation Certificate, CFP, Advanced Diploma in Financial Planning

Non-executive director

Sindi is the chief executive officer of Nkonki, a chartered accountancy firm. She was the second black women to qualify as a CA in 1998. She was awarded the Business Women of the Year title by the Executive Women's Club. She is a member of SAICA's Education Committee, and serves on the boards of Woolworths, Primedia and Strate Limited.

COMPANY SECRETARY

MJ Botha
BCompt

ACTUARIAL COMMITTEE

AB Rayner (Chairman)
BSc (Hons), ARCS, FIA, FASSA

RD Williams (Statutory Actuary)
BBus Sc, FIA

HP Mayers

S Matisonn
BSc, FFA, FASSA, ASA, MAAA

B Swartzberg

T Nzimande
CA (SA), Diploma in Company Law

JP Burger (by invitation)

SV Zilwa (by invitation)

AUDIT AND RISK COMMITTEE

JP Burger (Chairman)

AH Arnott
BCom, CA (SA)

S Sebotsa

SV Zilwa

REMUNERATION COMMITTEE

LL Dippenaar (Chairman)

NJ Dlamini

T Slabbert
BA, MBA, TEFL Preparation Certification

M Olivier (independent HR expert)

TRANSFORMATION COMMITTEE

NJ Dlamini (Chairperson)

T Slabbert

SV Zilwa

A Gore

B Swartzberg

HP Mayers

JM Robertson

NS Koopowitz

EXECUTIVE COMMITTEE

A Gore

J Broomberg
MBBCh (Rand), MA (Oxon), MSc (Lond), PhD (Lond)

R Farber
BCom (Hons), CA (SA), ACMA

HD Kallner
BEconSc, FFA, FASSA

NS Koopowitz

K Kropman
MBBCh (Wits), MBA (UCT)

S Matisonn

HP Mayers

K Mayet
BA (Hons), LLB, LLM

A Pollard

K Rabson
BSc Actuarial, FIA, FASSA

JM Robertson

B Swartzberg

P Tlhabi
MBChB (Medunsa), MAP (Wits), AHLF (Pompeu Fabra)

J van Rooyen
BA, LLB, HDip Co Law (Wits)

Corporate governance

INTRODUCTION

The directors of Discovery Holdings Limited and its subsidiaries ("Discovery") are responsible for ensuring best corporate governance for the Group. Within the South African context these principles are embodied in the King II Report on Corporate Governance for South Africa 2002 ("King II").

Corporate governance, the system by which companies are managed and controlled, is of the utmost importance to the directors of a company and its stakeholders.

Discovery is committed to an open governance process that provides our stakeholders with certainty that the Group is being managed ethically, within prudent risk parameters and in compliance with international best practice.

The directors are satisfied that Discovery has in all material respects complied with the provisions and the spirit of King II, unless otherwise stated in this report.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Discovery has a unitary board with a clear division of responsibilities. This ensures a balance of power and authority, so that no single individual has unfettered powers of decision-making.

The boards of Discovery Holdings Limited, Discovery Life Limited, Discovery Health (Pty) Ltd and Vitality Healthstyle (Pty) Ltd are exactly the same and function as an integrated unit in practice as far as possible. The board meetings of these companies have been combined, resulting in improved efficiency and flow of information. The chairman of Discovery is non-executive but not independent in terms of King II. The roles of the chairman and the chief executive officer are separate with segregated duties.

At the date of publication of this annual report, the board consisted of 16 members, six of whom are executive and ten non-executive directors. Of the non-executive directors, seven are independent, including the two directors representing the BEE partners. Three non-executive directors represent FirstRand Limited, the holding company, on the board. They are therefore not considered to be independent. The members of the board bring to it an appropriate mix of diverse skills, experience and backgrounds.

In terms of the board's charter, it has the following responsibilities:

- to be the guardian of the values and ethics of Discovery;
- to consider major capital expenditure, acquisitions and disposals and any other matters which are defined as material;
- to appoint the chief executive officer;
- to approve the strategic direction of Discovery and the budgets that are necessary for its implementation;
- to monitor the executive management in the implementation of the corporate vision and strategy;
- to ensure that at all times there is compliance with the letter and the spirit of the law; and
- to communicate with shareholders openly and timeously throughout the year.

The company secretary arranges induction and orientation programmes for new directors and education is ongoing. This includes an explanation of their fiduciary duties and responsibilities and visits to divisions, where discussions with management facilitate an understanding of Discovery.

DUTIES OF THE DIRECTORS

The directors exercise their fiduciary duty and act in good faith, with due diligence and care, and in the best interests of the company and all stakeholders. The fundamental responsibility of the board is to improve economic prosperity of the Group over which it has full and effective control. A report from the chief executive officer is presented at each board meeting. The board also receives reports from the audit and risk, actuarial, transformation and remuneration committees.

BOARD PERFORMANCE ASSESSMENT

A collective board-effectiveness evaluation is done annually. This evaluation aims to find ways to improve the board's effectiveness over time. The board discusses the outcome of the evaluation and suggestions and improvements are then implemented. The board members also assess the performance of the chairman and the results are then discussed.

APPOINTMENT OF DIRECTORS

The board is responsible for identifying potential new directors. This policy is formal and transparent and a matter for the board as a whole. A separate nominations board does therefore not exist. Non-executive directors are appointed for three years and re-appointments are not automatic. The executive directors all have contracts that can be terminated with one month's notice. Directors are required to subscribe to the Discovery code of ethics.

BOARD PROCEEDINGS

The board meets six times a year. A separate strategy day is arranged where executive management is also invited to present and discuss strategy matters with the board. Additional meetings are convened as and when necessary. Directors have full and unrestricted access to relevant information and are also entitled to seek independent professional advice at the expense of Discovery to support them in their duties.

During the past financial year the attendance was as follows:

	Aug 2006	Oct 2006	Dec 2006	Feb 2007	Apr 2007	Jun 2007
LL Dippenaar (Chairman)	✓	✓	✓	✓		✓
A Gore (Chief Executive Officer)	✓	✓	✓	✓	✓	✓
BA Brink	✓	✓	✓	✓	✓	✓
JP Burger	✓		✓	✓	✓	✓
NJ Dlamini	✓	✓	✓	✓	✓	✓
SB Epstein	✓	✓	✓	✓		✓
PK Harris (Appointed 15 February 2007)				✓		
MI Hilkowitz	✓	✓	✓	✓	✓	✓
NS Koopowitz	✓	✓	✓	✓	✓	✓
TV Maphai	✓	✓	✓	✓	✓	
HP Mayers	✓	✓	✓	✓	✓	✓
JM Robertson	✓	✓	✓	✓		✓
S Sebotsa	✓	✓	✓	✓	✓	✓
B Swartzberg	✓	✓	✓	✓		✓
SD Whyte	✓	✓	✓	✓	✓	
SV Zilwa	✓		✓	✓		✓

Richard Farber, the CFO of the Group, attends the board meetings by invitation.

BOARD COMMITTEES

To assist the board with its collective responsibility, several committees have been established to perform specific tasks and responsibilities. The overall responsibility, however, remains with the board. The board committees currently in place are:

Holdings executive committee

The holdings executive committee is empowered and responsible for implementing the strategies approved by the Discovery board and for managing the affairs of Discovery. The holdings executive committee is chaired by the chief executive officer and meets weekly.

The various business units, including the offshore operations (Destiny and PruHealth) also have executive committees. All the executive committees meet weekly except for PruHealth which currently meets every second week. Feedback on the activities of each business unit is given at the weekly meetings of the holdings executive committee.

Audit and risk committee

Discovery is exposed to risk through its financial assets, financial liabilities, reinsurance assets and insurance assets and liabilities.

The board of Discovery is responsible for overseeing business performance and risk management activities. The board is supported in these tasks by the audit and risk committees and their sub-committees.

The audit and risk committee is chaired by a non-executive director.

The responsibilities of the audit and risk committee are:

- to ensure the integrity of the company's financial statements;
- to ensure the company's compliance with legal and regulatory requirements;
- to determine and verify the external auditor's qualifications and independence and to evaluate their performance;
- to evaluate, monitor and ensure the performance of the company's internal audit function;
- to maintain transparent and appropriate relationships with the external auditors and to set the principles for recommending the use of external auditors for non-audit services;
- to review the scope, quality and cost of the statutory audit;
- to evaluate, monitor and ensure the efficiency of the company's risk management process;
- to safeguard the assets of the company; and
- to ensure the effective operation of systems and business processes.

The audit and risk committee meets four times per year. The executive management team and representatives of the external audit and internal audit teams, also attend these meetings.

The board recognises the need for members of the actuarial committee to attend the audit and risk committee meetings, and vice versa. This ensures that the full spectrum of responsibilities of the two committees are addressed and noted in both these forums. Mr Andy Rayner, the independent chairman of the actuarial committee, attends the audit and risk committee meetings while Mr Johan Burger and Ms Sindi Zilwa attend the actuarial committee meetings.

During the past financial year the attendance at audit and risk committee meetings was as follows:

	Aug 2006	Nov 2006	Feb 2007	May 2007
JP Burger (Chairman)	✓	✓	✓	✓
AH Arnott	✓	✓	✓	✓
S Sebotsa	✓	✓		✓
SV Zilwa			✓	✓

Individual risk committees for each business unit have been established as sub-committees of the audit and risk committee. Each risk committee meets monthly and the CEOs of the business units, members of its executive committee and key risk management stakeholders from compliance and internal audit, attend these meetings. The prime objective is to ensure the appropriate identification and control of key financial and non-financial risks using the enterprise-wide risk management framework.

The divisional risk committees are responsible for:

- receiving and evaluating reports on the risk profile for the business in terms of severity, likelihood and the current effectiveness of control measures of the major risks;
- developing any plans to address any risks where further control improvements are necessary;
- implementing the risk management strategies;
- implementing risk control action plans; and
- assessing the results of internal and external audit assessments and for implementing recommendations.

Actuarial committee

The responsibilities of the actuarial committee are:

- to consider the financial soundness valuation results of Discovery including overall methodology and assumptions used to value the assets and liabilities of the Group as well as the overall checks and controls applied by the statutory actuary;
- to consider the embedded value results of Discovery including the overall methodology and assumptions used in the embedded value calculation, as well as the overall checks and controls applied by the responsible actuary;
- to review the external disclosure of the financial soundness valuation results and the embedded value results of Discovery;
- to ensure that, from an actuarial perspective, Discovery complies with all statutory requirements and adheres to international best practice;
- to consider the capital position of Discovery;
- to ensure that the necessary processes and forums are in place to enable the statutory actuary to determine the actuarial soundness of new products as well as revisions of existing products; and
- to review all reinsurance arrangements whether acting as reinsurer or reinsured.

The actuarial committee met seven times during the year. The chief financial officer, the external auditors, the external and the internal actuaries for Discovery Health, Discovery Life, Destiny Health and PruHealth were in attendance if needed. During the past financial year the attendance of actuarial committee meetings was as follows:

	Jul 2006	Aug 2006	Nov 2006	Jan 2007	Feb 2007	May 2007	Jun 2007
AB Rayner (Chairman)*	✓	✓	✓	✓	✓	✓	✓
S Matisonn	✓		✓			✓	
HP Mayers	✓	✓		✓	✓		✓
B Swartzberg	✓	✓	✓		✓	✓	
RD Williams	✓	✓	✓	✓	✓	✓	✓
T Nzimande**	✓	✓	✓	✓	✓	✓	✓

* *Mr Rayner is a qualified actuary and employed by the actuarial consultancy of Deloitte. Mr Rayner is not a member of the board.*

** *Ms Nzimande represents WDB, one of Discovery's BEE partners. Ms Nzimande is not a member of the board.*

Remuneration committee

The primary objective of the remuneration committee is to develop a rewards strategy. It is responsible for:

- evaluating the performance of the executive directors;
- recommending remuneration packages for executive directors;
- recommending policy relating to the bonus and share incentive schemes;
- recommending the basis for non-executive directors' fees; and
- reviewing annual salary increases.

The remuneration committee met twice during the year and the attendance was as follows:

	Aug 2006	Jun 2007
LL Dippenaar (Chairman)	✓	✓
NJ Dlamini	✓	✓
M Olivier*		✓
T Slabbert**		✓

* *Mr Olivier is an independent remuneration expert and is not a member of the board.*

** *Ms Slabbert represents WDB, one of Discovery's BEE partners. Ms Slabbert is not a member of the board.*

The CEO, CFO, the head of HR and the managing directors of the business units attend the meetings by invitation.

Executive directors are not involved in setting their own remuneration.

Details of the respective directors' remuneration for the year under review can be found in the Directorate section.

Corporate governance (continued)

Transformation committee

The primary objectives of the transformation committee are to ensure compliance with both the spirit and letter of transformation in South Africa. Compliance will be measured through an agreed scorecard and any other measures that apply to the charters and the Department of Trade and Industry's Codes of Good Practice.

The committee met three times during the year. The CEO and the CEOs of the business units, the head of HR and the CFO also attended the meetings.

	Oct 2006	Nov 2006	Mar 2007
NJ Dlamini (Chairman)	✓	✓	✓
SV Zilwa	✓		✓
T Slabbert*		✓	✓

* *Ms Slabbert represents WDB, one of Discovery's BEE partners. Ms Slabbert is not a member of the board.*

As mentioned in the previous report, Dr TV Maphai was invited to join the transformation committee. He has since indicated that his responsibilities as chairman of the Discovery Foundation do not allow him to pay sufficient time and attention to the transformation committee. Dr Maphai has therefore declined the invitation to join the transformation committee.

Shareholders assets investments committee

This committee is responsible for directing the investment policy and strategy of shareholders' assets in support of Group operations.

COMPANY SECRETARY

MJ Botha is the company secretary. He is suitably qualified and has access to the Discovery secretarial resources.

The company secretary provides support and guidance to the board in matters relating to governance and ethical practices across Discovery (as defined above). The directors all have unlimited access to the advice and services of the company secretary. The directors are also entitled to seek independent professional advice to help them with their responsibilities. Discovery will pay for these costs. The company secretary ensures the proper administration of board and sub-committee proceedings.

The company secretary's other functions include providing direction to the directors with their responsibilities within the statutory environment and the non-dealing in company shares during restricted periods as prescribed by the JSE Limited requirements. A written notice is given to all Discovery directors and employees informing them that they may not deal in shares during a restricted period. Restricted periods in share trading are from 1 January and 1 July, until the release of Discovery's interim and final results respectively. Closed periods will also apply during other price-sensitive transactions. A strict pre-approval policy and process is in place for all Discovery directors. All share transactions in Discovery shares by directors and the company secretary are disclosed to the JSE through the Stock Exchange News Service (SENS).

CODE OF CONDUCT

Discovery requires high standards of business ethics, morals, honesty and integrity from all employees in the business operations of the Group. Discovery has a published code of conduct that all directors and employees of the Group, must adhere to. All employees are required to sign a declaration of adherence to Discovery's Code of Conduct. The code explicitly states Discovery's approach to conducting business ethically with full compliance, and in the best interests of all stakeholders.

Discovery's Code of Conduct explains how the code applies and the general obligations of directors and employees. It also states the principles that guide the code and how directors and employees should comply with the code in the following areas:

- personal behaviour;
- disclosure of information;
- media relations;
- conflict of interest;
- gifts;
- commission;
- plagiarism and company assets;
- proprietary interest;
- network, internet and email;
- gambling;
- dress code;
- alcohol and drugs; and
- compliance with governing laws and regulations.

The code of conduct is published on the company's intranet site.

Discovery also has a dedicated team that monitors the Group's business operations in terms of compliance. This division regularly interacts with all regulatory bodies to ensure that Discovery conducts its business operations with full legal compliance.

Employees of Discovery also have access to a secure and confidential online and telephonic fraud reporting channel. Details of the reporting channel are available on Discovery's website as well as the company intranet site.

COMMUNICATION WITH STAKEHOLDERS

The directors support the release of accurate information to Discovery stakeholders. To this end Discovery makes use of reports and announcements to all audiences and meetings with investments analysts and journalists. The website is also regularly updated. Stakeholders are encouraged to share their views with Discovery and transparency and optimal disclosure is always the end goal in communication. Shareholders receive open invitations to attend the annual general meeting of the company and all directors are expected to be present at this meeting.

GOING CONCERN

The board is satisfied that Discovery has adequate resources to continue with its operations in the near future. Based on this view, Discovery's financial statements have been prepared on a going concern basis.

AUDITOR INDEPENDENCE

The Discovery financial statements have been audited by the independent auditors PricewaterhouseCoopers Inc. The auditors for Destiny Health and PruHealth are Deloitte & Touche LLP and KPMG respectively. Discovery believes that the external auditors have observed the highest level of business and professional ethics. It has no reason to believe that the external auditors have not at all times acted with unimpaired independence.

Details of fees paid to the external auditors for audit services are included in the Group's annual financial statements. It is Discovery's policy to ensure that it makes use of the most suitable organisation for any professional services it may require. Fees paid for non-audit services provided by the external auditors are disclosed in the financial statements. These fees have also been disclosed and discussed by the audit committee.

Annual financial statements

for the year ended 30 June 2007

Contents

Eight-year review

for the year ended 30 June

	Pre-IFRS								
	Group 2000	Group 2001	Group 2002	Group 2003	Group 2004	Group 2005	Group 2006	**Group 2007**	Compound growth %
New business API (Rm)	1 322	2 177	2 339	3 148	3 213	4 342	4 479	**5 159**	21
Gross inflows under management									
Gross inflows under management	3 559	5 494	7 739	10 946	14 345	17 295	20 427	**23 911**	31
Less: Collected on behalf of third parties	1 310	2 117	3 877	7 190	10 647	13 266	14 988	**17 338**	45
Less: Money Market contributions	221	559	357	–	–	–	–	**–**	
Gross income of Group	2 028	2 818	3 505	3 756	3 698	4 029	5 439	**6 573**	18
Income statement extracts									
Profit from operations	122	216	318	460	829	923	1 263	**1 510**	43
– Local operations	155	277	426	629	961	1 151	1 547	**1 849**	
– Foreign operations	(33)	(61)	(108)	(169)	(132)	(228)	(284)	**(339)**	
Headline earnings	51	130	236	356	406	509	531	**886**	50
Abnormal items*	–	–	(45)	(84)	–	–	161	**34**	
Headline earnings before abnormal items	51	130	191	272	406	509	692	**920**	51
Diluted headline earnings per share before abnormal items	14.3	33.6	48.1	65.7	77.4	94.2	97.0	**162.2**	41

* *Abnormal items include BEE expenses*

	Group 2000	Group 2001	Group 2002	Group 2003	Group 2004	Group 2005	Group 2006	**Group 2007**	Compound growth %
Balance sheet extracts									
Total assets	1 298	2 082	2 308	3 349	4 032	5 280	6 792	**8 643**	31
Shareholders' funds	406	576	928	1 164	2 503	3 290	4 212	**5 362**	45
Embedded value									
Embedded value (Rm)	2 114	3 156	3 321	4 928	6 832	9 173	10 587	**12 826**	29
Diluted embedded value per share (R)	5.50	8.15	8.26	12.20	12.89	16.93	19.47	**23.25**	23
Key ratios									
Return on average equity (%)	21	30	38	39	24	20	18	**22**	
Return on average assets (%)	5	8	11	13	11	12	11	**14**	
Capital adequacy requirement (times)	–	–	–	–	10.2	12.9	14.0	**10.5**	
Exchange rates									
Rand/US$									
– Closing	6.77	8.07	10.31	7.56	6.18	6.68	7.13	**7.07**	
– Average	6.40	7.42	9.19	8.89	6.77	6.19	6.44	**7.21**	
Rand/GBP									
– Closing	10.26	11.35	15.75	12.47	11.20	11.97	13.15	**14.17**	
– Average	9.88	10.81	14.81	14.12	11.83	11.50	11.45	**13.99**	
Share statistics									
Number of ordinary shares in issue									
– Weighted average (000's)	378 285	388 417	390 411	391 714	504 051	519 188	528 946	**536 560**	
– Diluted weighted average (000's)	386 970	400 047	414 701	430 963	536 025	553 227	574 871	**546 579**	
– End of period (000's)	384 979	386 026	390 625	397 800	532 416	548 957	591 953	**591 953**	
Price/diluted headline earnings (times)	78.7	32.5	12.2	8.7	16.6	23.4	20.7	**17.9**	
Share price (cents per share):									
– High	1 310	1 300	1 140	900	1 425	2 550	2 700	**3 350**	
– Low	745	1 000	640	590	695	1 210	1 825	**2 020**	
– Closing	1 125	1 090	720	745	1 283	2 200	2 010	**2 903**	
Market capitalisation (Rm)	4 331	4 207	2 812	2 964	6 831	12 077	11 898	**17 184**	

Report of the chief financial officer

for the year ended 30 June 2007

Discovery Holdings Limited is a majority-owned subsidiary of FirstRand Limited, listed in the insurance sector of the JSE Limited. The consolidated figures in this report include the operations of Discovery Health, Discovery Life, Discovery Vitality, the Destiny group of companies and PruHealth. All operations take place within 100% – owned subsidiaries, with the exception of the Destiny group of companies in which Discovery Holdings Limited has a 98% interest (with management owning the balance) and PruHealth in which Discovery Holdings Limited has a 50% interest held indirectly via a wholly-owned subsidiary, Discovery Offshore Holdings Limited. A comprehensive Group structure is set out on pages 2 and 3.

BASIS OF PREPARATION

The attached annual financial statements relate to the Discovery Holdings group of companies ("Discovery"). In order to provide a better understanding of Discovery's results, the results have been provided on a segmental basis on page 108. The segments into which Discovery has been divided are:

Health South Africa – the provision of administration and managed care services to the Discovery Health Medical Scheme and several smaller closed schemes.

Health United States of America – the provision and administration of health insurance products to employer groups and individuals in the United States of America in association with AEGON Life Assurance Company. Destiny further acts as a third party administrator to Guardian Life Insurance Company of America ("Guardian").

Health United Kingdom – the provision and administration of health insurance products to employer groups and individuals in the United Kingdom, together with the Prudential Assurance Company Limited.

Life South Africa – the provision of a risk-only life assurance product and a niche retirement offering in the South African market. Subsequent to the year-end, Discovery will launch a full range of investment products in order to enter the mainstream retail investment market.

Life United Kingdom – this segment represents the costs incurred in establishing PruProtect. PruProtect will offer a range of risk products to individuals in the United Kingdom, together with the Prudential Assurance Company Limited.

Vitality – the provision of health and lifestyle benefits with selected partners to medical scheme members and Discovery Life policyholders. This includes the results from offering KeyClub benefits to KeyCare members.

The segmental analysis set out above is not necessarily based on the results per statutory entity, but rather on a functional split of Discovery's activities, as this is the basis on which the Group's affairs are managed.

ACCOUNTING POLICIES

The accounting policies applied are in accordance with International Financial Reporting Standards (IFRS), as well as the South African Companies Act 61 of 1973, as amended. These accounting policies are consistent with those applied in the previous financial reporting period.

REVIEW OF GROUP RESULTS

Discovery continued to produce strong, consistent earnings growth, despite significant investment in new products and opportunities. Continued operational efficiencies in Discovery Health, coupled with strong, high-quality new business growth in Discovery Life and PruHealth, supported 33% growth in headline earnings (excluding the impact of the BEE transaction) to R920 million for the year ended 30 June 2007. Unrealised gains on available-for-sale investments of R458 million for the year have been taken directly to reserves and are not included in earnings.

In the financial year, the Group incurred costs of R36 million towards the establishment of PruProtect – the pure-life insurance joint venture between Discovery and the Prudential Assurance Company Limited. This initiative will be launched into the UK insurance market on 25 September 2007. Even though we are confident that this investment will yield profits in excess of these costs in future years, the Group has continued to adopt a prudent policy of expensing set-up costs of new operations upfront as incurred.

GROSS INFLOWS UNDER MANAGEMENT

Gross inflows under management, which in our belief is the most appropriate measure of the scale of our operations, has grown by 25% per annum compounded over the past five years, to R23.9 billion in 2007.This is driven by growth in all business areas. Gross inflows under management includes flows of the schemes Discovery administers and 100% of the business conducted together with its joint venture partners.

Gross inflows under management

R million	June 2007	June 2006	% change
Discovery Health	**18 828**	16 542	14
Discovery Life	**2 357**	1 768	33
Discovery Vitality	**721**	654	10
Destiny Health	**1 449**	1 322	10
PruHealth	**556**	141	294
Gross inflows under management	**23 911**	20 427	17
Less: collected on behalf of third parties	**(17 338)**	(14 988)	16
Discovery Health	**(16 532)**	(14 507)	
Destiny Health	**(528)**	(411)	
PruHealth	**(278)**	(70)	
Gross income of Group	**6 573**	5 439	21

GROUP OPERATING RESULTS

The following table shows the main components of the increase in Group operating profit for the year:

Earnings source

R million	June 2007	June 2006	% change
Discovery Health	**736**	655	12
Discovery Life	**707**	546	29
Discovery Vitality	**43**	41	5
Destiny Health	**(102)**	(151)	32
PruHealth	**(218)**	(146)	(49)
PruProtect	**(36)**	–	
Group operating profit before investment income	**1 130**	945	20
Investment income	**186**	161	16
Realised and unrealised gains and losses	**335**	278	21
Fair value adjustment to liabilities under investment contracts	**(141)**	(121)	17
Profit from operations before BEE expense	**1 510**	1 263	20

INVESTMENT INCOME ON THE SHAREHOLDERS' ASSETS

Strong investment market performance and additional investments resulted in an increase in shareholder equity investments from R1 176 million to R1 516 million.

TAXATION

All South African entities are in a tax paying position. Destiny operations have significant tax losses but no deferred tax asset has been accounted for on the foreign losses incurred in the US.

During the year, PruHealth entered into a transaction with Prudential Assurance Company Limited ("Prudential") to effectively utilise the tax losses that Discovery has been unable to utilise through consortium relief, such that PruHealth's deferred tax asset is replaced with a cash injection from Prudential. Previously, Discovery was only able to account for an asset on 50% of the PruHealth losses for which consortium relief was available to Prudential in the UK. The utilisation of the tax losses has enabled Discovery to account for a receivable for the balance of the PruHealth losses. The impact of this is to reduce the taxation charge in the current year by R120 million, of which R52 million relates to prior years' tax assets not recognised.

SHARE-BASED PAYMENTS

The issue of 38.7 million shares by Discovery in terms of its BEE transaction in 2005 has been accounted for in terms of IFRS 2. These shares are not accounted for as issued in the consolidated accounts of Discovery but rather as a share option transaction. These shares have been considered in the calculation of diluted HEPS and diluted EPS.

The BEE transaction has resulted in a charge to the income statement of R34 million in the year ended 30 June 2007 (2006: R161 million) in accordance with the requirements of IFRS 2.

Report of the chief financial officer (continued)

for the year ended 30 June 2007

An additional R63 million (2006: R29 million) in respect of options granted under employee share incentive schemes has been expensed in the income statement for the year in accordance with the requirements of IFRS 2.

CASH FLOW FROM OPERATIONS

The Group generates significant cash from all its South African operations. Including investment income, the Life business is starting to generate strong positive cash flow.

Cash generated by operations

R million	**June 2007**	June 2006	% change
Discovery Health	**669**	678	(1)
Discovery Life	**148**	72	106
Discovery Vitality	**53**	108	(51)
Destiny Health	**(81)**	(98)	17
PruHealth	**(158)**	(99)	(60)
Holdings	**126**	(5)	
Cash generated by operations including working capital changes	**757**	656	15

EIGHT-YEAR REVIEW

The eight-year review of key financial indicators is set out on page 57. It is pleasing to note that profit from operations has increased by a compound growth of 43% per annum since 2000 from R122 million to R1 510 million due to the strong growth in all of Discovery's operations.

BALANCE SHEET

Discovery's shareholder funds are invested into the different business operations as follows:

R million	
Health South Africa and Vitality	835
Life	4 363
Destiny	75
PruHealth	203
Consolidation entries	(114)
	5 362

The shareholders funds invested in Health South Africa and Vitality will be used to fund future cash requirements of the international operations and dividends of the Group. The shareholders funds in Life will be used to support future growth of this business segment.

The increase in the assets under insurance contracts of R651 million is as a result of the significant increase in profitable new business written by Discovery Life.

The deferred tax liability is primarily attributable to the application of the FSB directive 145. This directive allows for the zeroing of the negative life reserve on a statutory basis. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base. This is disclosed as a regulatory change in the embedded value statement.

FINANCIAL SERVICES BOARD DIRECTIVE 145

In November 2004, the Financial Services Board issued directive 145 regarding the treatment of negative reserves. This directive provides clarity regarding the treatment of negative reserves as well as the calculation of the Termination Capital Adequacy Requirement (TCAR) relating to negative reserves. The directors believe that the application of this directive more appropriately represents the financial soundness of Discovery Life and have applied it in the statutory returns of Discovery Life.

Following the application of this directive, the capital adequacy requirements of Discovery Life are R145 million (2006: R94 million), and the qualifying excess of assets over liabilities is R1 522 million (2006: R1 319 million). This results in a capital adequacy cover of 10.5 times (2006: 14.0 times).

CAPITAL MANAGEMENT

Discovery follows the philosophy of investing the Group's capital in business projects which offer strong organic growth in earnings and maximise the return on capital over the long-term.

Of the Group entities, Discovery Life Limited, Destiny Health Insurance Company Inc. ("DHIC") and PruHealth are regulated and have minimum capital requirements.

DHIC is required to hold capital equal to one quarter of its annualised premium income. As at 30 June 2007, DHIC held approximately US$8.7 million (2006: US$13 million) for this purpose.

The capital requirements of PruHealth have been funded equally by each of the joint venture partners. As at 30 June 2007, PruHealth was required to hold GBP16.1 million (2006: GBP12.6 million) in capital. At that date, PruHealth held GBP29.4 million (2006: GBP21.8 million) in available capital to meet this requirement.

DIVIDEND POLICY

Dividends paid in 2007 totalled R239 million and comprised of a maiden dividend of 27 cents per share paid on 23 October 2006 and an interim dividend of 16 cents per share paid on 2 April 2007.

In determining the appropriate dividend, the directors set a policy that allows the Group to maintain paying dividends in the foreseeable future. The directors have determined that it is appropriate to pay dividends based on a dividend cover of 4.5 times.

Dividend declaration:

The directors are of the view that the Group is sufficiently capitalised at this time and the board has declared a final dividend of 21 cents per share.

DIRECTORS' INTERESTS

Directors' interests have increased from that reflected on page 142 between the end of the financial year and one month prior to the date of the notice of AGM by the following number of shares:

	Direct beneficial	Indirect beneficial	**Total**
A Gore	200	7 910 313	**7 910 513**
NS Koopowitz	200	218 900	**219 100**
HP Mayers	200	1 193 998	**1 194 198**
JM Robertson	200	232 166	**232 366**
B Swartzberg	200	4 733 546	**4 733 746**

EMBEDDED VALUE

The embedded value of Discovery, representing the sum of the shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business less an allowance for the cost of capital, was R12.8 billion at 30 June 2007 (2006: R10.6 billion). The embedded value calculation includes the shareholders' net assets at the values reflected in the consolidated balance sheet on page 84.

The analysis of the main components of the Group embedded value is set out below.

	Health and Vitality	Life	Destiny Health	Total
Value of in-force business at 30 June 2006	4 136	4 322	5	8 463
Expected return (in-force business)	459	474	–	933
Release of profits (in-force business)	(700)	(714)	–	(1 414)
Value of new business as at 30 June 2007	69	616	–	685
Expected return (new business)	13	63	–	76
Release of profits (new business)	149	779	–	928
Experience variances	334	108	–	442
Methodology changes	(32)	153	–	121
Change in STC costs	23	25	–	48
Reversal of Destiny Health opening value of in-force	–	–	(5)	(5)
Value of in-force business at 30 June 2007	4 451	5 826	–	10 277
Shareholders' funds excluding assets under insurance contracts	999	1 550	–	2 549
Embedded value	5 450	7 376	–	12 826

More detail on the components of each of these items, including the methodology and assumptions made in calculating the embedded value of Discovery, can found in the Embedded Value Statement on pages 37 to 46.

Report of the chief financial officer (continued)

for the year ended 30 June 2007

The embedded value of new business for the year ended 30 June is set out in the following table:

R million	2007 10 year term for Health and Vitality	2007 20 year term for Health and Vitality	2006	% change
Health and Vitality				
Gross profit from new business at point of sale	**71**	**129**	115	
Cost of capital	**–**	**–**	–	
Cost of STC	**(2)**	**(3)**	(3)	
Net profit from new business at point of sale	**69**	**126**	112	(38)
Life				
Gross profit from new business at point of sale	**639**	**639**	532	
Cost of capital	**(8)**	**(8)**	(7)	
Cost of STC	**(15)**	**(15)**	(15)	
Net profit from new business at point of sale	**616**	**616**	510	21
Destiny Health				
Gross profit from new business at point of sale	**–**	**–**	(50)	
Cost of capital	**–**	**–**	–	
Cost of STC	**–**	**–**	–	
Net profit from new business at point of sale	**–**	**–**	(50)	

Reconciliation of embedded value earnings

The movement in the embedded value in the year under review can be reconciled to the accounting earnings of the Group as follows:

R million	Embedded value	Change in value of in-force	Cost of capital	Impact on income statement	Statement of changes in equity
Total profit from new business at point of sale	685	693	(8)	–	–
– Health and Vitality	69	69	–	–	–
– Life	616	624	(8)	–	–
Profit from existing business					
Expected return	1 030	528	(2)	504	–
– Health and Vitality	490	(78)	–	568	–
Expected transfer from VIF & VNB to net worth	18	(550)	–	568	–
Unwinding of the risk discount rate	472	472	–	–	–
– Life	540	606	(2)	(64)	–
Expected transfer from VIF & VNB to net worth	2	66	–	(64)	–
Unwinding of the risk discount rate	538	540	(2)	–	–
Changes in methodology and assumptions	(13)	96	25	(134)	–
– Health and Vitality	(32)	(32)	–	–	–
– Life	19	128	25	(134)	–
Experience variances	553	444	(2)	111	–
– Health and Vitality	430	334	-	96	–
– Life	123	110	(2)	15	–
Reversal of Destiny Health opening value of in-force	(5)	(20)	15	–	–
Destiny Health and other new initiatives	(338)	–	–	(338)	–
Acquisition costs	(27)	–	–	(27)	–
Foreign exchange rate movements	3	–	–	3	–
Cost of STC	16	48	–	(32)	–
Return on shareholders' funds	536	–	–	313	223
– Unrealised gains on investments and realised gains on investments transferred to income statement	223	–	–	–	223
– Health and Vitality investment income	36	–	–	36	–
– Life investment income	277	–	–	277	–
Share-based payments	–	–	–	(52)	52
Increase in negative reserve adjustment	–	(725)	–	725	–
Embedded value earnings	**2 440**	**1 064**	**28**	**1 073**	**275**

Directors' responsibility statement

DIRECTORS' RESPONSIBILITY TO THE MEMBERS OF DISCOVERY HOLDINGS LIMITED AND ITS SUBSIDIARIES ("DISCOVERY")

The directors of Discovery are required by the Companies Act (Act 61 of 1973) as amended ("Companies Act"), to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying annual financial statements, International Financial Reporting Standards have been used and reasonable estimates have been made. The annual financial statements incorporate full and responsible disclosure, in line with Discovery's philosophy on corporate governance.

The directors have reviewed Discovery's budget and flow of funds forecast for the year to 30 June 2008. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the annual financial statements.

The directors are responsible for Discovery's systems of internal control, which include internal financial controls in the various subsidiaries that are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. Discovery maintains internal financial controls to provide assurance regarding:

- safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of financial information used within the business, or for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention and the overriding of controls. An effective system of control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of annual financial statements.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

Discovery's external auditors, PricewaterhouseCoopers Inc, have audited the annual financial statements and their unqualified report appears on page 65.

The annual financial statements of Discovery for the year ended 30 June 2007, which appear on pages 66 to 143, have been approved by the board of directors on 3 September 2007 and are signed on its behalf by:

A Gore
Chief Executive Officer

B Swartzberg
Group Executive Officer

Certificate by the company secretary

It is hereby certified that, in terms of section 268G(d) of the Companies Act, that Discovery Holdings Limited has for the year ended 30 June 2007 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

MJ Botha
Company Secretary

Report of the independent auditors

To the members of

DISCOVERY HOLDINGS LIMITED

We have audited the annual financial statements and Group annual financial statements of Discovery Holdings Limited and its subsidiaries set out on pages 66 to 143 for the year ended 30 June 2007. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these annual financial statements based on our audit.

Scope

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

Audit opinion

In our opinion, the annual financial statements and Group annual financial statements fairly present, in all material respects, the financial position of the company and the Group at 30 June 2007 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the South African Companies Act 61 of 1973, as amended.

Pricewaterhouse Coopers Inc.

PricewaterhouseCoopers Inc
Director: B Stott
Registered Auditor

Johannesburg
3 September 2007

Directors' report

for the year ended 30 June 2007

The directors present their eighth annual report, which forms part of the audited financial statements of the company and of the Group for the year ended 30 June 2007.

NATURE OF BUSINESS

Discovery Holdings Limited ("the company") is listed in the insurance sector of the JSE Limited and is the holding company of:

- Discovery Life Limited ("Discovery Life");
- Discovery Life Collective Investments (Proprietary) Limited;
- Discovery Life Investment Services (Proprietary) Limited;
- Discovery Life Nominees (Proprietary) Limited;
- Discovery Health (Proprietary) Limited ("Discovery Health");
- Vitality Healthstyle (Proprietary) Limited ("Vitality");
- Vitality Healthstyle Travel (Proprietary) Limited (ceased trading effective 1 February 2004);
- Discovery Nominees (Proprietary) Limited (dormant);
- Destiny Health Inc. ("Destiny Health"), which is incorporated in the United States of America;
- Destiny Health Management Company LLC, which is incorporated in the United States of America;
- Destiny Health Insurance Company, which is incorporated in the United States of America;
- Destiny Health Administration Company (dormant), which is incorporated in the United States of America;
- Discovery Offshore Holdings Limited, which is incorporated in England and Wales; and
- Prudential Health Holdings Limited which is incorporated in England and Wales. This company holds Discovery's interest in Prudential Health Limited ("PruHealth") and Prudential Health Services Limited.

Discovery Holdings and its subsidiaries are referred to herein as "Discovery". The subsidiaries are wholly-owned with the exception of Destiny Health in which Discovery has a 98% interest.

Discovery Life is a long-term insurer in South Africa. Discovery Life offers a suite of risk benefit products and investment products in the South African market. Discovery Life, until January 2004, offered reinsurance of medical scheme risks. Discovery Health is a specialised administrator offering various services to medical schemes, Discovery Life, Destiny Health and PruHealth. Vitality offers a rewards programme incentivising its members to lead healthy lives and rewarding lifestyles. Destiny Health provides and administers health insurance products to employer groups and individuals in the USA. Discovery has a 50% interest in PruHealth together with Prudential Assurance Company Limited. PruHealth provides and administers health insurance products to employer groups and individuals in the UK.

GENERAL REVIEW

The financial position and results are reflected on pages 66 to 143. The Group's attributable share of profits and losses from subsidiary companies for the year ended 30 June is set out below:

R million	**Group 2007**	Group 2006	% change
Aggregate profits after taxation from local subsidiaries	**1 269**	935	36
Loss from Destiny Health net of minority share of loss	**(97)**	(147)	
Loss from PruHealth after taxation	**(99)**	(119)	
	1 073	669	60

SHARE CAPITAL

The authorised share capital is 1 000 000 000 ordinary shares of 0,1 cent per share. The issued share capital of the company at 30 June 2007 was 591 953 180 ordinary shares of 0,1 cent per share.

The staff share trusts hold 3.3% of the share capital of the company for the benefit of trust participants.

Shareholders will be requested at the forthcoming annual general meeting of shareholders to place the unissued shares under the control of the directors until the next annual general meeting.

DIVIDENDS

The directors are of the view that the Discovery Group is adequately capitalised at this time. On the statutory basis the capital adequacy requirements of Discovery Life as at 30 June 2007 was R145 million (2006: R95 million) and was covered 10.0 times (2006: 14.0 times).

Dividend declaration:

The board has declared a final dividend of 21 cents per share. The salient dates are as follows:

• Last date to trade "cum" dividend	Friday, 12 October 2007
• Date trading commences "ex" dividend	Monday, 15 October 2007
• Record date	Friday, 19 October 2007
• Date of payment	Monday, 22 October 2007

Share certificates may not be dematerialised or rematerialised between Monday, 15 October 2007 and Friday, 19 October 2007, both days inclusive.

DIRECTORATE AND SECRETARY

Details of the directors, their emoluments, participation in share incentive schemes and interests in the company are reflected on pages 141 to 143. Mr PK Harris was appointed as non-executive director to the board of Discovery with effect from 15 February 2007. Mr SD Whyte resigned as executive director and Mr A Pollard was appointed as executive director with effect from 30 August 2007.

Mr SB Epstein, Mr MI Hilkowitz and Ms SV Zilwa retire by rotation at the forthcoming annual general meeting of shareholders and are eligible and available for re-election.

Mr MJ Botha continues in office as company secretary. His details are reflected on page 146.

DIRECTORS' INTERESTS IN CONTRACTS

No material contracts involving directors' interests were entered into in the current year. All of the executive directors have signed restraints of trade which prevent them from competing with Discovery for one year after their employment with Discovery ends. The directors had no interest in any third party or company responsible for managing any of the business activities of Discovery.

SUBSIDIARIES AND ASSOCIATES

Details of the company's subsidiaries, associates and joint venture are set out in note 1 to the Discovery Holdings Limited's company financial statements. During the year under review, no changes were made to the memorandum and articles of association of any of the subsidiary companies.

BORROWING POWERS

The directors may exercise all the powers of the company to borrow money. In terms of the articles of association, the borrowing powers of the company are unlimited. In terms of the Long-term Insurance Act, 1998, Discovery Life may not encumber its assets or directly or indirectly borrow.

AUDITORS

PricewaterhouseCoopers Inc will continue in office in accordance with section 270(2) of the Companies Act.

HOLDING COMPANY

FirstRand Limited holds an interest of 57.09% (2006: 57.09%) in the issued ordinary share capital of the company.

EVENTS AFTER BALANCE SHEET DATE

In July 2007, Discovery Health, following discussions with the Trustees and Principal Officer of the Discovery Health Medical Scheme (DHMS), agreed to reduce administration fees charged to DHMS by approximately R3 million a month for the 2007 calendar year (backdated to 1 January 2007). The impact of this agreement is a reduction in administration fees in Discovery Health of R18 million before tax in the 2008 financial year.

Accounting policies

for the year ended 30 June 2007

1. GENERAL INFORMATION

Discovery Holdings Limited is a majority-owned subsidiary of FirstRand Limited, listed in the insurance sector of the JSE Limited. The Group consists of Discovery Health, Discovery Life, Discovery Vitality, the Destiny group of companies (USA) and PruHealth (UK). All operations take place within 100%-owned subsidiaries, with the exception of the Destiny group of companies in which Discovery Holdings Limited has a 98% interest (with management owning the balance) and PruHealth in which Discovery Holdings Limited has a 50% interest held indirectly via a wholly-owned subsidiary Discovery Offshore Holdings Limited.

1.1 Discovery Health

Discovery Health provides administration services and managed care services to the Discovery Health Medical Scheme as well as eleven large closed schemes. The administration services also include the administration of a Primary Care network for the beneficiaries of the KeyCare Plus Plan and cover the healthcare services provided by the Primary Care network.

Discovery Health offered the insurance of private ward and overseas cover benefits. These benefits were written through Discovery Life.

1.2 Discovery Life

Discovery Life offers policyholders a range of insurance and financial solutions. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives.

Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health and Vitality.

Discovery Life Plan – Individual Life

The Discovery Life Plan provides protection against a comprehensive spectrum of risks including life, disability, severe illness and income continuation cover.

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health plans in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit.

Discovery Retirement Optimiser

The Retirement Optimiser offers funding for retirement and offers benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding.

DiscoveryCard Protector

The DiscoveryCard Protector will cover the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average DiscoveryCard spend in the six month period prior to the life changing event.

Group Life

Discovery Group Life offers a comprehensive spectrum of protection benefits on a group basis. Life cover, Severe Illness, Disability and Income Continuation Benefits are offered.

1.3 Destiny Health – Health insurance

The Destiny product offers policyholders cover for a range of health insurance benefits. The plan typically covers hospital benefits, outpatient surgery and day to day visits to physician offices. Optional cover is available for chronic medication, total medication, preventative medication and preventative care.

Policies offered by Destiny are annual contracts which can be cancelled or the premiums adjusted on renewal.

1.4 PruHealth – Health insurance

The PruHealth product offers policyholders cover for a range of private healthcare related claims. The cover depends on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.

Policies offered by PruHealth are annual contracts which can be cancelled or the premiums adjusted on renewal.

1.5 Discovery Vitality

Vitality offers the Group's clients health and lifestyle benefits with selected partners. This business includes the DiscoveryCard which is offered to Discovery policyholders within South Africa. The lifestyle benefits offered by Vitality are subject to change and can be adjusted on a monthly basis.

2. BASIS OF PRESENTATION

Discovery's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Discovery prepares its audited consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for certain financial assets and liabilities. These financial assets and liabilities include:

- financial instruments classified as available-for-sale held at fair value through equity;
- derivative financial instruments at fair value through profit or loss;
- financial instruments designated as held at fair value through profit or loss;
- policyholder liabilities and assets arising from insurance contracts that are valued in terms of the Financial Soundness Valuation (FSV) basis as outlined under accounting policy 22 below; and
- financial instruments classified as originated loans carried at amortised cost.

The preparation of audited consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Discovery's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in note 3.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

Amendments and interpretations to published standards effective in the 2007 financial year

The following amendments and interpretations to published standards are mandatory for Discovery's accounting period and have been adopted where applicable:

- IAS 39 (amendment): *The fair value option* (effective for annual periods beginning on or after 1 January 2006) – This amendment further clarifies when financial instruments can be designated at fair value through profit or loss. The designation of an instrument to be at fair value through profit or loss is now only possible when it removes or significantly reduces accounting mismatches in measurement or presentation, or where financial instruments are managed and their performance is evaluated on a fair value basis. There has been no impact to Discovery as all financial instruments that it had previously designated at fair value through profit or loss still meet the new condition for that designation.
- IAS 39 (amendment): *Cash flow hedge accounting of forecast intragroup hedge transactions* (effective for annual periods beginning on or after 1 January 2006) – The amendment to IAS 39 allows the designation, as a hedged item in consolidated financial statements, the foreign currency risk of a highly probable forecast intragroup transaction under certain conditions. The statement does not affect Discovery's current application of the standard.
- IFRIC 4: *Determining whether an arrangement contains a lease* (effective for annual periods beginning on or after 1 January 2006) – This interpretation provides guidance on determining whether an arrangement that does not take the legal form of a lease contains a lease and should be accounted for in terms of IAS 17 *Lease*. An arrangement contains a lease if the fulfilment of the arrangement depends on the use of a specific asset or assets, and the arrangement conveys the right to use the asset. Discovery's current application of the standard is consistent with this interpretation.
- IFRIC 8: *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006) – The interpretation clarifies that IFRS 2 applies to transactions in which the entity cannot specifically identify the goods or services received in return for a share-based payment, but where other circumstances indicate that goods or services have been received. Discovery's application of IFRS 2 for shares issued in terms of its Black Economic Empowerment (BEE) transaction is consistent with this interpretation.
- IFRIC 9: *Reassessment of embedded derivatives* (effective for annual periods beginning on or after 1 June 2006) – IAS 39 *Financial Instruments:* Recognition and measurement requires an entity, when it first becomes a party to a contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as derivatives under the Standard. IFRIC 9 clarifies that this should only be done when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. A first-time adopter however, shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date of reassessment. This interpretation is consistent with Discovery's current application of the standard.

- The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006, but they are not relevant to Discovery's operations:
  - IAS 19 (amendment): *Employee Benefits;*
  - IAS 21 (amendment): *Net investment in a foreign operation;*
  - IAS 39 and IFRS 4 (amendment): *Financial guarantee contracts;*
  - IFRS 1 (amendment): *Amendment relating to IFRS 6;*
  - IFRS 6 (amendment): *Exploration for and evaluation of mineral resources;*
  - IFRIC 5: *Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds;*
  - IFRIC 6: *Liabilities arising from participating in a specific market – waste electrical and electronic equipment;* and
  - IFRIC 7: *Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies.*

Interpretations to published standards early adopted

The following interpretations have been early adopted in accordance with the transitional provisions of the interpretations:

- IFRIC 11: IFRS 2 – *Group and treasury share transactions* (effective from annual period beginning on or after 1 March 2007) – IFRIC 11 provides guidance on applying IFRS 2 in three circumstances:
  - Share-based payments involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation should always be accounted for as equity-settled share-based transactions under IFRS 2.
  - If a parent grants rights to its equity instruments to employees of its subsidiary and assuming the transaction is accounted for as equity-settled in the consolidated financial statements, the subsidiary must measure the services received using the requirements for equity-settled transactions in IFRS 2, and must recognise a corresponding increase in equity as a contribution from the parent.
  - If a subsidiary grants rights to equity instruments of its parent to its employees, the subsidiary accounts for the transaction as a cash-settled share-based payment transaction.

  Discovery has chosen to early adopt IFRIC 11, and subsidiaries will account for the equity compensation plan as equity-settled.

  There is no impact on Discovery's consolidated results, as the scheme was already classified as equity-settled on consolidation.

New standards and interpretations to published standards that are not yet effective

The following new standards and interpretations are not yet effective for the current financial year. Discovery will comply with the new statements and interpretations from the effective date.

- IFRS 7: Financial Instruments: Disclosures and complementary amendment to IAS 1: *Presentation of financial statements: Capital Disclosures* (effective for annual periods beginning on or after 1 January 2007) – The standard deals mainly with the disclosure of financial instruments and the related qualitative and quantitative risks. The statement will not impact the results of Discovery but will impact the disclosure of financial instruments.
- IFRS 8: *Operating segments* (effective for annual periods beginning on or after 1 January 2009) – IFRS 8 specifies how an entity should report information about its operating segments in the annual financial statements. The requirements of IFRS 8 are based on the information about the components of the entity that management uses to make operating decisions. This statement will therefore not impact the results of Discovery and is not expected to impact the identification and measurement of segment results.
- IFRIC 10: *Interim financial reporting and impairment* (effective for annual periods beginning on or after 1 November 2006) – IFRIC 10 prohibits the reversal at a subsequent balance sheet date of the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost. Discovery will apply the amendment to future financial periods. There is no impact on Discovery's results.
- IFRIC 13: *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008) – IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as "points" or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ("awards") to customers who redeem award credits. The key provisions are as follows:
  - An entity that grants loyalty award credits shall allocate some of the proceeds of the initial sale to the award credits as a liability (its obligation to provide the awards). In effect, the award is accounted for as a separate component of the sale transaction.

– The amount of proceeds allocated to the award credits is measured at their fair value, that is, the amount for which the award credits could have been sold separately.
– The entity shall recognise the deferred portion of the proceeds as revenue only when it has fulfilled its obligations. It may fulfil its obligations either by supplying the awards itself or by engaging (and paying) a third party to do so.
– If at any time the expected costs of meeting the obligation exceed the consideration received, the entity has an onerous contract for which IAS 37 would require recognition of a liability.
– If IFRIC 13 causes an entity to change its accounting policy for customer loyalty awards, IAS 8 applies.

This statement is expected to have a minor impact on the results of Discovery but will impact the disclosure of the Discovery Miles earned on the DiscoveryCard.

- The following interpretation of published standards is mandatory for accounting periods beginning on or after 1 January 2008, but it is not relevant to Discovery's operations:
  – IFRIC 12: *Service concession arrangements.*

3. CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which Discovery, directly or indirectly, has the power to exercise control over the operations for its own benefit. Discovery considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which Discovery acquires effective control. Consolidation is discontinued from the effective date of disposal.

Discovery consolidates a special purpose entity ("SPE") when the substance of the relationship between Discovery and the SPE indicates that Discovery controls the SPE.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Discovery.

Minority shareholders are treated as equity participants and, therefore, all acquisitions of minority interests or disposals by the Group of its minority interests in subsidiary companies where control is maintained subsequent to the disposal are accounted for as equity transactions with minorities. Consequently, the difference between the purchase price and the book value of a minority interest purchased is recorded in equity. All profits and losses arising as a result of the disposal of interests in subsidiaries to minorities, where control is maintained subsequent to the disposal, are also recorded in equity.

Interests in subsidiaries in the company financial statements are shown at cost less any required impairment.

4. ASSOCIATES

Associates are entities in which Discovery has the ability to exercise significant influence but not control, generally accompanying an equity interest of between 20% and 50%.

Discovery includes the results of associates in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. Discovery's interest in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Earnings attributable to ordinary shareholders include Discovery's share of earnings of associated companies. Discovery's reserves include its share of post-acquisition movements in reserves of associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated company.

Discovery discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking. Discovery increases the carrying amount of investments by its share of the associated company's income when equity accounting is resumed.

Unrealised gains on transactions between Discovery and its associates are eliminated to the extent of Discovery's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by Discovery.

5. JOINT VENTURES

Joint ventures are entities in which Discovery has joint control over an economic activity of the joint venture, through a contractual agreement.

Discovery accounts for interests in jointly controlled entities by proportionate consolidation. In terms of this method Discovery includes its share of a joint venture's individual income, expense, assets and liabilities and cash flows in the relevant components of its financial statements. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by Discovery.

6. FOREIGN CURRENCY TRANSLATION

6.1 Functional and presentation currency

Items included in the financial statements of each of Discovery's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Rand ("R"), which is the functional and presentation currency of Discovery Holdings Limited.

6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

6.3 Group companies

The results and financial position of all Discovery entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of Discovery are translated at the actual rates into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the date of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

7. RECOGNITION OF ASSETS

7.1 Assets

Discovery recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the entity.

7.2 Contingent assets

Discovery discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within Discovery's control.

8. LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

8.1 Liabilities and provisions

Discovery recognises liabilities, including provisions and on a company level provisions for financial guarantees issued to Group companies, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

8.2 Contingent liabilities

Discovery discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

9. OFFSETTING FINANCIAL INSTRUMENTS

Discovery offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

10. CASH AND CASH EQUIVALENTS

In the cash flow statement, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice; and
- balances with banks.

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have a maturity of less than three months.

11. FINANCIAL INSTRUMENTS

11.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, but exclude investments in subsidiary and associated companies, property and equipment, intangible assets, deferred income tax, deferred revenue, provisions and assets and liabilities of insurance operations. Discovery recognises a financial asset or a financial liability on its balance sheet when and only when, the entity becomes a party to the contractual provisions of the instrument.

11.2 Financial assets

Discovery classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables; and
- available-for-sale financial assets.

Management determines the classification of the asset at initial recognition.

Financial assets classified as fair value through profit or loss

This category has two sub-categories; financial assets held for trading and those designated at fair value through profit or loss at inception.

Financial assets are designated as fair value through profit or loss at inception if they are held to match insurance liabilities and investment contract liabilities held at fair value through profit or loss, or if they are managed and their performance is evaluated on a fair value basis. These assets are subsequently measured at fair value and the fair value adjustments are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that Discovery has designated as held at fair value through profit or loss.

Financial assets classified as available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The classification depends on the purpose when the asset was acquired and, with the exception of those held as fair value through profit or loss, is reassessed on an annual basis.

11.2.1 Initial measurement

Purchases and sales of financial assets are recognised on settlement date, which is the date on which the Group assumes or transfers substantially all risks and rewards of ownership. Financial assets are initially recognised at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial asset.

11.2.2 Subsequent measurement

Financial assets classified as fair value through profit or loss or as available-for-sale are subsequently carried at fair value. Fair values are based on regulated exchange quoted ruling bid prices at the close of business on the last trading day on or before the balance sheet date. Collective Investments are valued at their repurchase price. For unquoted investments the Group establishes fair value by using valuation techniques. These include reference to other instruments that are substantially the same, discounted cash flow and option pricing.

Discovery recognises interest income, dividends, realised and unrealised gains and losses of financial assets classified as fair value through profit or loss, in net fair value gains of financial assets at fair value through profit or loss in the income statement.

Discovery recognises unrealised gains and losses arising from changes in the fair value of available-for-sale assets, in equity. It recognises interest income on these assets as part of investment income, based on the instrument's original effective rate. Interest income is excluded from the fair value gains and losses reported in equity. Dividends on available-for-sale equity instruments are recognised in investment income in the income statement when the entity's right to receive payment is established.

When these assets are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as net realised gains and losses on available-for-sale financial assets.

Loans and receivables:

Loans and receivables are carried at amortised cost using the effective interest rate method less any required impairment.

11.3 Financial liabilities

11.3.1 Initial recognition

Policyholder contracts that do not transfer significant insurance risk are classified in the financial statements as financial liabilities held at fair value through profit or loss ("investment contracts"), with changes in fair value being accounted for in the income statement. The premiums and benefit payments relating to these investment contract financial liabilities have been excluded from the income statement and are accounted for directly as part of the liability.

11.3.2 Subsequent recognition and measurement

Investment contracts are financial liabilities whose fair value depends on the fair value of underlying financial assets and are designated at inception as at fair value through profit or loss. Valuation techniques are used to establish the fair value at inception and each reporting date.

The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date. If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period.

11.4 Derecognition of assets and liabilities

Discovery derecognises an asset when the contractual rights to the asset expires, where there is a transfer of the contractual rights that comprise the asset, or Discovery retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

If a transfer does not result in derecognition because Discovery has retained substantially all the risks and rewards of ownership of the transferred asset, Discovery continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, Discovery recognises any income on the transferred asset and any expense incurred on the financial liability.

Where Discovery neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, Discovery shall determine whether it has retained control of the financial asset. In this case:

- if Discovery has not retained control, it derecognises the financial asset and recognises separately, as assets or liabilities, any rights and obligations created or retained in the transfer; or
- if Discovery has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Discovery derecognises a financial liability when it is extinguished, ie, when the obligation specified in the contract is discharged, cancelled or expires.

12. IMPAIRMENT

12.1 Impairments of financial assets

Discovery assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired if one or more events that have occurred after the initial recognition of the asset have caused the carrying amount to be greater than its estimated recoverable amount. Objective evidence includes the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as default or delinquency in payments;
- adverse changes in the payment status of issuers or debtors in Discovery;
- national or local economic conditions that correlate with defaults on assets in Discovery; or
- in the case of equities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost.

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 discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If there is objective evidence that an available-for-sale financial asset has been impaired, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

Other than for equity instruments carried at available-for-sale, which are reversed through equity, previously recognised impairment losses are reversed through the income statement. Reversal of impairment losses are limited to ensure that the carrying value of the asset does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

12.2 Impairments of other assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment charge is recognised as a loss in the income statement immediately.

13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Discovery initially recognises derivative financial instruments in the balance sheet at fair value and subsequently re-measures these instruments at their fair value.

The fair value of publicly traded derivatives is based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Discovery designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Discovery documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Discovery also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Accounting policies (continued)

for the year ended 30 June 2007

13.1 Fair value hedge

Changes in the fair value of derivatives are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

13.2 Cash flow hedge

Discovery recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

Where the forecasted transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

14. PROPERTY AND EQUIPMENT

Discovery carries property and equipment at historical cost less depreciation and impairment except for land which is carried at cost less impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Discovery and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Properties held under finance leases are further broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

The average periods of depreciation used are as follows:

Leasehold premises	Shorter of estimated life or period of lease
Property held under finance lease	
– Buildings and structures	50 years
– Mechanical and electrical components	20 years
– Sundries	20 years
Computer equipment and operating systems	3 years
Furniture and fittings	6 years
Motor vehicles	4 years
Office equipment	5 years
Computer software packages	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in the income statement on disposal.

15. LEASES

15.1 Finance leases

Discovery classifies finance leases as property and equipment where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. Discovery allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that Discovery will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

15.2 Operating leases

Discovery classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. Operating lease payments are recognised in the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

Discovery recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

16. INTANGIBLE ASSETS

16.1 Computer software development costs

Discovery generally expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for Discovery exceeding the costs incurred for more than one financial period, Discovery capitalises such costs and recognises them as an intangible asset.

Discovery carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value wherever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

16.2 Deferred acquisition costs – Investment contracts

Deferred acquisition costs on investment contracts represent the contractual customer relationship and the right to receive future investment management fees. Incremental costs directly attributable to securing rights to receive policy fees for services sold with investment contracts are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered. An incremental cost is one that would not have been incurred if the Group had not secured the investment contract.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised on a straight-line basis over the period in which the Group expects to recognise the related revenue. The costs of securing the right to provide asset management services do not include transaction costs relating to the origination of the investment contracts.

16.3 Deferred acquisition costs – Insurance contracts

The accounting policy for deferred acquisition costs relating to insurance contracts is detailed in accounting policy 22.11.

16.4 Other intangible assets

Discovery does not attribute value to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts.

Discovery generally expenses the costs incurred on trademarks, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

The amortisation of deferred acquisition costs is reflected under acquisition costs in the income statement.

The amortisation and impairments of other intangible assets are reflected under marketing and administration expenses in the income statement.

Accounting policies (continued)

for the year ended 30 June 2007

17. DEFERRED INCOME TAX

Discovery calculates deferred income tax on all temporary differences using the balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates that have been substantially enacted to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

Discovery recognises deferred tax assets if the directors of Discovery consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases as a finance lease, effect of straight-lining of operating leases, revaluation of certain financial assets and liabilities, provisions for leave pay and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the gain or loss is realised.

18. EMPLOYEE BENEFITS

18.1 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in separate trustee-administered funds.

These funds are registered in terms of the Pension Funds Act of 1956 and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations.

For defined contribution plans, Discovery pays contributions to privately administered pension insurance plans on a mandatory basis. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

18.2 Post-retirement medical benefits

Discovery has no liability for the post-retirement medical benefits of employees.

18.3 Termination benefits

Discovery recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination. Discovery has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan, without possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

18.4 Leave pay provision

Discovery recognises in full employees' rights to annual leave entitlement in respect of past service.

18.5 Profit share and bonus plan

Discovery recognises a liability and an expense for bonuses and profit-sharing, based on a formula where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

18.6 Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured.

19. SHARE CAPITAL

19.1 Share issue costs

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity.

19.2 Dividends paid

Dividends on ordinary shares are recognised against equity in the period in which they are approved by the company's shareholders. Dividends declared after the balance sheet date are not recognised but disclosed as a post balance sheet event.

20. SEGMENT REPORTING

Discovery defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment"), or
- products or services within a particular economic environment ("geographical segment"),

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

21. SHARE-BASED PAYMENT TRANSACTIONS

Discovery operates equity-settled and cash-settled share-based compensation plans.

21.1 Equity-settled share-based compensation plans

Discovery expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, Discovery revises its estimate of the number of options expected to vest. Any changes to the estimated number of options are recognised in profit and loss immediately.

21.2 Cash-settled share-based compensation plans

Discovery recognises employee services received in exchange for cash-settled share-based payments at the fair value of the liability incurred and expenses these services over the vesting period of the benefits, as employee costs.

The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss.

22. POLICIES RELATING TO INSURANCE OPERATIONS ("THE INSURANCE OPERATIONS")

The Group developed its accounting policies for insurance contracts before the adoption of IFRS 4. Discovery continues to apply the same accounting policies for the recognition and measurement of obligations arising from insurance contracts that it issues and reinsurance contracts that it holds.

22.1 Product classification

Discovery Life issues contracts that transfer insurance risk or financial risk or a combination of both.

Contracts are classified as insurance contracts if Discovery Life accepts significant insurance risk. Insurance risk is defined as a risk that on the occurrence of a defined uncertain insured event, the amount paid may significantly exceed the amount payable should that event not have occurred. Such contracts may also transfer financial risk.

Investment contracts are contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variable.

22.2 Assets and liabilities arising from insurance contracts

Insurance contracts – Individual Life

For the published accounts, the actuarial value of policyholder liabilities is determined based on the Financial Soundness Valuation (FSV) method as detailed in Professional Guidance Note (PGN) 104 issued by the Actuarial Society of South Africa (ASSA).

Where the value of policyholder liabilities is negative, this is shown as an asset under insurance contracts.

The FSV basis is a prospective, discounted cash flow basis calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums. The FSV basis uses best estimate assumptions regarding the future experience of claims experience, premium income, expenses and commission. Where the same policy includes both insurance and investment components and where the policy is classified as an insurance policy, the liability for the insurance benefits and investment benefits is separately calculated under the FSV methodology.

Liabilities for investment benefits where benefits partly depend on the performance of underlying investment portfolios are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date.

Applying the FSV calculation on the best estimate basis, described above, results in a gain at initial recognition in excess of initial expenses. Compulsory and discretionary margins are therefore added to the best estimate assumption to avoid the premature recognition of future profits. At initial recognition profits are recognised to the extent of the actual acquisition costs incurred but considering the premium loadings available on the total portfolio to recoup acquisition costs.

Discretionary and compulsory margins are therefore added to the best estimate assumptions within the following framework:

- All margins are at least equal to the compulsory margins prescribed by PGN 104. The compulsory margins ensure a minimum level of financial resilience.

  The following compulsory margins are added to the best estimate assumptions:

Margin	Compulsory minimum
Discount rate	0.25% reduction or increase to the discount rate in direction to increase overall insurance liabilities
Renewal expense inflation rate	10% increase in the inflation rate, ie, from x% to 1.1*x%
Renewal expenses	10% increase in the renewal expense assumption
Mortality incidence rates	7.5% increase in the mortality incidence rate
Morbidity incidence rates	10% increase in the morbidity incidence rate
Management fees on assets under management	0.25% reduction in the management fee
Lapse rates	25% increase or decrease in direction to increase overall insurance liability. (ie, from y% to 0.75*y% or to 1.25*y%)

  For the discount rate and lapse rate compulsory margins, the direction of the margins vary based on policy duration to ensure that the margin is in the conservative direction, overall. Both the discount rate and lapse rate margins are initially additions to the best estimate rate but switch to reductions from the best estimate rate at later durations. The point where the margin changes direction is set considering the profitability of the total portfolio and considering broad durational groupings.

- Given the level of uncertainty in the best estimate assumptions for lapse, mortality and morbidity additional margins are added over and above the compulsory margins to protect against future possible adverse experience
- Additional margins are added to allow for the release of profit over the term of the policy.
- Margins are released over the term of a policy in-line with the risk borne.
- The best estimate and margins are reset at every valuation date to reflect the underlying profitability of the portfolio.
- Assets under insurance contracts are not used to offset the liability under the pure investment benefits of the policy.

In the valuation of the policyholder liability, it has been assumed that all policyholders change to plans with minimum premium increases without changing the cover levels at the valuation date. This is in line with PGN 104 which requires that expected profits in respect of future options that may be taken up by policyholders should not be recognised in the policyholder liability.

The actuarial liabilities are calculated gross of reinsurance. The expected impact of reinsurance is valued separately.

The FSV basis meets the requirement of the liability adequacy test as required by IFRS 4 for individual business and no additional tests are performed.

Acquisition costs for insurance contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. The FSV basis for valuing insurance contracts makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the balance sheet for insurance contracts.

22.3 Liabilities arising from insurance contracts

Individual Life (including the Health Plan Protector)

Where a claim is reported but not yet validated, an estimate of the expected claim amount is included in the claims reported included in liabilities under insurance contracts. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type.

Liabilities are held to reflect Incurred But Not yet Reported (IBNR) claims. The IBNR is modified to reflect actual current operating conditions.

The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

Group Life

Where a claim is reported but not yet validated, an estimate of the expected claim is included in the claims reported included in liabilities under insurance contracts.

Liabilities are held to reflect IBNR claims. The IBNR is estimated based on the actual incidence of historic reported claims. The IBNR is calculated on the risk premiums net of profit loadings as this represents the best estimate of future claims experience. The IBNR is further modified to reflect current operational conditions or known events.

The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recovery from reinsurers.

Health insurance

The Health IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. The IBNR is further modified to reflect current operational conditions or known events.

22.4 Embedded derivatives

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the Group with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through income.

22.5 Reinsurance contracts

Contracts entered into by Discovery with reinsurers under which it is compensated for losses on one or more contracts issued by Discovery and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The amounts Discovery is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (liabilities arising from reinsurance contracts).

The amounts due to Discovery under its reinsurance contracts held are recognised as reinsurance assets (classified within loans and receivables). Discovery assesses its reinsurance assets for impairment on an annual basis following the same method used for financial assets.

In certain cases there is a gain or loss at inception of a reinsurance contract:

- Where these amounts relate to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurer.
- Other gains or losses are amortised over the life of the insurance policies on the same basis as the profit is expected to emerge. The unearned portion of the gain or loss is included in deferred revenue. The gain is disclosed in reinsurance premiums in the income statement.

22.6 Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Discovery assesses its receivables for impairment on an annual basis following the same method used for financial assets.

22.7 Premium income

Premiums and annuity considerations receivable under insurance contracts are stated gross of commission, and exclude taxes and levies and are recognised when due.

All premiums are recognised as income other than amounts received under investment contracts which are recorded as deposits to investment contract liabilities.

Health insurance premiums received in respect of annual contracts are recognised proportionally over the period of the coverage. The portion of the premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as unearned premiums within liabilities arising from insurance contracts. The unearned premium income is amortised on a straight line basis.

Accounting policies (continued)

for the year ended 30 June 2007

22.8 Fees on investment contracts

Fees charged for investment management services provided in conjunction with asset management and investment contracts are recognised as revenue as the services are provided. Fees on investment contracts are included in fee income.

22.9 Policyholder benefits

Policyholder benefits paid under insurance contracts include maturities, surrenders, death, disability and severe illness payments.

Maturity and income disability are recorded as incurred. Death, disability and severe illness and surrender claims are accounted for when notified. Group life benefits and benefits payable under health insurance contracts are accounted for as incurred.

Provision is made for the estimated costs of benefits (together with anticipated recoveries under re-insurance arrangements) notified but not settled at the balance sheet date.

Amounts paid under investment contracts are recorded as deductions from investment contract liabilities.

22.10 Acquisition costs

Commission payments for insurance contracts comprise all direct costs arising from the sale of insurance contracts. Commissions are expensed as incurred except for commissions relating to short-term health insurance business where commissions are deferred.

22.11 Deferred acquisition costs ("DAC")

The direct costs (commissions) of acquiring short-term health insurance business which are incurred during the year but which are expected to be recoverable out of future revenue margins are deferred and disclosed as an asset in the balance sheet, gross of tax. The costs are deferred over the period of the contract and amortised on a straight-line basis in line with unearned premiums.

22.12 Liability adequacy test

At balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy test.

23. REVENUE

23.1 Insurance premium revenue

Insurance premium revenue includes individual life premiums, group life premiums and health insurance premiums. These are accounted for as described in accounting policy 22.7.

23.2 Fee income on health administration business

Administration fees and managed care fees are included in fee income. These are accounted for on an accrual basis when the services are rendered.

23.3 Investment income

Investment income comprises interest and dividends received on available-for-sale investments, assets held at amortised cost and cash and cash equivalents.

Discovery recognises dividends when Discovery's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Interest is accounted for on an accrual basis using the effective interest rate method.

23.4 Net realised gains on available-for-sale financial assets

Net realised gains comprise realised gains and losses on available-for-sale financial instruments. These gains and losses are accounted for on disposal of the investment.

23.5 Net fair value gains on financial assets at fair value through profit or loss

Net fair value gains on financial assets at fair value through profit or loss include gains arising from interest, dividends and net realised and unrealised gains on financial instruments held at fair value through profit or loss.

23.6 Vitality income

Vitality income includes Vitality contributions and sales of benefits offered by Vitality which are accounted for as the services are rendered.

24. MARKETING AND ADMINISTRATION EXPENSES

Marketing and administration expenses include marketing and development expenditure as well as all other non-commission related expenditure and benefits paid under the vitality program and are expensed as incurred.

25. FINANCE COSTS

Borrowing costs are expensed when incurred and these are included in finance costs.

26. DIRECT AND INDIRECT TAXES

Direct taxes include South African and foreign jurisdiction corporate tax payable, as well as secondary tax on companies and capital gains tax. Direct taxes are disclosed as taxation in the income statement.

Indirect taxes include various other taxes paid to central and local governments, including value added tax and regional services levies. Indirect taxes are disclosed as part of marketing and administration expenses in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Discovery entities operate.

Taxation in respect of the South African life insurance operations is determined using the four fund method applicable to life insurance companies.

Balance sheet

as at 30 June 2007

R million	Notes	Group 2007	Group 2006
ASSETS			
Property and equipment	5	**228**	186
Intangible assets including deferred acquisition costs	6	**113**	66
Assets arising from insurance contracts	7	**3 114**	2 463
Investment in associates	8	**1**	7
Financial assets		**4 056**	2 675
– Equity securities	10	**2 155**	1 600
– Debt securities	10	**313**	233
– Money market	10	**577**	206
– Equity linked notes	10	**123**	77
– Loans and receivables including insurance receivables	11	**888**	559
Deferred income tax	20	**80**	41
Current income tax asset		**4**	–
Reinsurance contracts	12	**51**	32
Cash and cash equivalents	13	**996**	1 322
Total assets		**8 643**	6 792
EQUITY			
Capital and reserves			
Share capital and share premium	14	**1 393**	1 348
Other reserves	15	**912**	640
Retained earnings		**3 057**	2 224
Total equity		**5 362**	4 212
LIABILITIES			
Liabilities arising from insurance contracts	16	**742**	464
Liabilities arising from reinsurance contracts	17	**20**	24
Financial liabilities			
– Investment contracts at fair value through profit or loss	18	**735**	604
– Borrowings at amortised cost	19	**73**	161
Deferred income tax	20	**806**	518
Deferred revenue	21	**122**	203
Provisions	22	**48**	36
Trade and other payables	23	**735**	522
Current income tax liabilities		**–**	48
Total liabilities		**3 281**	2 580
Total equity and liabilities		**8 643**	6 792

Income statement

for the year ended 30 June 2007

R million	Notes	Group 2007	Group 2006
Insurance premium revenue		**3 710**	2 824
Reinsurance premiums		**(593)**	(456)
Net insurance premiums	24	**3 117**	2 368
Fee income from administration business		**2 142**	1 961
Investment income	25	**175**	161
Net realised gains on available-for-sale financial assets	26	**195**	157
Net fair value gains on financial assets at fair value through profit or loss	27	**151**	121
Vitality income		**721**	654
Net income		**6 501**	5 422
Insurance benefits and claims		**(1 919)**	(1 348)
Insurance claims recovered from reinsurers		**475**	374
Net insurance benefits and claims	28	**(1 444)**	(974)
Acquisition costs	29	**(1 015)**	(908)
Marketing and administration expenses	30, 31	**(3 069)**	(2 624)
Recovery of expenses from reinsurers		**91**	–
Transfer from assets/liabilities under insurance contracts		**587**	468
– change in assets arising from insurance contracts	7	**651**	582
– change in liabilities arising from insurance contracts	16	**(60)**	(113)
– change in liabilities arising from reinsurance contracts	17	**(4)**	(1)
Fair value adjustment to liabilities under investment contracts	18	**(141)**	(121)
Profit before BEE expenses		**1 510**	1 263
BEE expenses	31	**(34)**	(161)
Profit from operations		**1 476**	1 102
Finance costs	32	**(21)**	(21)
Foreign exchange profit/(loss) – unrealised	33	**3**	(7)
Share of profit of associate	8	**–**	2
Profit before taxation		**1 458**	1 076
Taxation	34	**(385)**	(410)
Profit for the year		**1 073**	666
Attributable to:			
Equity holders		**1 073**	669
Minority interests		**–**	(3)
		1 073	666
Earnings per share for profit attributable to the equity holders during the year (cents):	35		
– basic		**200.0**	126.5
– diluted		**196.4**	121.0

Statement of changes in equity

for the year ended 30 June 2007

R million	Attributable to equity holders: Share capital and share premium	Other reserves	Retained earnings	Minority interest	Total
	(note 14)	(note 15)			
30 June 2006					
Balance at 1 July 2005	1 336	330	1 557	67	3 290
Issue of capital	16	–	–	3	19
Share issue expenses	(4)	–	–	–	(4)
Profit for the period	–	–	669	(3)	666
Dividends paid to Destiny Health preference shareholders	–	–	(1)	–	(1)
Realised loss on minority share buy-back	–	–	(1)	–	(1)
Unrealised gains on investments	–	288	–	–	288
Capital gains tax on unrealised gains on investments	–	(39)	–	–	(39)
Realised gains on investments transferred to income statement	–	(157)	–	–	(157)
Capital gains tax on realised gains on investments	–	18	–	–	18
Currency translation differences	–	14	–	–	14
Share-based payments	–	185	–	–	185
Transfer to hedging reserve	–	1	–	–	1
Redemption of Destiny preference shares	–	–	–	(67)	(67)
Balance at 30 June 2006	1 348	640	2 224	–	4 212
30 June 2007					
Balance at 1 July 2006	**1 348**	**640**	**2 224**	**–**	**4 212**
Issue of capital	**45**	**–**	**–**	**–**	**45**
Profit for the period	**–**	**–**	**1 073**	**–**	**1 073**
Dividends paid to equity holders	**–**	**–**	**(239)**	**–**	**(239)**
Realised loss on minority share buy-back	**–**	**–**	**(1)**	**–**	**(1)**
Unrealised gains on investments	**–**	**458**	**–**	**–**	**458**
Capital gains tax on unrealised gains on investments	**–**	**(48)**	**–**	**–**	**(48)**
Realised gains on investments transferred to income statement	**–**	**(195)**	**–**	**–**	**(195)**
Capital gains tax on realised gains on investments	**–**	**8**	**–**	**–**	**8**
Currency translation differences	**–**	**3**	**–**	**–**	**3**
Share-based payments	**–**	**52**	**–**	**–**	**52**
Transfer from hedging reserve	**–**	**(6)**	**–**	**–**	**(6)**
Balance at 30 June 2007	**1 393**	**912**	**3 057**	**–**	**5 362**

Of the R3 057 million held in retained income, R1 181 million is distributable. The balance is held to meet the capital requirements in various Group companies.

Cash flow statement

for the year ended 30 June 2007

R million	Notes	Group 2007	Group 2006
Cash flow from operating activities		**575**	580
Cash generated by operations	37.1	**757**	656
Dividends received		**43**	33
Interest received		**143**	122
Interest paid		**(23)**	(22)
Taxation paid	37.2	**(345)**	(209)
Cash flow from investing activities		**(625)**	(138)
Net purchases of investments		**(456)**	(46)
Purchases of equipment		**(108)**	(59)
Proceeds on disposal of equipment		**–**	1
Purchase of intangible assets		**(61)**	(34)
Decrease in loans receivable		**–**	–
Cash flow from financing activities		**(283)**	(39)
Proceeds from issuance of ordinary shares	37.3	**48**	23
Share issue costs written off against share capital		**–**	(4)
Dividends paid to equity holders		**(239)**	–
Dividends paid to Destiny Health preference shareholders		**–**	(1)
Minority share buy-back		**(5)**	(6)
Redemption of Destiny preference shares		**–**	(67)
(Repayment)/increase of borrowings	37.4	**(87)**	16
Net (decrease)/increase in cash and cash equivalents		**(333)**	403
Cash and cash equivalents at beginning of year		**1 322**	916
Exchange gains on cash and cash equivalents		**7**	3
Cash and cash equivalents at end of year	13	**996**	1 322

Notes to the annual financial statements

for the year ended 30 June 2007

1. ACCOUNTING POLICIES

The accounting policies of Discovery are set out on pages 68 to 83.

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Discovery is exposed to risk through its financial assets, financial liabilities, reinsurance assets and insurance assets and liabilities.

The board of Discovery is responsible for the oversight of business performance and risk management activities. The board is supported in these tasks by the board committees and their sub-committees, the risk management and compliance functions as well as internal audit. The governance structure of Discovery is illustrated in the diagram below:

BOARD

DISCOVERY GROUP AUDIT & RISK COMMITTEE

- Ensure integrity reliability and accuracy of accounting and financial reporting systems
- Ensure appropriate systems are in place for monitoring risk, control and compliance with the law and codes of conduct
- Evaluate the adequacy and effectiveness of the risk management, internal audit and compliance processes
- Review the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors
- Consider the annual financial statements for approval by the board of directors

DISCOVERY GROUP ACTUARIAL COMMITTEE

- Consider the financial soundness valuation results of Discovery
- Consider the embedded value results of Discovery
- Review the external disclosure of the financial soundness valuation results and the embedded value results of Discovery
- Ensure from an actuarial perspective Discovery complies with all statutory requirements and adheres to international best practice
- Consider the capital position of Discovery
- Ensure that the necessary processes and forums are in a place to enable the statutory actuary to ensure the actuarial soundness of new products as well as revisions of existing products
- Review all reinsurance arrangements

DIVISIONAL RISK COMMITTEES

- Evaluate the adequacy and effectiveness of the risk management, internal audit and compliance processes

SHAREHOLDERS' ASSETS INVESTMENTS COMMITTEE

- Determine investment philosophy and strategy for investment of shareholders' assets in support of Group operations

INDEPENDENT RISK MANAGEMENT FUNCTIONS WITHIN DISCOVERY

Asset and Liability Management	Operational Risk Management	Compliance	Internal Audit	Legal	Finance

2.1 Insurance risks

Insurance risks relate to the likelihood that emerging experience will lead to variances on the value placed on assets/liabilities under insurance contracts.

2.1.1 Discovery Life

Product descriptions

Discovery Life offers policyholders a range of insurance and financial solutions. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives.

Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health and Vitality.

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. The plan covers:

- Life Cover Benefits
- Disability Benefits
- Severe Illness Benefits
- Income Continuation Benefits

The Life Fund forms the financial foundation of the Life Plan. The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary. The Life Fund can also be linked to global investment markets and a selection of currencies via the Global Linkage Benefit to provide additional protection in real terms and in foreign currencies.

The key risk benefits are then defined as a percentage of the Life Fund. The Life Fund is reduced by the amount of benefits paid from the Life Fund. The Life Fund can be protected against claims by means of the Minimum Protected Fund. Multiple claims are allowed against the Life Fund from the same benefit.

There are a number of risk benefits that are defined in monetary terms or in form of indemnity benefits, rather than being expressed as a percentage of the Life Fund. These benefits include:

- Income Continuation Benefit
- Global Education Benefit
- Global Health Protector

The Life Plan has unique features allowing policyholders to add benefits for other family members. The Global Education Protector, Global Health Protector, Childbirth Benefit, Child Severe Illness Benefit, Parent Severe Illness Benefit and Family Trauma Benefit allow protection for the whole immediate family.

By actively maintaining and improving their health Discovery Life policyholders, through the Integrator benefit, could receive premium discounts and refunds of premiums.

The Life Plan provides whole of life cover. Premium guarantees are offered and quantified on most benefits. For example, the premiums for Life Cover are guaranteed not to increase by more than 25% for any ten year period.

Premiums are payable monthly. There are four funding methods that allow policyholders a choice of premium funding patterns. A combination of level premium funding patterns, annually increasing premium patterns and ten-yearly stepped premium funding patterns are offered. The higher the compulsory future premium increase, the lower the starting premium.

At 30 June 2007 there were 174 000 Life Plans with an annualised premium income of R2 221 million.

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health Medical Scheme in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit. The Health Plan Protector can be added to the Life Plan or can be bought on a stand alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

At 30 June 2007 there were 81 000 Health Plan Protector policies with an annualised premium income of R185 million.

Discovery Retirement Optimiser

The Retirement Optimiser offers funding for retirement and offers unique benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms. As at 30 June 2007 there were 19 579 Discovery Retirement Optimiser policies of which 18 800 policies are linked to the Life Plan. These policies have an annualised premium income of R237 million.

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *(continued)*

DiscoveryCard Protector

The DiscoveryCard Protector will cover the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average DiscoveryCard spend in the six month period prior to the life changing event.

At 30 June 2007 there were 17 000 DiscoveryCard Protector policies with an annualised premium income of R11 million.

Group Life

Discovery Life offers a comprehensive spectrum of protection benefits on a group basis. Life Cover, Severe Illness, Disability and Income Continuation Benefits are offered on a group basis. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year).

At 30 June 2007 there were 141 000 lives covered under group policies with an annualised premium income of R319 million.

Insurance and financial risks

Market and mismatching risk

Market and mismatching risk is the risk that market movements may result in a reduction in the value of assets. There is a further risk that movements in assets and liabilities are out of line given changes in market conditions.

- *Shareholder funds*

  Shareholder investments are reflected at fair value and thus susceptible to market fluctuation. The shareholder portfolio is a well diversified portfolio to reduce specific risk.

- *Insurance contracts*

  The insurance related cash outflows (eg, benefit payments, administrations expenses, etc.) have been matched with future cash inflows (predominantly future premiums). This can clearly be seen by considering the expected future net cash flows arising from insurance contracts:

R million	Year 1	Years 2 to 5	Years 5 to 10	Years 11 to 20	Years 21+
Cash flow	745	1 924	1 526	1 013	(3 262)

  The value of assets under insurance contracts of R3 114 million is calculated by discounting the expected future cash flows shown above. The effect of discounting is R1 301 million. The cash flows exclude current policyholder liabilities of R133 million. The discount rate is set with reference to the prevailing risk free gilt yield.

  There is thus a risk that a change in the risk free gilt yield could cause a change in the value of the assets under insurance contracts.

  The non-linked insurance liabilities held are mostly short-term in nature and have consequently been matched with cash.

  The risk under the Global Linkage Benefit is fully reinsured and Discovery does not face any net direct market risk. In the event of the reinsurer defaulting, the investments held by the reinsurer to hedge their risk relating to the Global Linkage Benefit, will be ceded to Discovery Life. Discovery Life reviews the assets held by the reinsurer on a six monthly basis.

- *Investment contracts*

  Discovery Life has written business with linked benefits under the Discovery Retirement Optimiser product.

  Although Discovery Life is not exposed to significant market risk as the policyholder's return is linked to the return on the underlying asset, Discovery Life is exposed to market risk to the extent that management fees and charges depend on the market value of the assets under the linked policies. There is thus a risk that the management fees could be insufficient to cover operational expenses.

- *Embedded derivatives*

  Discovery Life does not currently have significant embedded derivatives that do not meet the definition of insurance contracts.

Automatic increase take-up rate

The majority of Discovery Life policyholders have selected policies with automatic premium and benefit increases. The automatic increases increase the profitability of the plans over time since the cash flows under the policy are maintained in real terms.

These automatic increases are contractual, however, if a policyholder is no longer in a position to meet the premium increases, they may elect to change their policy to a plan with lower premium and benefit increases. In practice it has been found that most of the policyholders continue with their initial funding plans. However, for valuation purposes it has been assumed that all policyholders change to plans with minimum premium increases without changing the cover levels as at the valuation date. This is the worst case scenario and thus acts as a margin.

Lapse and surrender risk
Policyholders have the option to discontinue or reduce contributions at any time.

There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy will not yet have been recouped. There is also a risk of lower than expected withdrawals at late durations of the policy since no surrender value is payable on withdrawal from a risk policy.

There is a further risk that the withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings depend on the number of policies remaining in future years. As such future earnings depend on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.

The lapse risk is managed as follows:

- *Product design*
  Products are designed to be sustainable in the long-term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

  Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. For example, Vitality provides unique rewards and benefits to members which has proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

  No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced.
- *Distribution*
  Discovery Life predominantly distributes via independent intermediaries. The intermediary sales channel typically experiences lower lapse rates than a direct channel.

  Commissions are also clawed back from intermediaries where a policy lapses within the first two years of inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% over the two year period.
- *Client relationships*
  All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policies are conserved.
- *Reinsurance*
  Discovery has reinsurance treaties that protect a part of the assets under insurance contracts against a substantial increase in lapses. The reinsurance protects Discovery Life against the loss of assets under insurance contracts in the event that the aggregate lapse rate exceeds a predefined level.
- *Experience monitoring*
  Lapse experience is monitored on a monthly basis and the data is analysed to establish possible trends for which management action can be taken.

Reinsurance credit risk
There is a risk that a reinsurer does not perform in accordance with the reinsurance contract.

This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Liabilities under reinsurance contracts are primarily premiums payable on reinsurance contracts covering lapse risk.

The risk is mitigated by the choice of reinsurers. Only reinsurers that have appropriate credit ratings and are subsidiaries of large multi-national reinsurance groups are used.

Underwriting experience risk
There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of claims being higher than expected.

Selection is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims for example an outbreak of avian flu.

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *(continued)*

The risks are managed through:

- *Product design and pricing*

  Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age. Discovery Life has the unique ability to take additional rating factors into account for example the current medical scheme claims and life style factors.

  All new premium rates are reviewed and approved by the statutory actuary.

  Product integration between the different product offerings in the Discovery Group helps to attract healthier lives than average in the market leading to positive selection.

  For certain of the product-options offered under the Life Plan, Discovery Life has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered. Only premiums that can be predicted with confidence are guaranteed. Where guarantees are offered, Discovery guarantees that premiums can only be reviewed every ten years and increased by a maximum of 25%. The guarantee provided to the policyholder will however be strengthened based on policyholder's actual annual historic Vitality status.

  Discovery Life predominantly operates in the high end of the insurance market where the risk to AIDS is lower than for the market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.

  Group business can be reviewed at least once every two years. AIDS risk is specifically allowed for in the pricing of individual groups.

  Overall, Discovery Life has experienced better than estimated claims experience during every reporting period since its inception in 2001.

- *Underwriting*

  Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk. For individual policies with lump sum life cover, the minimum requirement will be an HIV test.

  Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for.

  Premium loadings and exclusions are applied where high risks are identified. Discovery Life can dynamically adjust premiums using the information from the health claims experience of a policyholder who is also a member of the Discovery Health Medical Scheme and Vitality. This provides Discovery Life with an advantageous position in the market.

  Group business is underwritten on an employer by employer basis and additional allowance is made for the impact of industry class, income and geographic location on expected claims experience. The free cover limit is the sum assured that will be given automatically to a specific life without further specific underwriting. The free cover limits are set separately for each scheme depending on the size and cover chosen by the specific scheme.

  Quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

- *Reinsurance*

  Reinsurance protects against volatility in claims experience and against an accumulation of risk. Reinsurance is further utilised on a facultative basis if uncertainty exists over the terms that should be offered to a particular risk.

  In addition, reinsurers provide specialist advice when designing new products.

  Discovery Life utilises surplus reinsurance to reinsure the proportion of each risk in excess of R3 million as at the policy inception. Discovery Life is thus protected against large individual claims.

  In addition catastrophe reinsurance reduces the risk of an accumulation of risk due to a single event. Both individual and group business are covered by catastrophe reinsurance.

- *Experience monitoring*

  Experience investigations are conducted and corrective action is taken where adverse experience is noted. Experience monitoring is done on at least a quarterly basis.

Expenses

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the expense inflation or due to a reduction in the number of in-force policies. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model doesn't accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world.

The original actuarial model was tested and verified using an independent but identical parallel model. Any changes made are externally and independently reviewed. Parallel models are developed to test any modelling changes.

The model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data is extracted from a single modern administration system and subjected to detailed checks together with high level reasonability checks. Discovery Life does not have any legacy systems that could impact on the data quality.

Operational/implementation risk

Discovery faces operational risk due to factors such as management failure, inadequate systems, inadequate controls, internal and external fraud, human error and a disruption in the normal operating environment.

Discovery's core values serve as an overall guidance to staff and aim to create a culture of prudence, accountability and integrity. Discovery further manages these risks through internal controls, internal audit, risk management, forensic functions, back-up facilities and insurance.

Segregation of duties ensures multiple checks on process and further protects against the risk of fraud.

Discovery does not have any legacy systems and processes to deal with thereby reducing operational risk.

Regulatory risk

Discovery Life operates in a highly regulated environment which is currently being scrutinised and questioned by both consumers and regulators. This has resulted in the constant review of the in-force regulations and the interpretation thereof. The regulatory risk can thus be defined as the potential detrimental impact unexpected changes in regulations (or interpretation thereof) may have on Discovery Life.

Discovery Life is a member of the Life Offices Association, an industry wide body that engages in discussions with policymakers and regulators.

Although Discovery endeavours to design insurance solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations, or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all products issued by Discovery Life have to be signed off by the independent Statutory Actuary.

In addition, Discovery Life does not have legacy retirement business that is affected by the recent rulings made by the Pension Fund Adjudicator.

Discovery Life's compliance department enhances regulatory compliance through audits and by monitoring developments in the regulatory environment.

Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to taxation legislation.

External tax advice is obtained as required to ensure that products are structured in a tax efficient way.

Currency risk

All of Discovery Life's benefits are Rand denominated, with the exception of the Global Linkage Benefit, a benefit where the sum insured can be linked to global investment markets or a selection of currencies. The Global Linkage Benefit is fully reinsured. Discovery Life does therefore not have significant net currency risk.

Investment return

The value of the assets under insurance contracts depends on the underlying assumption of future investment returns.

There is thus a risk that actual investment returns are different to expected. Discovery Life currently has negative policyholder liabilities overall and the exposure to fluctuations in actual market returns is thus low.

Capital adequacy requirements and protection against adverse experience

There is a risk that future premiums and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Margins are maintained in all liabilities. In addition, Discovery maintains shareholder capital to meet substantial deviations in experience.

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *(continued)*

In accordance with the Long-term Insurance Act (1998) Discovery Life is required to demonstrate solvency to the Registrar of Long-term Insurance. Discovery Life thus needs to maintain sufficient shareholder assets, over and above the assets required to fund shareholder liabilities, to fund the Capital Adequacy Requirement (CAR).

The CAR is calculated in accordance with the Professional Guidance Note (PGN) 104 as issued by the Actuarial Society of South Africa (ASSA). The CAR calculation is intended to approximate a risk based capital measure and covers the major areas of insurance risk. It explicitly covers the following areas of risk:

- Lapse and withdrawal risk
- Fluctuations in mortality and morbidity experience
- Fluctuation in expense experience
- AIDS risk
- Risk of asset liability mismatches
- Risk of worse than expected investment returns

No management action was allowed for to offset adverse conditions.

At 30 June 2007 the Statutory Capital Adequacy Requirement was R145 million and was covered 10.5 times.

Liquidity risk

Liquidity risk is the risk that Discovery Life has insufficient cash available to meet commitments as and when they fall due. Liquidity risk arises due to a timing mismatch between the assets and liabilities.

Discovery maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, Discovery Life's expected liabilities are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business. The liquidity risk on the existing portfolio is thus relatively small.

Large individual claims in excess of R3 million are reinsured providing stability in claims experience and further reducing the liquidity risk.

The net of tax and net of reinsurance expected cash inflows under in-force insurance and investment contracts as at 30 June 2007 were as follows:

R million	Year 1	Years 2 to 5	Years 5 to 10	Years 11 to 20	Years 21+
Cash flow	630	2 354	3 141	6 740	22 666

Note that these cash flows differ from those disclosed on page 90, since these are based on best estimate cash flows not taking into account the margins included within the liability calculations. No allowance has been made for new business and related expenses.

Policy wording/legal risks

There is a risk that Discovery could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings.

The risk is managed when new products are developed and all policy wordings are reviewed by legal advisers and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

Reputational risk

Reputational risk is the risk of negative market reaction towards Discovery Life. Discovery Life may thus not be able to apply management policies to reduce risk.

Reputational risks are controlled in that all decisions to repudiate claims are reviewed by the chief medical officer and legal advice is obtained where necessary.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations.

Discovery Life offers policies that integrate with the product offerings within the Discovery Group. The reputational risk to Discovery Life is thus extended to the reputational risk of the entire Discovery Group. Discovery Life management review all product offerings to minimise the reputational risk. All products are approved by the statutory actuary prior to launch.

Concentration risk

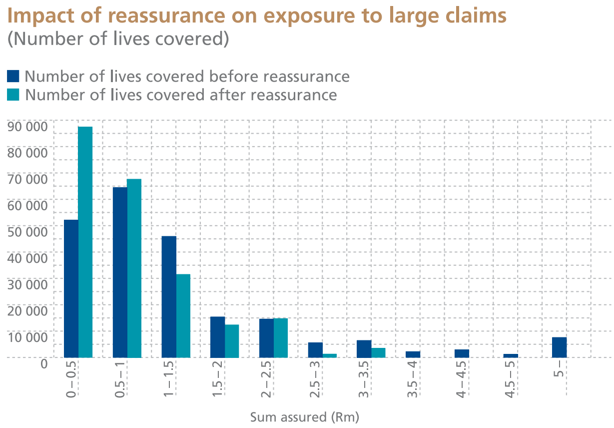
- *Claims experience risk*

  There is a risk that a concentration of risk can lead to worse than expected experience. The concentration risk is the highest in group business, since assured lives live in the same geographical location and generally work in the same industry or at the same location.

  Discovery's exposure to group business is however small at this stage and this risk is mitigated through catastrophe reinsurance.

  Discovery Life maintains a well diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against accumulation of claims from a single event, for example an airplane crash.

  Reinsurance removes the exposure to large individual claims, as demonstrated by the table below:



  The distribution of policies by sum assured is thus shifted towards lower sum assured.

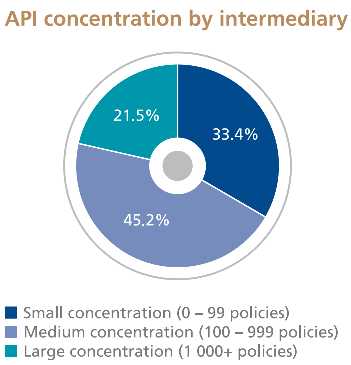
- *Withdrawal concentration risk*

  There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

  Discovery Life has a well diversified book of business by source of new business and spread across more than 6 500 brokers.

  The maximum exposure of Discovery Life to a single intermediary is smaller than 1% and to a group of intermediaries is 6% in number of policies.

  The distribution of API by concentration to an intermediary group is given in the graph below. A large concentration is defined as an intermediary group that has written more than 1 000 Discovery Life policies. A small concentration is defined as an intermediary group that has written less than 100 policies.



2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *(continued)*

2.1.2 Destiny Health

Destiny Health writes contracts providing health insurance coverage to individuals and employer groups in select markets within the United States of America.

The Destiny Health business is written in seven jurisdictions (Illinois, Wisconsin, Massachusetts, Washington DC, Virginia, Maryland and Texas) and on the paper of four insurance carriers (Destiny Health Insurance Company, Guardian Life Insurance Company, Clarendon National Insurance Company and Tufts Insurance Company). Apart from the Destiny Health Insurance Company, all other paper is rated A- and higher by A.M. Best Company. Different reinsurance and risk sharing agreements govern the retained risk to Destiny Health in each of these markets and on each of the licences.

Product description

The Destiny Health Plan comprises a medical plan providing medical coverage with a number of benefit options.

The plan typically covers the following health insurance benefits:

- Hospital benefits covering a range of inpatient hospital care and related services.
- Surgery benefits apply to outpatient surgery that is medically necessary and the surgery cannot be performed in a physician's rooms.
- Day-to-day benefits relate to physician office visits and in-room treatment.

Optional cover is provided for:

- Chronic medication, which covers prescribed medications, including insulin, required for the treatment of certain chronic illnesses.
- Total medication, which covers all prescribed medications.
- Preventive medications, covering prescription drugs, as defined by the plan, for the preventive treatment of various health conditions.
- Preventative care, covering costs for services such as childhood immunisations and mammograms.
- Hospital and surgery benefit, providing cover for hospital and surgery services, subject to a separate deductible.

Insurance and financial risks

Underwriting experience risk

Destiny is exposed to uncertainty surrounding the timing and severity of claims under its contracts of insurance. Risk premium rates are estimated using statistical techniques at a level reflective of expected annual claims cost per member, on a pooled basis. 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.

Destiny Health's risk exposure is reduced through reinsurance:

- Specific stop loss coverage through Lloyds of London, covering all member claim accumulations in excess of US$300 000; and
- Quota share coverage of 50% on more than 60% of in-force business in 2007.

These risks are further managed through:

- *Underwriting to screen risk and rate appropriately*

  Destiny Health requires medical tests on individual policies. In smaller groups a statement of health disclosure is required. Lifestyle information is used in addition to medical history. Key risk factors considered in individual and small group underwriting are: age, gender, region, industry, height and weight and medical and lifestyle information. Industry data sources are used to augment information obtained.

  In the large group segment (51 and more employees) underwriting mainly comprises experience rating using claims history, aligned with industry practice. Non-disclosure, participation and pre-existing condition monitoring are further mechanisms used to manage upfront selection risk.

- *Pricing*

  Premiums are annually renewable and policies are cancellable upon non-payment (all size groups), non-disclosure (groups with 51 or more employees) and fraud (all size groups). Some states require small group rates to be within a particular band, ie, the highest rate cannot exceed the lower by more than a mandated percentage. The distribution of business quoted and sold is monitored on a weekly basis and the aggregate of business sold at the highest rates are aimed to be fewer than 15%. Pricing is monitored on an ongoing basis and changes to pricing occur monthly. Pricing information sources include internal analysis, provider data, industry pricing tables, and partner data. Destiny Health's pricing is also reviewed from time-to-time by external consultants.

- *Managing health*
  Destiny Health uses specialist external consultants for the following services:
  - pharmacy benefit management;
  - in-patient and outpatient utilisation management, case management, disease management and maternity management;
  - mental health benefit and case management; and
  - diagnostic test review.

  The disease management program uses risk screening and predictive modelling to identify members for outreach.

  Destiny Health's wellness program, Vitality, plays an integral part in promoting health awareness, incentivising healthy behaviour and providing access to wellness programs and facilities.

- *Claims management*
  Claims payment patterns are short tailed by nature, and 90% of claims are typically settled within three months from dates of service. Destiny Health does not have exposure to latent claims, as all original claims are required to be submitted within 12 months from date of service. Average receipt of claims differs by territory, and currently runs at 45 days for all markets combined.

  Provider network contracts provide some claim cost relief. Groups, and in some circumstances members, choose regional provider networks. Services outside the region are available through PHCS, a national network of providers. In addition, specialist mental health network and transplant networks are used to control the costs on related services. Overseas coverage is only available for a 90 day period outside of the United States. Limited benefits are paid when non-participating providers are used.

  Controls and procedures also exist to identify fraud, inaccurate billing, non-disclosure, and pre-existing conditions. A coordination of benefits provision applies when a member has health care coverage under more than one plan, including Medicare.

- *Ongoing risk monitoring*
  The Destiny Health Risk Committee meets weekly focusing on new business and underwriting, renewals, and claims experience and medical management respectively. The meeting comprises executives from Destiny Health and representatives from Discovery in South Africa. Destiny Health also reports through to the Discovery Holdings Actuarial Committee, a sub-committee of the Discovery Holdings' Board, meeting at least four times per year.

  Within the framework of Destiny Health's quality management program the Medical Management Committee convenes quarterly to review medical practices and procedures and overall medical management. This committee comprises internal executives and external medical experts. Destiny Health's vendor oversight program requires quarterly which meets with all managed care vendors.

Concentration risk

Concentration of risk increases Destiny Health's exposure to factors impacting the severity and frequency of claims. Destiny Health management is focused to diversify geographical, group size exposure and quality of business risk to promote a balanced portfolio.

Concentration metrics are summarised below (gross premium in R million):

Distribution by age and market

%	Illinois	Massachusetts	Mid-Atlantic*	Texas	Wisconsin
sub 20	15	1	5	2	4
20 – 29	8	0	3	1	2
30 – 39	10	0	4	2	2
40 – 49	11	0	3	2	3
50 – 59	9	0	2	1	2
60+	4	0	1	0	1

* *Washington DC, Virginia and Maryland.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *(continued)*

Distribution by group size and market

%	Illinois	Massachusetts	Mid-Atlantic*	Texas	Wisconsin
Individual	1	0	0	0	0
Small group	37	7	6	2	2
Large group	17	8	11	3	7

* *Washington DC, Virginia and Maryland.*

IBNR calculation

The IBNR calculation is an estimate of claims incurred but not yet paid at 30 June 2007. The provision is calculated as the difference between the expected fully incurred claims for all months up to the calculation date, and the actual claims already paid for each month as at the calculation date. The calculation of the incurred claims estimate requires assumptions and actuarial judgment. Actual experience will differ from these estimates and impact profits in the post calculation period. The calculation methodology, key assumptions and the sensitivity of the estimate to changes in the key assumptions are outlined below.

Description of IBNR methodology

A monthly outstanding claims liability estimate is calculated for each of the four separate licenses. Sub-categories are developed per license for claims with different completion characteristics.

Claims lag triangles are populated for each category using paid claims information (chain ladder method). Triangles are also generated at the license level.

Completion factors are developed for each triangle. In each case, the final completion factors are a blending of various methods, where the weighting applied to each method varies based on the availability of data, maturity of the block and other notable characteristics. Where insufficient data exists for a particular block, the final completion factors used may be based in part or in full on other similar business. Large claims are removed from the triangle for factor development purposes where these result in disproportionate distortions to the lag pattern.

Sensitivity analysis

The IBNR provision is most sensitive to changes in claims development patterns. Another relevant assumption is medical inflation (trend). The table below shows the impact of a change in these assumptions on the 30 June 2007 IBNR.

	Base		10% increase in claims development patterns		2% increase in trends	
$ million	Gross	Net	Gross	Net	Gross	Net
Destiny	4	3	5	4	4	4
Claredon	3	3	3	3	3	3
Guardian	12	6	12	6	12	6
Tufts	1	1	1	1	1	1
	20	13	21	14	20	14

2.1.3 PruHealth

Product description

PruHealth offers three main product types:

Individual product

This is offered to the retail market either direct or via a broker. The product features include:

- Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover depends on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
- Starter discounts: Up to 30% based on answers to healthcare questions.
- Renewal discounts: Discounts are offered at renewal depending on claims and Vitality status.
- Vitality rewards: Full Vitality package including gym offering and healthcare related rewards.

SME product

This is an age-rated product offered to small groups (2-100) via the broker market. The product features include:

- Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover depends on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
- Renewal discounts for employers: Discounts are offered at renewal depending on loss ratio.
- Cashback: Employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
- Vitality rewards: A full Vitality package is offered including gym offering and healthcare related rewards.

Corporate product

This is a product with fixed premiums by age that is fully experience rated each year. It is offered by brokers and employee benefit consultants. The product features include:

- Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover depends on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
- Cashback: Companies can select their desired level of cashback. If selected, employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
- Vitality rewards: A full Vitality package is offered including gym offering and healthcare related rewards.

Insurance and financial risks

PruHealth takes a proactive approach to managing its risk and each business unit responsible for the five risk groupings identified below have initiated a series of risk management processes to ensure that they are adequately controlled.

Insurance risk

The key areas of risk are premium pricing, claims volatility and failing to meet target levels of business. Monthly meetings are held to review actual experience against original pricing assumptions. Current claims experience is monitored against expected to ensure that PruHealth's current pricing assumptions are reasonable. Information is fed into the pricing reviews conducted by the Actuarial and Underwriting department. On a quarterly basis, the financial forecast is reviewed against emerging experience. PruHealth measures profitability and solvency using a financial model of the business that projects in-force and expected new business cash flows.

PruHealth use Milliman, an external actuarial consultancy, for external peer review and formal product sign off. Milliman will continue to perform ongoing reviews of the results of emerging experience against our pricing assumptions. Their review will focus on underwriting, claims experience, reserving, demographics and new product pricing.

A recent project has been completed to evaluate reinsurance options to PruHealth in the market and an excess of loss reinsurance treaty has been concluded with a joint syndicate consisting of Wellington (a Lloyds syndicate) and Sirius, an international reinsurer.

With effect from 1 October 2006, PruHealth entered into a quota share agreement effectively reinsuring 50% of the risk profit of all new business written from that date for a period of approximately seven years. PruHealth has received R91 million from this contract which it disclosed as a recovery of expenses from reinsurer in the income statement.

Liquidity risk

The key areas of risk are asset mismatching, the inability to sell financial assets quickly enough and unexpected cash flows. At present the first two risks are minimised as all financial assets are held as cash and our liquidity position is strong. To manage unexpected cash flows monthly financials are compared to budget and quarterly budget re-forecasting is conducted to ensure that any additional financing required from PruHealth's shareholders is identified at least three to six months ahead.

Credit risk

Key counter-parties identified that may result in a credit risk to PruHealth are premium debtors and brokers. Premium debtors are managed by strong collection processes to ensure that the identification of any unpaid debt exists and this is reported on a monthly basis. Most commission claw-backs are off set against future payments and hence the risk of outstanding commission is minimal. Whilst PruHealth's entry into a reinsurance arrangement will have an impact on their credit risk it is not significant at present.

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *(continued)*

Market risk

The key areas of risk are the movement on interest rates and exchange rate movements resulting in reduced income. PruHealth invests its cash assets on the overnight money market, seeking the best interest rate it can achieve in accordance with its investment policy. At present budgeted interest rate is being achieved. Should there be a change in the market, PruHealth's budgets would be adjusted accordingly to reflect the reduced investment income achievable. Exchange rate movements have been largely managed through the creation of an annual expense contract with Discovery and the fixing of exchange rates.

Operational risk

A detailed risk management framework has been implemented across PruHealth through the implementation of individual business unit risk registers, a complaints management process and regular business continuity reviews.

IBNR calculation

The PruHealth IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. Due to the variability of estimates for the recent months, an adjustment is made to the claims for more recent months to allow for the number of pre-authorised claims and the expected cost per pre-authorised event.

The data used for the chain ladder calculation includes all claims processed from April 2006 to the end of June 2007. Adjustments are made to the IBNR using pre-authorised claims for the period February 2007 to June 2007.

A 10% increase in assumed IBNR will result in a £0,4 million increase in the IBNR provision.

2.1.4 Discovery Health

Product description

Select benefit

The select benefit provides cover to members of the Discovery Health Medical Scheme who selected the Select plan option. This product has been closed to new business since 2000. The following benefits are provided:

- The Private Ward Benefit provides a stated benefit of R860 per day when the policyholder is admitted to hospital. There is no overall benefit limit and the benefit ceases at age 65.
- The US Benefit covers the cost of treatment in the United States where the procedure is not available in South Africa. There is a lifetime benefit limit of US$1 million, and cover ceases at age 65.

The private ward benefit is reinsured on a quota share basis, and the overseas cover benefit is fully reinsured.

As at 30 June 2007 there were 8 980 lives covered under the select benefit with an annualised premium income of R15 million.

Primary care network

Discovery Health Medical Scheme entered into a capitation agreement with Discovery Health whereby it pays Discovery Health a monthly fee for each beneficiary on the Scheme's KeyCare plans. In return for the monthly fee, Discovery Health covers both the cost of healthcare services provided by the Primary Care network for these beneficiaries and the cost of administration of the Primary Care network. The covered Primary Care network services include unlimited visits to a specified GP, basic pathology, radiology, optometry, dentistry and acute medication on the KeyCare Plus plan, and chronic medication on the KeyCare Plus and KeyCare Core plans.

As at 30 June 2007 there were 156 549 lives covered under the Primary Care Network benefit with an annualised premium income of R186 million.

With effect from 1 July 2007, the nature of the agreement changed from a capitation agreement to a management contract whereby Discovery Health will be responsible for maintaining the Primary Care network on behalf of the scheme.

IBNR calculation

The outstanding claims reserve is estimated using the chain ladder method. Run-off triangles are used as it takes some time after the treatment date until the full extent of the claims to be paid is known. This method extrapolates the development of paid and incurred claims for each benefit month based on the observed claims development of earlier months ie, the method assumes that the historic claims development pattern will occur again in the future.

A run-off triangle is constructed showing, for each service month, the cumulative claims paid in each development month. The percentage increase in the cumulative claims paid from one development month to the next ie, the claims development factors, can then be used to calculate claims payments for future development months.

2.2 Financial instrument risks

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Discovery operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US dollar and the UK pound. As a result, foreign exchange risk arises from net investments in foreign operations.

Discovery manages short-term foreign currency exposures. Forward exchange contracts are utilised to reduce exposure to currency risk and are designated as cash flow hedges.

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Discovery, are included in the Group balance sheet:

R million	Rand	GBP	US$	Euro	Other	Total
30 June 2007						
Insurance and investment contracts						
Assets						
Intangible assets including deferred acquisition costs	9	20	–	–	–	29
Financial assets						
– Equity securities	562	16	29	24	8	639
– Debt securities	38	1	2	5	4	50
– Money market	104	–	4	–	–	108
– Equity linked notes	78	–	–	–	–	78
Reinsurance assets	51	–	–	–	–	51
Cash and cash equivalents	522	–	–	–	–	522
Total assets	1 364	37	35	29	12	1 477
Liabilities						
Liabilities arising from insurance contracts	539	50	153	–	–	742
Financial liabilities						
– Investment contracts at fair value through profit or loss	735	–	–	–	–	735
Total liabilities	1 274	50	153	–	–	1 477

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *(continued)*

2.2 Financial instrument risks *(continued)*

R million	Rand	GBP	US$	Euro	Other	Total
Shareholders						
Assets						
Property and equipment	**219**	**2**	**7**	**–**	**–**	**228**
Intangible assets	**79**	**–**	**5**	**–**	**–**	**84**
Assets arising from insurance contracts	**3 114**	**–**	**–**	**–**	**–**	**3 114**
Investment in associate company	**1**	**–**	**–**	**–**	**–**	**1**
Financial assets						
– Equity securities	**1 348**	**18**	**63**	**78**	**9**	**1 516**
– Debt securities	**116**	**1**	**136**	**6**	**4**	**263**
– Money market	**410**	**–**	**59**	**–**	**–**	**469**
– Equity linked notes	**45**	**–**	**–**	**–**	**–**	**45**
– Loans and receivables	**601**	**145**	**142**	**–**	**–**	**888**
Deferred income tax	**80**	**–**	**–**	**–**	**–**	**80**
Income tax asset	**4**	**–**	**–**	**–**	**–**	**4**
Cash and cash equivalents	**220**	**175**	**79**	**–**	**–**	**474**
Total assets	**6 237**	**341**	**491**	**84**	**13**	**7 166**
Equity						
Share capital and share premium	**1 393**	**–**	**–**	**–**	**–**	**1 393**
Reserves/(losses)	**5 199**	**(342)**	**(888)**	**–**	**–**	**3 969**
Total equity	**6 592**	**(342)**	**(888)**	**–**	**–**	**5 362**
Liabilities						
Liabilities arising from reinsurance contracts	**20**	**–**	**–**	**–**	**–**	**20**
Borrowings at amortised cost	**40**	**–**	**33**	**–**	**–**	**73**
Deferred income tax	**806**	**–**	**–**	**–**	**–**	**806**
Deferred revenue	**122**	**–**	**–**	**–**	**–**	**122**
Provisions	**46**	**–**	**2**	**–**	**–**	**48**
Trade and other payables	**471**	**107**	**157**	**–**	**–**	**735**
Total liabilities	**1 505**	**107**	**192**	**–**	**–**	**1 804**
Total equity and liabilities	**8 097**	**(235)**	**(696)**	**–**	**–**	**7 166**

2.2 Financial instrument risks *(continued)*

R million	Rand	GBP	US$	Euro	Other	Total
30 June 2006						
Insurance and investment contracts						
Assets						
Intangible assets including deferred acquisition costs	1	1	–	–	–	2
Financial assets						
– Equity securities	367	11	19	12	15	424
– Debt securities	44	–	2	4	2	52
– Money market	142	–	4	2	–	148
– Equity-linked notes	21	–	–	–	–	21
Reinsurance assets	32	–	–	–	–	32
Cash and cash equivalents	389	–	–	–	–	389
Total assets	996	12	25	18	17	1 068
Liabilities						
Liabilities arising from insurance contracts	306	20	138	–	–	464
Financial liabilities						
– Investment contracts at fair value through profit or loss	604	–	–	–	–	604
Total liabilities	910	20	138	–	–	1 068
Shareholders						
Assets						
Property and equipment	175	2	9	–	–	186
Intangible assets	46	10	8	–	–	64
Assets arising from insurance contracts	2 463	–	–	–	–	2 463
Investment in associates	7	–	–	–	–	7
Financial assets						
– Equity securities	1 046	11	46	58	15	1 176
– Debt securities	45	1	129	3	3	181
– Money market	50	–	5	2	1	58
– Equity-linked notes	56	–	–	–	–	56
– Loans and receivables	358	63	138	–	–	559
Deferred income tax	41	–	–	–	–	41
Cash and cash equivalents	726	95	112	–	–	933
Total assets	5 013	182	447	63	19	5 724
Equity						
Share capital and share premium	1 348	–	–	–	–	1 348
Reserves/(losses)	3 891	(246)	(781)	–	–	2 864
Total equity	5 239	(246)	(781)	–	–	4 212
Liabilities						
Liabilities arising from reinsurance contracts	24	–	–	–	–	24
Borrowings at amortised cost	42	–	119	–	–	161
Deferred income tax	518	–	–	–	–	518
Deferred revenue	203	–	–	–	–	203
Provisions	36	–	–	–	–	36
Trade and other payables	341	37	144	–	–	522
Current income tax liabilities	48	–	–	–	–	48
Total liabilities	1 212	37	263	–	–	1 512
Total equity and liabilities	6 451	(209)	(518)	–	–	5 724

Notes to the annual financial statements (continued)
for the year ended 30 June 2007

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *(continued)*

2.2 Financial instrument risks *(continued)*

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will default on their obligation to Discovery, thereby causing financial loss.

Key areas where Discovery is exposed to credit risk are:

– reinsurers' share of insurance liabilities;

– amounts due from the Discovery Health Medical Scheme; and

– cash and cash equivalents held at various financial institutions.

Discovery structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. An appropriate level of provision is maintained.

Discovery manages its exposure to credit risk in reinsurance assets held by placing reinsurance with reputable international companies. The credit rating of the company is assessed when placing the business and where there is a change in the status of the reinsurer.

The risk of cash and cash equivalents is managed through dealings with the major banks and exposures are monitored against approved limits.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Investments in debt and money market securities and deposits are managed by qualified asset managers.

As can be seen from the following table, a majority of the non-equity investments are short-term in nature thereby limiting Discovery's interest rate risk. The following assets will be affected by changes in market interest rates:

		Maturity date			
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
2007					
Insurance and investment contracts:					
Cash and cash equivalents	**522**	**522**	**–**	**–**	**–**
Money market	**108**	**108**	**–**	**–**	**–**
Debt securities	**50**	**8**	**20**	**11**	**11**
	680	**638**	**20**	**11**	**11**
Shareholders:					
Cash and cash equivalents	**474**	**474**	**–**	**–**	**–**
Money market	**469**	**469**	**–**	**–**	**–**
Debt securities	**263**	**218**	**22**	**11**	**12**
	1 206	**1 161**	**22**	**11**	**12**
2006					
Insurance and investment contracts:					
Cash and cash equivalents	389	389	–	–	–
Money market	148	148	–	–	–
Debt securities	52	8	21	11	12
	589	545	21	11	12
Shareholders:					
Cash and cash equivalents	933	933	–	–	–
Money market	58	58	–	–	–
Debt securities	181	136	22	11	12
	1 172	1 127	22	11	12

2.2 **Financial instrument risks *(continued)***

Legal risk

Legal risk is the risk that the Group will be exposed to contractual obligations which have not been provided for.

The Group has a policy of ensuring all contractual obligations are documented and appropriately evidenced to agreements with the relevant parties to the contract.

All significant claims are reviewed by independent legal resources and amounts are immediately provided for if there is consensus as to any possible group exposure. At 30 June 2007, the directors are not aware of any significant obligation not provided for.

Liquidity risk

Liquidity risk is the risk that Discovery will encounter difficulty in raising cash to meet commitments associated with financial instruments. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.

Policyholder funds are invested in appropriate assets, taking into account expected cash outflows. Discovery has significant liquid resources.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices.

Equity investments are made on behalf of policyholders and shareholders. Equities are reflected at market values, which are susceptible to fluctuation. Of the total investments subject to equity price risk being R2 137 million (2006: R1 600 million), R1 516 million, (2006: R1 176 million) are designated shareholder specific assets not linked to policyholders' liabilities. All market securities are managed by qualified asset managers in line with a mandate approved by the investment committee.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Assumptions and estimates form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are regularly reviewed in the light of emerging experience and adjusted where required.

Policyholder liabilities assumptions and estimates (Assets arising from insurance contracts)

The insurance policies issued by Discovery Life are valued using various methodologies and assumptions. The methodology is described in the accounting policies on pages 79 to 82. The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by PGN 104 of the Actuarial Society of South Africa and the discretionary margins described on page 80 of the accounting policies. The process used to decide on best-estimate assumptions is described below:

Experience investigations

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date.

The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results.

The most recent experience investigations were performed at 30 June 2007.

Mortality and morbidity

Assumptions of future mortality and morbidity experience are derived from reinsurers' data and compared to actual past experience. Where appropriate, the assumptions are adjusted to reflect actual past experience or expected changes in future experience.

The assumptions are modified for each policy based on actual data available from underwriting performed on the policy.

The assumptions are compared against standard industry tables for reasonability. The key mortality and morbidity assumptions are reviewed and benchmarked against the industry by independent actuarial consultants to ensure that the assumptions are reasonable, upon implementation of significant new products.

An allowance is made for the impact of AIDS. This is described in detail under the AIDS assumption below.

Surrender and lapse rates

Lapse and surrender rates are based on actual past experience where available. The lapse analysis is done by considering the in-force duration of policies. For durations longer than existing actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice. The lapse experience investigation covers at least the last two years of lapse experience to allow trends to be identified.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(continued)*

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly.

Taxation

Future tax is allowed for according to the current tax legislation and current tax rates.

The current and expected future tax position of each policyholders' tax fund is taken into account in setting the tax assumption.

The individual policyholders' fund (IPF) is currently in an excess expense (XE) position and hence no tax is payable on the interest earned on policyholders' funds within the IPF. Consequently, no allowance is made for tax relief on expenses within the IPF. Current forecasts are that the IPF will remain in an XE position.

Deferred tax arises on the timing differences between the accounting basis and the tax basis.

It is assumed that future tax will be payable at the prevailing company tax rate of 29%.

Economic assumptions/Investment returns

The discount rate is set equal to the estimate of the risk free investment return rate. The risk free rate is calculated with reference to the risk free yield curve. A single risk free rate is then derived appropriate to the weighted duration of the cash flows and rounded to the nearest quarter of a percent. The risk free rate at 30 June 2007 was set at 8.75% p.a.

Other investment returns and economic assumptions are set relative to this yield. The assumptions are as follows:

Cash:	Risk free – 1.5%
Fixed interest:	Risk free
Equity:	Risk free + 2%
Consumer price inflation:	Risk free – 4%

The investment fees and tax rates are taken into account in setting the economic assumptions.

Expense assumptions

Renewal expense assumptions are based on the results of the latest expense and budget information.

The allocation of expenses between initial and renewal expenses is based on the latest expense analysis where expenses are directly allocated based on the function performed. Where an expense could relate to both initial and renewal functions, the expenses are allocated proportionately based on estimates of the functions performed.

Per policy expenses are projected to increase in-line with consumer price inflation.

Material non-recurring expenses are excluded from the expense analysis used to derive the assumption.

HIV/AIDS

For individual business a fixed loading is applied to the expected best estimate mortality rates to allow for the expected effect of AIDS. The loading varies based on socio-economic class. A HIV test is required for all individual policies with lump sum life cover. Discovery Life further operates in the high end of the market where the AIDS risk is lower compared to the full market. The additional loading for AIDS is set in consultation with external independent actuaries and reinsurers.

For Group policies a loading is applied at the underwriting stage to allow for the expected effect of AIDS. The loading varies based on the industry and geographic area and composition of the group and is derived from advice received from the reinsurers. The loading then forms the AIDS assumption for Group policies.

Reinsurance

All prospective liabilities are valued gross of reinsurance and then adjusted for the expected effect of reinsurance. For outstanding reported claims and incurred but not reported claims liabilities (IBNR), a specific allowance is made for reinsurance recoveries.

The Global Linkage Benefit is fully reinsured. The cost of the future reinsurance depends on the cost at which the reinsurer can hedge the liabilities under this benefit. Assumptions are made around the cost at which the reinsurer can hedge the benefits, based on current and historic costs of the hedging structures.

Automatic premium increases

Automatic premium increases could include both contractual and voluntary increases. No allowance is made for voluntary premium increases when calculating liabilities under insurance contracts. Contractual premium increases are defined as increases that cannot be cancelled by the policyholder without altering the terms of the benefits provided under the policy. Contractual increases are included in the calculation of policyholder liabilities.

Policy alterations

In the calculation of policyholder liabilities, no allowance is made for policy alterations over time in accordance with actuarial guidance.

Changes in assumptions

Assumptions and methodologies are reviewed during each valuation. The impact of changes in the assumptions is reflected in the income statement as the changes occur.

Modelling and assumptions changes were made to the valuation at 30 June 2007 to ensure that assumptions are in line with the best estimate of future experience. The total effect of these changes was a decrease in the liabilities on the Financial Soundness Valuation basis of R91.3 million.

In addition to this the discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins decreased the liabilities on the Financial Soundness Valuation basis by R122.1 million. (See note 7 for an analysis of these changes).

Sensitivities

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out below.

For each sensitivity illustrated, all other assumptions have been left unchanged. No allowance has been made for any management action, for example premium increases, to react to the worse than expected experience.

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2007 assumptions	3 114	
Lapses +10% (eg, From x% to 1.1x%)	2 976	4.5
Lapses –10% (eg, From x% to 0.9x%)	3 258	(4.7)
Investment return and inflation –1% (eg, From 5% to 4%)	3 191	(2.5)
Investment return and inflation +1% (eg, From 5% to 6%)	3 035	2.6
Expense assumption +10%	3 052	2.1
Expense assumption –10%	3 177	(2.1)
Mortality and Morbidity +10%	2 641	15.6
Mortality and Morbidity –10%	3 618	(16.6)

The sensitivities are purely for illustration purposes and do not represent the extremes of possible experience.

4. SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 30 June 2007, Discovery is organised into five business segments:

1. Health South Africa: administers and provides managed care services to medical schemes and renders administration services to other business segments within the Group.
2. Health United States of America: offers consumer driven health insurance products to employer groups and individuals in the United States of America, in association with AEGON Life Assurance Company. Destiny further acts as a third-party administrator to Guardian Life Insurance Company of America. All contracts in this segment are short-term insurance contracts.
3. Health United Kingdom: offers consumer-engaged private medical insurance products to employer groups and individuals in the United Kingdom, together with Prudential Assurance Company Limited. All contracts in this segment are short-term insurance contracts.
4. Life South Africa: offers a range of insurance and financial solutions to the Group's clients against the financial impact of lifestyle-changing events. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in South Africa.
5. Life United Kingdom: this segment represents the costs incurred in establishing PruProtect. PruProtect will offer a range of risk products to individuals that will protect against the financial impact of lifestyle-changing events. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in the United Kingdom, together with Prudential Assurance Company Limited.
6. Vitality: offers health and lifestyle benefits with selected partners to the Group's clients. This segment includes the DiscoveryCard which is offered to clients within South Africa.

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

4. SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments *(continued)*

R million	Health South Africa	Health United States of America	Health United Kingdom	Life South Africa	Life United Kingdom	Vitality	Total
30 June 2007							
New business annualised premium income*	2 577	768	743	978	–	100	5 166
Gross inflows under management*	18 828	1 449	556	2 357	–	721	23 911
Income statement							
Insurance premium revenue	158	921	278	2 353	–	–	3 710
Reinsurance premiums	(3)	(65)	(25)	(500)	–	–	(593)
Fee income from administration business	2 138	–	–	4	–	–	2 142
Investment income and gains	55	13	4	434	–	15	521
Vitality income	–	–	–	–	–	721	721
Net income	2 348	869	257	2 291	–	736	6 501
Insurance benefits and claims	(128)	(707)	(207)	(877)	–	–	(1 919)
Insurance claims recovered from reinsurers	2	64	16	393	–	–	475
Acquisition costs	–	(44)	(32)	(888)	–	(51)	(1 015)
Marketing and administration expenses	(1 432)	(256)	(314)	(404)	(36)	(627)	(3 069)
Recovery of expenses from reinsurer	–	–	91	–	–	–	91
Transfer from assets/liabilities under insurance contracts	1	(15)	(25)	626	–	–	587
Fair value adjustment to liabilities under investment contracts	–	–	–	(141)	–	–	(141)
Expenses	(1 557)	(958)	(471)	(1 291)	(36)	(678)	(4 991)
Profit from operations	791	(89)	(214)	1 000	(36)	58	1 510
BEE expenses							(34)
Finance costs							(21)
Foreign exchange gain–unrealised							3
Profit before taxation							1 458
Taxation							(385)
Profit for the year							1 073
Other segment items included in the income statement:							
Depreciation (note 5)	62	3	1	1	–	–	67
Amortisation (note 6)	22	4	–	5	–	–	31
Balance sheet							
Assets arising from insurance contracts	–	–	–	3 114	–	–	3 114
Financial assets	290	330	145	3 241	–	50	4 056
Reinsurance assets	–	–	–	51	–	–	51
Other assets	735	91	197	235	–	164	1 422
Total assets	1 025	421	342	6 641	–	214	8 643
Liabilities arising from insurance contracts	4	154	50	534	–	–	742
Liabilities arising from reinsurance contracts	–	–	–	20	–	–	20
Financial liabilities	40	33	–	735	–	–	808
Other liabilities	339	158	107	934	–	173	1 711
Total liabilities	383	345	157	2 223	–	173	3 281
Capital expenditure	160	–	1	9	–	–	170

* *New business annualised premium income and gross inflows under management include flows of the schemes Discovery administers and 100% of the business conducted together with its joint venture partners.*

R million	Health South Africa	Health United States of America	Health United Kingdom	Life	Vitality	Total
30 June 2006						
New business annualised premium income*	2 505	796	282	789	107	4 479
Gross inflows under management*	16 542	1 322	141	1 768	654	20 427
Income statement						
Insurance premium revenue	74	911	71	1 768	–	2 824
Reinsurance premiums	(2)	(81)	–	(373)	–	(456)
Fee income from administration business	1 961	–	–	–	–	1 961
Investment income and gains	34	9	4	382	10	439
Vitality income	–	–	–	–	654	654
Net income	2 067	839	75	1 777	664	5 422
Insurance benefits and claims	(57)	(656)	(43)	(592)	–	(1 348)
Insurance claims recovered from reinsurers	2	76	–	296	–	374
Acquisition costs	–	(82)	(8)	(752)	(66)	(908)
Marketing and administration expenses	(1 319)	(242)	(153)	(363)	(547)	(2 624)
Transfer from assets/liabilities under insurance contracts	(4)	(77)	(13)	562	–	468
Fair value adjustment to liabilities under investment contracts	–	–	–	(121)	–	(121)
Expenses	(1 378)	(981)	(217)	(970)	(613)	(4 159)
Profit from operations	689	(142)	(142)	807	51	1 263
BEE expenses						(161)
Finance costs						(21)
Foreign exchange loss–unrealised						(7)
Share of profit of associate						2
Profit before taxation						1 076
Taxation						(410)
Profit for the year						666
Other segment items included in the income statement:						
Depreciation (note 5)	84	3	1	2	–	90
Amortisation (note 6)	18	3	–	4	–	25
Balance sheet						
Assets arising from insurance contracts	–	–	–	2 463	–	2 463
Financial assets	238	265	17	2 126	29	2 675
Reinsurance contracts	–	–	–	32	–	32
Other assets	863	129	85	387	158	1 622
Total assets	1 101	394	102	5 008	187	6 792
Liabilities arising from insurance contracts	5	138	14	307	–	464
Liabilities arising from reinsurance contracts	–	–	–	24	–	24
Financial liabilities	42	119	–	604	–	765
Other liabilities	337	146	43	671	130	1 327
Total liabilities	384	403	57	1 606	130	2 580
Capital expenditure	77	11	1	5	–	94

* *New business annualised premium income and gross inflows under management includes flows of the schemes Discovery administers and 100% of the business conducted together with its joint venture partners.*

Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

4. SEGMENT INFORMATION *(continued)*

(b) Secondary reporting format–geographical segments

Discovery's five business segments operate in three main geographical areas:

	South Africa		United States of America		United Kingdom		Total	
R million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Insurance premium revenue	**2 511**	1 842	**921**	911	**278**	71	**3 710**	2 824
Fee income from administration business	**2 142**	1 961	**–**	–	**–**	–	**2 142**	1 961
Vitality income	**721**	654	**–**	–	**–**	–	**721**	654
Total assets	**7 880**	6 296	**421**	394	**342**	102	**8 643**	6 792
Capital expenditure	**169**	82	**–**	11	**1**	1	**170**	94

Revenues are allocated based on the country in which the insurance or investment contracts are issued or fee income and investment returns are earned.

Total assets and capital expenditure are allocated based on the locations of the assets.

5. PROPERTY AND EQUIPMENT

R million	Land[1] and buildings	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improvements	Motor vehicles	Total
Year ended 30 June 2006						
Opening carrying amount	23	72	89	32	3	219
Foreign currency adjustments on translation						
– Cost	–	–	1	1	–	2
– Depreciation	–	–	(1)	–	–	(1)
Additions	–	18	23	19	–	60
Disposals						
– Cost	–	(8)	–	(1)	(2)	(11)
– Accumulated depreciation	–	7	–	1	1	9
Depreciation charge	(1)	(25)	(59)	(4)	(1)	(90)
Impairments recognised	–	–	(2)	–	–	(2)
Fully depreciated assets no longer in use						
– Cost	–	(35)	(120)	–	–	(155)
– Accumulated depreciation	–	35	120	–	–	155
Closing carrying amount	22	64	51	48	1	186
At 30 June 2006						
Cost	27	159	345	58	3	592
Accumulated depreciation	(5)	(95)	(294)	(10)	(2)	(406)
Carrying amount	22	64	51	48	1	186

R million	Land[1] and buildings	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improve-ments	Motor vehicles	Total
Year ended 30 June 2007						
Opening carrying amount	**22**	**64**	**51**	**48**	**1**	**186**
Additions	**–**	**17**	**21**	**65**	**6**	**109**
Disposals						
– Cost	**–**	**–**	**–**	**–**	**(1)**	**(1)**
– Accumulated depreciation	**–**	**–**	**–**	**–**	**1**	**1**
Depreciation charge	**(1)**	**(23)**	**(35)**	**(6)**	**(2)**	**(67)**
Closing carrying amount	**21**	**58**	**37**	**107**	**5**	**228**
At 30 June 2007						
Cost	**27**	**176**	**366**	**123**	**8**	**700**
Accumulated depreciation	**(6)**	**(118)**	**(329)**	**(16)**	**(3)**	**(472)**
Carrying amount	**21**	**58**	**37**	**107**	**5**	**228**

1 The Group's land and buildings are under a finance lease and are therefore restricted. Refer to note 19 for details regarding the finance lease liability. The directors valuation of the land and buildings is R95 million.

6. INTANGIBLE ASSETS INCLUDING DEFERRED ACQUISITION COSTS

R million	Software	Deferred acquisition costs		Total
		Investment contracts	Insurance contracts[1]	
Year ended 30 June 2006				
Opening carrying amount	45	–	1	46
Foreign currency adjustment on translation				
– Cost	1	–	1	2
– Accumulated amortisation	(1)	–	–	(1)
Additions	34	1	17	52
Amortisation charge	(25)	–	–	(25)
Deferred acquisition costs amortised	–	–	(8)	(8)
Fully depreciated assets no longer in use				
– Cost	(21)	–	–	(21)
– Accumulated amortisation	21	–	–	21
Closing carrying amount	54	1	11	66
At 30 June 2006				
Cost	155	1	11	167
Accumulated amortisation	(101)	–	–	(101)
Carrying amount	54	1	11	66

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

6. INTANGIBLE ASSETS INCLUDING DEFERRED ACQUISITION COSTS (continued)

		Deferred acquisition costs		
R million	Software	Investment contracts	Insurance contracts[1]	Total
Year ended 30 June 2007				
Opening carrying amount	**54**	**1**	**11**	**66**
Foreign currency adjustment on translation				
– Cost	**–**	**–**	**2**	**2**
– Accumulated amortisation	**–**	**–**	**(1)**	**(1)**
Additions	**61**	**8**	**39**	**108**
Amortisation charge	**(31)**	**–**	**–**	**(31)**
Deferred acquisition costs amortised	**–**	**–**	**(31)**	**(31)**
Closing carrying amount	**84**	**9**	**20**	**113**
At 30 June 2007				
Cost	**216**	**9**	**20**	**245**
Accumulated amortisation	**(132)**	**–**	**–**	**(132)**
Carrying amount	**84**	**9**	**20**	**113**

1 *This intangible asset relates to short-term insurance contracts only.*

R million	Group 2007	Group 2006
7. ASSETS ARISING FROM INSURANCE CONTRACTS		
Long-term insurance contracts – gross	**3 374**	2 522
Less: recovery from reinsurers	**(260)**	(59)
Long-term insurance contracts – net	**3 114**	2 463
Non-current	**3 114**	2 463
Movement in assets arising from insurance contracts		
Balance at the beginning of the year	**2 463**	1 881
Movement for the year:		
Expected movement in policyholder liabilities	**(530)**	(265)
Unwinding of discount rate	**203**	195
New business written	**693**	563
Experience variances	**72**	89
Mortality and morbidity	**3**	2
Lapses	**(48)**	(39)
Policy alterations	**(39)**	72
Premium income	**158**	54
Economic (CPI)	**(2)**	–
Modelling and method changes	**10**	11
Benefit enhancements	**(10)**	(46)
Changes in assumptions	**91**	(125)
Lapses	**(42)**	(118)
Economic	**17**	(26)
Premium increases	**–**	18
Mortality and morbidity	**144**	–
Expenses	**(28)**	–
Other	**–**	1
Margin reset[1]	**122**	160
Balance at the end of the year	**3 114**	2 463

1 *In line with accounting policy 22.2, the best estimate and margins are reset at every valuation date to reflect the underlying profitability of the overall portfolio. As margins are not set on new business in isolation, an acquisition cost loss arises which is funded by the margin reset on the total portfolio.*

R million	Group 2007	Group 2006
8. INVESTMENT IN ASSOCIATES		
Healthbridge (Proprietary) Limited	**–**	5
PFM Financial Services (Proprietary) Limited	**–**	1
Sedibeng (Proprietary) Limited	**1**	1
	1	7

All the associates above are incorporated in South Africa

Healthbridge (Proprietary) Limited

Healthbridge (Proprietary) Limited ("Healthbridge") investment consisted of 300 shares of R1 each representing 30% of the issued ordinary share capital (2006: 30%). This investment was sold on 15 November 2006.

PFM Financial Services (Proprietary) Limited

PFM Financial Services (Proprietary) Limited ("PFM") provides financial services to local clients. Discovery Health (Pty) Limited holds 10% (2006: 10%) of the issued share capital and has representation on the board of directors of PFM.

A decision has been taken to exercise the option to sell Discovery's investment to the majority shareholder at par value. The investment has been impaired to the par value of R16 at year-end.

Sedibeng (Proprietary) Limited

Sedibeng (Proprietary) Limited ("Sedibeng") provides financial services to local clients. Discovery Health (Pty) Limited holds 10% (2006: 10%) of the issued share capital and has representation on the board of directors of Sedibeng.

Sedibeng's first month of operation was July 2006. The loss attributable to ordinary shareholders for the year ended 30 June 2007 amounted to R2 million.

Summarised financial information of associated companies at 30 June:

R million	Sedibeng
2007	
Balance sheet	
Non-current assets	*****
Current assets	*****
Non-current liabilities	**(2)**
Current liabilities	*****
Equity	**(2)**
Income statement	
Revenue	*****
Net loss for the 12 months ended 30 June	**(2)**
Accumulated deficit at 30 June	**(2)**

* *Amount is less than R500 000.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

R million	Group 2007	Group 2006
9. INVESTMENT IN JOINT VENTURE		
Prudential Health (Proprietary) Limited		
Prudential Health (Proprietary) Limited ("PruHealth") provides consumer-engaged private medical insurance to clients in the United Kingdom. Discovery holds 50% (2006: 50%) of the issued share capital of PruHealth. Discovery accounts for interests in jointly controlled entities by proportionate consolidation.		
Summarised financial information of Discovery's share of the joint venture company at 30 June:		
Balance sheet		
Non-current assets	**2**	2
Current assets	**357**	146
Current liabilities	**(156)**	(64)
Equity	**203**	84
Income statement		
Revenue	**278**	71
Expenses	**(262)**	(161)
Net loss for the 12 months ended 30 June	**(99)**	(119)
Accumulated deficit at 30 June	**(352)**	(253)
10. FINANCIAL ASSETS		
The Group's financial assets are summarised by measurement category in the table below:		
Available-for-sale	**2 293**	1 471
Equity securities	**1 516**	1 176
Debt securities	**263**	181
Money market	**469**	58
Equity linked notes	**45**	56
Fair value through profit or loss	**875**	645
Equity securities	**639**	424
Debt securities	**50**	52
Money market	**108**	148
Equity linked notes	**78**	21
Loans and receivables including insurance receivables – note 11	**888**	559
Total financial assets	**4 056**	2 675
Current	**795**	596
Non-current	**3 261**	2 079
	4 056	2 675
Listed	**2 292**	1 825
Unlisted	**1 764**	850
	4 056	2 675

The equity linked notes are unlisted rand denominated investments providing equity exposure together with a floor of 80% of the highest price observed since inception.

The ten largest equity holdings comprise the following (in alphabetical order):

Anglo American plc, BHP Billiton plc, Bidvest Group Limited, Impala Platinum Holdings, MTN Group Limited, Naspers Limited, Sappi Limited, Sasol Limited, Standard Bank Group Limited, Steinhoff International.

%	Group 2007	Group 2006
Sectoral analysis of listed equities:		
Basic materials	**28**	25
Financials	**22**	25
Overseas instruments	**11**	8
Industrials	**9**	7
Consumer services	**7**	7
Telecommunications	**7**	9
Consumer goods	**6**	12
Unit trusts	**5**	3
Oil and gas	**3**	1
Health care	**2**	3
	100	100

R million	Group 2007	Group 2006
11. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES		
Receivables arising from insurance and reinsurance contracts:		
– premiums debtors	**185**	166
– less provision for impairment of premiums debtors	**(35)**	(24)
– reinsurance debtors	**225**	120
Other loans and receivables:		
– Discovery Health Medical Scheme	**230**	202
– closed scheme debtors	**15**	13
– prepayments	**42**	25
– forward exchange contract asset	**–**	3[1]
– other debtors	**266**	108
– less provision for impairment of other loans and receivables	**(40)**	(54)
Total loans and receivables	**888**	559[2]
Current portion	**752**	558
Non-current portion	**136**	1
	888	559

1 The forward exchange contract has been entered into to hedge administration fees receivable from PruHealth.

2 The directors believe that the fair value approximates the carrying value of the loans and receivables.

R million	Group 2007	Group 2006
12. REINSURANCE CONTRACTS		
Reinsurers' share of insurance contract liabilities	**51**	32
Current	**51**	32

Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in Loans and receivables (note 11)

R million	Group 2007	Group 2006
13. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	**386**	301
Short-term deposits	**610**	1 021
	996	1 322

The effective interest rate on short-term deposits was 8.15% and has an average maturity of 11 days.

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

14. SHARE CAPITAL AND SHARE PREMIUM

14.1 Ordinary share capital and share premium

	Number of Shares	Ordinary shares R million	Share premium R million	Total R million
At 1 July 2005	548 956 741	1	1 662	1 663
Issued during the year	42 996 439	*	58	58
Share issue expenses		–	(4)	(4)
At 30 June 2006 – Company share capital	591 953 180	1	1 716	1 717
Adjustment due to share incentive trusts and BEE transaction	(58 075 353)	*	(207)	(207)
Shares issued at no value on redemption of preference shares	–	*	(162)	(162)
At 30 June 2006 – Group share capital	**533 877 827**	**1**	**1 347**	**1 348**
At 1 July 2006	**591 953 180**	**1**	**1 716**	**1 717**
Issued during the year	**–**	**–**	**–**	**–**
At 30 June 2007 – Company share capital	**591 953 180**	**1**	**1 716**	**1 717**
Adjustment due to share incentive trusts and BEE transaction	**(53 245 348)**	*****	**(162)**	**(162)**
Shares issued at no value on redemption of preference shares	**–**	*****	**(162)**	**(162)**
At 30 June 2007 – Group share capital	**538 707 832**	**1**	**1 392**	**1 393**

* *Amount is less than R500 000.*

The total authorised number of ordinary shares is 1 billion (2006: 1 billion), with a par value of 0.1 cents per share.

The unissued share capital is under the control of the directors of the company until the forthcoming annual general meeting of shareholders.

14.2 Preference share capital

In June 2001, Discovery Life issued 1 500 000 "A" cumulative redeemable preference shares of 1 cent each to certain directors and employees. The total authorised number of preference shares is 1 500 000 of 1 cent each.

All three tranches of one third each of the preference shares were redeemed on 31 August 2004, 30 June 2005 and 30 June 2006 respectively. All tranches were redeemed at a premium of R108.44 per share.

On redemption date, the preference shareholders were obliged to invest the full amount of cash received from Discovery Life in Discovery Holdings ordinary shares. Discovery Holdings was, in turn, obliged to invest an equivalent amount in new ordinary shares of Discovery Life.

Following the redemption of all three tranches, the preference shareholders subscribed for 12 811 588 ordinary shares in Discovery Holdings at a price of R12.57 per share. From a group perspective, no cash has been received from the issue of these shares and therefore on consolidation, the proceeds of these share issues have been eliminated.

14.3 Discovery Holdings share incentive trusts and BEE transaction

	2007 Shares	2006 Shares
Number of ordinary shares allocated at the beginning of the year	**58 075 353**	20 717 144
Number of ordinary shares purchased by BEE participants	**314 251**	–
Number of ordinary shares issued in terms of the BEE transaction	**–**	38 725 909
Number of ordinary shares delivered to participants during the year	**(5 144 256)**	(1 367 700)
Number of ordinary shares allocated at the end of the year	**53 245 348**	58 075 353

For more details regarding the trusts refer to note 31

R million	Group 2007	Group 2006
15. OTHER RESERVES		
Reserve for revaluation of available-for-sale investments	**542**	319
Currency translation reserve	**115**	112
Share-based payment reserve	**257**	205
Hedging reserve	**(2)**	4
Total other reserves at 30 June	**912**	640
Movements in other reserves were as follows:		
Reserve for revaluation of available-for-sale investments:		
Balance at the beginning of the year	**319**	209
Unrealised gains on investments	**458**	288
Capital gains tax on unrealised gains on investments	**(48)**	(39)
Realised gains on investments transferred to income statement	**(195)**	(157)
Capital gains tax on realised gains on investments	**8**	18
Balance at the end of the year	**542**	319
Currency translation reserve:		
Balance at the beginning of the year	**112**	98
Currency translation differences	**3**	14
Balance at the end of the year	**115**	112
Share-based payment reserve:		
Balance at the beginning of the year	**205**	20
Share-based payments	**52**	185
Balance at the end of the year	**257**	205
Hedging reserve:		
Balance at the beginning of the year	**4**	3
Transfer (from)/to hedging reserve	**(6)**	1
Balance at the end of the year	**(2)**	4
16. LIABILITIES ARISING FROM INSURANCE CONTRACTS		
Gross		
Short-term insurance contracts:		
– claims reported and loss adjustment expenses	**423**	228
– claims incurred but not reported	**307**	228
– unearned premiums	**12**	8
Total liabilities arising from insurance contracts, gross	**742**	464
Recoverable from reinsurers		
Short-term insurance contracts:		
– claims incurred but not reported	**(51)**	(32)
Total reinsurers' share of liabilities arising from insurance contracts	**(51)**	(32)
Net		
Short-term insurance contracts:		
– claims reported and loss adjustment expenses	**423**	228
– claims incurred but not reported	**256**	196
– unearned premiums	**12**	8
Total liabilities arising from insurance contracts, net	**691**	432
Current	**691**	432

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

16. LIABILITIES ARISING FROM INSURANCE CONTRACTS *(continued)*

R million	2007 Gross	2007 Reinsurance	2007 Net	2006 Gross	2006 Reinsurance	2006 Net
Movements in the liabilities are as follows:						
Claims reported and loss adjustment expenses						
Notified claims	**228**	**–**	**228**	196	–	196
Incurred but not reported	**228**	**(32)**	**196**	102	(19)	83
Balance at the beginning of the year	**456**	**(32)**	**424**	298	(19)	279
Cash paid for claims settled in the year	**(154)**	**–**	**(154)**	(127)	–	(127)
Increase/(decrease) in liabilities						–
– arising from current year claims	**460**	**(19)**	**441**	343	(13)	330
– arising from prior year claims	**(32)**	**–**	**(32)**	(61)	–	(61)
Net exchange differences	**–**	**–**	**–**	3	–	3
Total at the end of the year	**730**	**(51)**	**679**	456	(32)	424
Notified claims	**423**	**–**	**423**	228	–	228
Incurred but not reported	**307**	**(51)**	**256**	228	(32)	196
Total at the end of the year	**730**	**(51)**	**679**	456	(32)	424
Provisions for unearned premiums						
At the beginning of the year	**8**	**–**	**8**	11	–	11
Release/increase in the period	**4**	**–**	**4**	(3)	–	(3)
Total at the end of the year	**12**	**–**	**12**	8	–	8

R million	Group 2007	Group 2006
17. LIABILITIES ARISING FROM REINSURANCE CONTRACTS		
Balance at the beginning of the year	**24**	31
Increase in liability	**4**	1
Premiums paid in the year	**(8)**	(8)
Balance at the end of the year	**20**	24
Current	**7**	7
Non-current	**13**	17
	20	24
18. INVESTMENT CONTRACTS AT FAIR VALUE THROUGH PROFIT OR LOSS		
The movements during the year were as follows:		
Balance at the beginning of the year	**604**	483
Premiums received	**52**	38
Fees deducted from account balances	**(28)**	(13)
Account balances paid on withdrawal and other terminations in the year	**(34)**	(25)
Fair value adjustment	**141**	121
Balance at the end of the year	**735**	604
Current	**–**	585
Non-current	**735**	19
	735	604

The benefits offered under the Group's unit-linked investment contracts are based on the return of selected equities, debt securities and money market instruments. The Group communicates the actual performance of these contracts to its contract holders.

All financial liabilities at fair value through profit or loss are designated by Discovery to be in this measurement category.

R million	Group 2007	Group 2006
19. BORROWINGS AT AMORTISED COST		
Bank loan	**33**	120
Finance lease liability	**40**	41
	73	161
Current	**36**	121
Non-current	**37**	40
	73	161

Bank loan

On 25 April 2005 Destiny Health entered into a revolving credit facility with HSBC Bank which currently provides for borrowings in an aggregate principal amount up to but not exceeding US$20 million, with a standby letter of credit sublimit of US$5.5 million. The maturity date of this credit facility is 24 April 2008 and carries an interest rate of LIBOR plus 1.25%. The loan is guaranteed by Discovery Holdings Limited. At 30 June 2007, US$4.5 million (June 2006: US$16.5 million) was outstanding under this facility. The carrying amount of the bank loan approximates fair value.

Finance lease liability

The finance lease is in respect of land and buildings purchased in July 1998. The effective interest rate on the lease is at 25%. The fair value of the finance lease liability is R52 million at 30 June 2007.

The minimum lease payments are as follows:		
Not later than 1 year	**13**	11
Later than 1 year and not later than 5 years	**54**	68
	67	79
Future finance charges on finance lease	**(27)**	(38)
Finance lease liability	**40**	41

20. DEFERRED INCOME TAX		
Deferred tax asset	**80**	41
– Current	**3**	2
– Non-current	**77**	39
Deferred tax liability	**(806)**	(518)
– Current	**(8)**	(23)
– Non-current	**(798)**	(495)
	(726)	(477)
Movement summary:		
Balance at beginning of year	**(477)**	(288)
Income statement charge	**(203)**	(165)
Capital gains taxation on market value adjustments:		
– charged to equity	**(40)**	(22)
– charged to investment contracts at fair value through profit or loss	**(6)**	(2)
Balance at the end of the year	**(726)**	(477)

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

20. DEFERRED INCOME TAX (continued)

R million	Opening balance	Charge for the year	Closing balance
Deferred taxation comprises:			
Year ended 30 June 2007			
Deferred tax asset	**41**	**39**	**80**
Provisions	**13**	**1**	**14**
Other deductible temporary differences			
– Operating leases	**19**	**1**	**20**
– Finance lease	**6**	**–**	**6**
– Income received in advance	**1**	**(1)**	**–**
Share-based payments	**1**	**14**	**15**
Assessed loss in company policyholders fund	**–**	**2**	**2**
Value of untaxed fund liabilities in excess of assets	**1**	**22**	**23**
Deferred tax liability	**(518)**	**(288)**	**(806)**
Difference between accounting and tax balances arising from insurance contracts	**(421)**	**(235)**	**(656)**
Capital gains tax on available-for-sale financial instruments	**(63)**	**(40)**	**(103)**
Capital gains tax on financial instruments at fair value through profit or loss	**(12)**	**(6)**	**(18)**
Difference between wear and tear and depreciation	**(13)**	**(3)**	**(16)**
Other deductible temporary differences			
– Prepayments	**(6)**	**(2)**	**(8)**
– Other	**(3)**	**(2)**	**(5)**
	(477)	**(249)**	**(726)**
Year ended 30 June 2006			
Deferred tax asset	35	6	41
Provisions	11	2	13
Other deductible temporary differences			
– Operating leases	16	3	19
– Finance lease	6	–	6
– Income received in advance	1	–	1
Share-based payments	–	1	1
Value of company policyholder fund liabilities in excess of assets	1	(1)	–
Value of untaxed fund liabilities in excess of assets	–	1	1
Deferred tax liability	(323)	(195)	(518)
Difference between accounting and tax balances arising from insurance contracts	(252)	(169)	(421)
Capital gains tax on available-for-sale financial instruments	(41)	(22)	(63)
Capital gains tax on financial instruments at fair value through profit or loss	(10)	(2)	(12)
Difference between wear and tear and depreciation	(14)	1	(13)
Other deductible temporary differences			
– Prepayments	(3)	(3)	(6)
– Other	(3)	–	(3)
	(288)	(189)	(477)

All South African entities are in a tax paying position. Destiny operations have significant losses but no deferred tax asset has been accounted for on the foreign losses incurred in the US.

Taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers. Discovery Life currently has an assessed loss in the individual policyholders' fund of R4 billion (2006: R3 billion) for which no deferred tax asset has been created.

21. DEFERRED REVENUE

R million	Reinsurance income	Administration fee income	Gym activation fees	Total
At 1 July 2005	161	37	56	254
Realised through the income statement	(60)	–	(48)	(108)
Interest payable	–	4	–	4
Deferred income relating to new business	–	–	53	53
At 30 June 2006	101	41	61	203
At 1 July 2006	**101**	**41**	**61**	**203**
Realised through the income statement	**(58)**	**(29)**	**(53)**	**(140)**
Interest payable	**–**	**2**	**–**	**2**
Deferred income relating to new business	**–**	**–**	**57**	**57**
At 30 June 2007	**43**	**14**	**65**	**122**

R million	**Group 2007**	Group 2006
Current	**89**	93
Non-current	**33**	110
	122	203

Reinsurance income: With effect from 1 July 2004 a quota share agreement was entered into effectively reinsuring 50% of the risk profits of the business in-force as at 31 December 2003 for a fixed period of approximately six years. The unearned portion of the R200 million received in terms of this contract in July 2004 was included in deferred revenue and is being released to income over the period of the contract.

Administration fee income: This is a prepayment received by Discovery Health in respect of approximately 60% of the costs incurred in administering the PruHealth business for the period July 2006 to December 2007.

Gym activation fees: Fees received from Vitality members on activation of their gym contracts are deferred over the period of the contract.

R million	**Group 2007**	Group 2006
22. PROVISIONS		
Leave pay		
Opening balance	**36**	30
Charged to income statement	**12**	6
Closing balance	**48**	36
23. TRADE AND OTHER PAYABLES		
Payables and accrued liabilities	**313**	246
Payroll creditors	**90**	43
Personal medical funds	**84**	81
Due to reinsurers	**41**	11
Value-added tax	**19**	20
Other creditors	**188**	121
	735	522
Current	**684**	516
Non-current	**51**	6
	735	522

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

R million		Group 2007	Group 2006
24.	**NET INSURANCE PREMIUMS**		
	Health	**1 264**	973
	Recurring premiums	**1 357**	1 056
	Reinsurance premiums	**(93)**	(83)
	Individual life	**1 671**	1 252
	Recurring premiums	**2 029**	1 542
	Single premiums	**36**	5
	Reinsurance premiums	**(394)**	(295)
	Group life	**182**	143
	Recurring premiums	**288**	221
	Reinsurance premiums	**(106)**	(78)
		3 117	2 368
	Gross income of Group	**3 710**	2 824
	Outward reinsurance premiums	**(593)**	(456)
		3 117	2 368
25.	**INVESTMENT INCOME**		
	Available-for-sale	**67**	35
	– interest	**36**	7
	– dividends	**37**	33
	– investment charges	**(6)**	(5)
	At amortised cost interest income	**5**	46
	Cash and cash equivalents interest income	**103**	80
		175	161
26.	**NET REALISED GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS**		
	Realised gains	**234**	176
	– equity securities	**232**	168
	– debt securities	**1**	1
	– foreign assets	**1**	7
	Realised losses	**(39)**	(19)
	– equity securities	**(37)**	(19)
	– debt securities	**(2)**	–
		195	157
27.	**NET FAIR VALUE GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**		
	Investment income	**11**	13
	– interest	**10**	10
	– dividends	**6**	12
	– investment charges	**(5)**	(9)
	Net realised gains	**41**	71
	Net fair value gains	**99**	37
		151	121

R million	Group 2007	Group 2006
28. NET INSURANCE BENEFITS AND CLAIMS		
Health	**960**	678
Gross claims	**1 042**	756
Less: Reinsurance recoveries	**(82)**	(78)
Individual life	**388**	234
Death	**365**	316
Disability	**340**	153
Less: Reinsurance recoveries	**(317)**	(235)
Group life	**96**	62
Death	**116**	73
Disability	**56**	50
Less: Reinsurance recoveries	**(76)**	(61)
	1 444	974
Policyholder benefits	**1 919**	1 348
Recoveries from reinsurers	**(475)**	(374)
Net policyholder benefits	**1 444**	974
29. ACQUISITION COSTS		
Commission expenses	**1 046**	917
Movement in deferred acquisition costs	**(31)**	(9)
	1 015	908
30. MARKETING AND ADMINISTRATION EXPENSES		
Marketing and administration expenses comprise:		
Employee costs	**1 394**	1 142
Marketing and distribution costs	**315**	253
IT systems and consumables	**174**	170
Building related and office costs	**285**	257
Depreciation and amortisation	**98**	115
Vitality benefit costs	**560**	523
Other costs	**152**	164
	2 978	2 624
Marketing and administration expenses include the following:		
Amortisation of intangible assets (note 6)		
Software	**31**	25
Auditors' remuneration		
Audit fees		
– current year	**8**	6
– prior year	**1**	1
Fees for other services	**–**	–
	9	7

30. MARKETING AND ADMINISTRATION EXPENSES (continued)

R million	Group 2007	Group 2006
Depreciation on property and equipment (note 5)		
Land and buildings	1	1
Furniture, fittings and equipment	23	25
Computer equipment and operating systems	35	59
Leasehold improvements	6	4
Motor vehicles	2	1
	67	90
Employee costs		
Salaries, wages and allowances	1 072	891
Medical aid fund contributions	56	43
Defined contribution provident fund contributions	56	43
Social security levies	16	14
Share-based payment expenses		
– equity	18	23
– liability	45	6
Staff training	9	7
Recruitment fees	21	18
Temporary staff	47	54
Provision for leave pay	12	5
Other	42	38
	1 394	1 142

Executive directors' remuneration is included in employee costs. Refer to Directorate.

R million	Group 2007	Group 2006
Operating lease charges		
Land and buildings	108	90
Computer and office equipment	77	83
	185	173
Professional fees		
Actuarial fees	6	8
Technical and other	108	79
	114	87
Repairs and maintenance expenditure		
Computer repairs and maintenance	11	13
Furniture and equipment maintenance	4	1
Office repairs and maintenance	7	5
Software maintenance	38	39
	60	58
Other operating costs		
Impairment of receivables	7	16
Reversal of impairment of receivables	(10)	–
Foreign exchange losses on supplier balances	2	4
Impairment of property and equipment	–	2

31. SHARE-BASED PAYMENT EXPENSES

31.1 Staff incentive schemes

Discovery Holdings operates four share-based payment arrangements with employees. The details of these arrangements are described below:

1. The Discovery Holdings Limited share trust

The Discovery Holdings incentive scheme is a "deferred implementation" incentive scheme. Options are exercised at the market share price ruling on the date the options are allocated and must be exercised on that date. Shares offered to participants are issued to the trust on the same date.

For options allocated prior to 2004, of the shares offered at option date, delivery may only be taken by the participant 2, 3, 4 and 5 years after the option is exercised at a rate of 25% per annum. Any shares not taken delivery of by the end of the 5th year from the date the option is exercised, must be delivered to the participant.

For options allocated in 2004, of the shares offered at option date, delivery may only be taken by the participant 2, 3 and 4 years after the option is exercised at a rate of 33.3% per annum. Any shares not taken delivery of by the end of the 4th year from the date the option is exercised, must be delivered to the participant.

No payment is required from the participant until delivery of the shares is taken. Payment for the shares must be made before delivery of the shares can be taken. The trust has not offered loans to participants. All staff are eligible to participate in the share incentive scheme.

2. BEE staff trust

5 290 000 Discovery Holdings' shares were issued to the BEE staff trust for current and future employees. The trust consists of two components; the allocation scheme and the option scheme as described below:

Allocation scheme

Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees 2, 3, 4 and 5 years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares and cash, if any, to which the employee may be entitled.

Option scheme

Options granted to black employees may be exercised 2, 3, 4 and 5 years after the option is granted at a rate of 25% per annum. Any options not exercised by the end of the 5th year from the grant date shall lapse. On exercise of the option, the employee pays cash to the trust for the full purchase price of the option.

3. The Destiny Health Inc. stock option plan

Options are granted at the fair value price at date of grant, currently US$3.42. Options vest 25% per year for 4 years and must be exercised within 6 years of the date that 100% vest otherwise the options expire.

The share option schemes mentioned in 1,2 and 3 above have been classified as equity-settled schemes and therefore, a share-based payment reserve has been recognised.

4. The phantom scheme

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Discovery share price. The bonus is earned if the participant is employed on each vesting date. The vesting of the scheme is 2, 3, 4 and 5 years after allocation of the bonus units. The bonus may not be carried forward.

In the calculation of the bonus, the participants may choose to replicate the economics of a Discovery share or a call option over a Discovery share or a combination of both. This scheme has been classified as a cash-settled scheme.

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

31. SHARE-BASED PAYMENT EXPENSES (continued)

The following is a summary of the terms and conditions of the share options granted:

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled during year	Shares under option at end of year
1. The Discovery Holdings Limited share trust							
01/11/2000	R10.32	01/11/2005	15 370	–	(15 370)	–	–
01/11/2001	R10.20	01/11/2006	1 973 050	–	(1 949 300)	(23 750)	–
01/03/2002	R7.80	01/03/2007	875 000	–	(875 000)	–	–
01/09/2002	R7.20	01/09/2007	4 753 750	–	(1 026 166)	(50 000)	3 677 584
30/09/2004	R14.40	30/09/2008	10 910 000	–	(1 278 420)	(366 669)	9 264 911
2. BEE staff trust							
13/09/2005	R21.47	13/09/2010	1 236 000	–	–	(135 000)	1 101 000
13/09/2005	R0.00	13/09/2010	3 268 750	–	–	(402 050)	2 866 700
30/09/2006	R22.30	30/09/2011	–	540 000	–	–	540 000
30/09/2006	R0.00	30/09/2011	–	180 000	–	–	180 000
3. The phantom scheme							
30/09/2005	R21.50	30/09/2010	6 210 436	–	–	(270 642)	5 939 794
30/09/2005	R0.00	30/09/2010	615 531	–	–	(35 638)	579 893
30/09/2006	R22.30	30/09/2011	–	6 497 189	–	(122 100)	6 375 089
30/09/2006	R0.00	30/09/2011	–	1 227 125	–	(67 000)	1 160 125
4. The Destiny Health Inc. stock option plan							
01/08/2001	$2.00	31/7/2005	16 250	–	(5 000)	–	11 250
20/08/2001	$2.00	19/8/2005	10 000	–	(10 000)	–	–
29/08/2001	$2.00	28/8/2005	10 000	–	–	–	10 000
01/10/2001	$2.00	30/9/2005	375	–	–	–	375
01/11/2001	$2.00	30/9/2005	15 000	–	–	–	15 000
12/11/2001	$2.00	11/11/2005	1 250	–	–	–	1 250
12/12/2001	$2.00	11/12/2005	2 000	–	(2 000)	–	–
22/01/2002	$2.00	21/01/2006	1 000	–	(1 000)	–	–
01/02/2002	$2.00	31/01/2006	2 000	–	(2 000)	–	–
22/03/2002	$2.00	21/03/2006	1 000	–	(1 000)	–	–
06/05/2002	$2.00	05/05/2006	1 000	–	–	–	1 000
03/06/2002	$2.00	02/06/2006	15 000	–	(15 000)	–	–
01/08/2002	$2.00	31/07/2006	2 000	–	–	–	2 000
14/08/2002	$2.00	13/08/2006	2 000	–	–	–	2 000
01/10/2002	$2.00	30/09/2006	1 000	–	(750)	(250)	–
15/10/2002	$2.00	14/10/2006	1 000	–	–	–	1 000
12/12/2002	$2.00	11/12/2006	2 000	–	(1 500)	(500)	–

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled during year	Shares under option at end of year
4. The Destiny Health Inc. stock option plan (continued)							
01/01/2003	$2.00	31/12/2006	30 000	–	–	–	30 000
01/03/2003	$2.00	28/02/2007	28 250	–	–	–	28 250
13/03/2003	$2.00	12/03/2007	1 000	–	–	–	1 000
03/06/2003	$2.11	02/06/2007	3 000	–	–	–	3 000
07/07/2003	$2.11	06/07/2007	75 272	–	–	–	75 272
16/07/2003	$2.11	15/07/2007	5 000	–	–	–	5 000
16/09/2003	$2.11	15/09/2007	419 500	–	(75 250)	(49 750)	294 500
01/12/2003	$2.11	30/11/2007	18 750	–	–	–	18 750
01/04/2004	$2.11	31/03/2008	5 000	–	(2 500)	(2 500)	–
30/04/2004	$2.11	29/04/2008	5 000	–	(2 500)	(2 500)	–
01/05/2004	$2.11	30/04/2008	5 000	–	(2 500)	(2 500)	–
01/06/2004	$2.11	31/05/2008	50 000	–	–	–	50 000
02/08/2004	$3.38	01/08/2008	80 000	–	–	–	80 000
01/09/2004	$3.38	31/08/2008	5 000	–	–	–	5 000
22/06/2005	$3.38	21/06/2009	541 000	–	(4 625)	(135 875)	400 500
17/01/2006	$3.33	16/01/2010	282 500	–	–	–	282 500
26/01/2006	$3.33	25/01/2010	20 000	–	–	(20 000)	–
05/07/2006	$3.27	04/07/2010	–	25 000	–	–	25 000
18/07/2006	$3.27	17/07/2010	–	30 000	–	–	30 000
14/08/2006	$3.27	13/08/2010	–	250 000	–	–	250 000
01/09/2006	$3.27	31/08/2010	–	30 000	–	–	30 000
12/09/2006	$3.27	11/09/2010	–	5 000	–	–	5 000
16/10/2006	$3.27	15/10/2010	–	20 000	–	–	20 000
14/11/2006	$3.27	13/11/2010	–	50 000	–	–	50 000
15/03/2007	$3.42	14/03/2011	–	150 000	–	–	150 000
15/06/2007	$3.42	14/06/2011	–	620 000	–	–	620 000

The fair value of the shares granted during the period was calculated based on the market price of a Discovery share at the date of grant.

The fair value of options granted during the period was calculated on a Black-Scholes model using the following assumptions:

	Discovery Holdings share trust	BEE staff trust		Phantom scheme	
Spot price	R14.40	R21.47	R22.30	R29.03	R29.03
Exercise price	R14.40	R21.47	R22.30	R22.30	R21.50
Option term	2 to 4 years	2 to 5 years	2 to 5 years	1.26 to 4.26 years	0.25 to 3.26 years
Volatility	27.3%	27.3%	27.3%	20%	20%
Dividend yield	–	–	1.48	1.48	1.48

The phantom scheme is cash-settled and is thus repriced at each reporting date.

Destiny Health stock options are valued at the intrinsic value using a value of US$3.42 (2006: US$ 3.33) per Destiny share.

31. SHARE-BASED PAYMENT EXPENSES (continued)

31.2 Black Economic Empowerment (BEE) transaction and IFRS2

Discovery concluded a BEE transaction in September 2005 pursuant to which 38 725 909 shares were issued to BEE parties as follows:

BEE parties	Number of shares	Subscription price per share
Dlamini SPV	200 000	R0.001
Zilwa SPV	200 000	R0.001
WDBIH SPV	17 703 273	R0.113
Maphai SPV	1 106 455	R1.718
Discovery foundation	14 226 181	R0.001
BEE staff share trust	5 290 000	R0.001

Mechanics of the transaction with BEE partners other than BEE staff share trust ("BEE parties")

The difference between the market value of the ordinary shares issued to the BEE parties of R715 million and the subscription consideration of R3.9 million represents an outstanding funded amount provided by Discovery shareholders ("the funded amount"). The BEE parties will provide Discovery and its subsidiaries with a right to purchase, at the end of ten years, such number of ordinary shares at 0.1 cent per share ("the par value") as will provide Discovery with a notional return on this funded amount ("the Discovery repurchase agreement").

In order to allow the BEE parties to retain the full number of Discovery shares originally issued to them, the BEE parties will have a right to simultaneously acquire from Discovery, at the then 30-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery in terms of the Discovery repurchase agreement.

Shares acquired by the BEE parties rank pari passu with existing Discovery shares. The BEE parties have undertaken to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distribution.

Based on guidance from the International Accounting Standards Board and the South African Institute of Chartered Accountants, IFRS 2 should be applied to all transactions in which the entity receives non-financial assets, including services and therefore the BEE transaction has been deemed to fall within the scope of IFRS 2.

For purposes of IFRS 2, the transaction has been accounted for based on the fair value of a share option with a similar economic effect. In respect of the WDBIH SPV, the Maphai SPV and the Foundation SPV, the transaction was expensed in full in the 2006 financial year. This fair value has been determined using a Black-Scholes model with the following assumptions:

	WDBIH SPV	Maphai SPV	Foundation SPV
Spot price	R21.47	R21.47	R21.47
Exercise price	R81.82	R60.55	R64.21
Option term	ten years	ten years	ten years
Volatility	27.3%	27.3%	27.3%
Dividend yield	0%	0%	0%

For details of staff scheme, refer to note 31.1 above. The Dlamini SPV and Zilwa SPV are valued in line with the BEE staff trust.

R million	Group 2007	Group 2006
32. FINANCE COSTS		
Interest expense:		
On bank loan	**8**	7
On finance lease liability	**11**	11
On administration fees received in advance	**2**	3
	21	21
33. FOREIGN EXCHANGE PROFIT/(LOSS)		
Foreign exchange profit/(loss) on borrowings	**3**	(7)

The exchange profit/(loss) arises on the translation of the rand based prepayment made by PruHealth to Discovery Health in respect of administration fees.

34. TAXATION	Group 2007	Group 2006
Charge for the year:		
Current taxation	**150**	241
South African normal taxation	**259**	217
Foreign countries normal taxation	**(120)**	–
South African capital gains taxation	**11**	24
Deferred taxation	**203**	165
Secondary tax on companies	**32**	4
	385	410

	%	%
Taxation rate reconciliation		
Effective taxation rate	**26.4**	38.1
Destiny Health losses	**(1.9)**	(4.0)
PruHealth prior year losses utilised	**3.9**	(2.1)
Capital profits and dividend income	**4.6**	5.0
Secondary tax on companies	**(2.2)**	(0.3)
Disallowed expenditure	**(1.2)**	(5.2)
Other permanent differences	**(0.6)**	(2.5)
Standard rate of taxation	**29.0**	29.0

Current taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers.

Destiny Health has federal tax losses of US$129 million (R912 million) (2006: US$115 million (R820 million)) to carry forward against future taxable income. These tax losses have not been recognised in the financial statements and are available for set-off against future taxable profits.

During the year, PruHealth entered into a transaction with Prudential Assurance Company Limited ("Prudential") to effectively utilise the tax losses that Discovery has been unable to utilise through consortium relief, such that PruHealth's deferred tax asset is replaced with a cash injection from Prudential. Previously, Discovery was only able to account for an asset on 50% of the PruHealth losses for which consortium relief was available to Prudential in the UK. The utilisation of the tax losses has enabled Discovery to account for a receivable for the balance of the PruHealth losses. The impact of this is to reduce the taxation charge in the current year by R120 million, of which R52 million relates to prior years' tax assets not recognised.

R million	Group 2007	Group 2006
35. EARNINGS PER SHARE		
Basic earnings per share		
Earnings per share is based on net profit after tax attributable to equity holders and the weighted number of ordinary shares in issue.		
Earnings attributable to equity holders (R million)	**1 073**	669
Weighted number of ordinary shares in issue (000's)	**536 560**	528 946
Basic earnings per share (cents)	**200.0**	126.5
Diluted earnings per share		
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Discovery has three categories of dilutive potential ordinary shares namely: – "A" cumulative redeemable preference shares which are converted into the number of ordinary shares that equates to the redemption value of these shares. – shares issued from the staff share trusts which have not been delivered to participants. – shares issued to BEE parties		
Weighted average ordinary shares in issue (000's) adjusted for:	**536 560**	528 946
Subscription by "A" cumulative redeemable preference shares (000's)	**–**	4 270
Weighted average ordinary shares in the staff share trusts (000's)	**8 465**	22 968
Weighted average ordinary shares issued to BEE parties (000's)	**1 554**	18 687
	546 579	574 871
Diluted earnings per share (cents)	**196.4**	121.0
Headline earnings		
Headline earnings per share is based on the net profit after tax attributable to equity holders adjusted for items of a capital nature, and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation		
Earnings attributable to equity holders (R million)	**1 073**	669
Adjusted for:		
– realised profit on available-for-sale financial instruments net of capital gains tax	**(187)**	(139)
– impairment of property and equipment	**–**	1
Headline earnings	**886**	531
Headline earnings per share (cents)	**165.2**	100.4
Diluted headline earnings per share (cents)	**162.2**	97.0
Headline earnings per share before BEE transaction:		
Headline earnings	**886**	531
BEE expenses	**34**	161
Headline earnings before BEE transaction	**920**	692
Headline earnings per share before BEE transaction (cents)	**171.5**	130.8
Diluted headline earnings per share before BEE transaction (cents)	**168.4**	126.4

36. DIVIDENDS PER SHARE

The dividends paid in 2007 totalled R239 million and comprised a maiden dividend of 27 cents per share paid on 23 October 2006 and an interim dividend of 16 cents per share paid on 2 April 2007.

R million	Group 2007	Group 2006
37. CASH FLOW INFORMATION		
37.1 Cash generated by operations		
Profit before taxation	**1 458**	1 076
Adjusted for:		
Deferred income	**(81)**	(52)
Financing costs	**21**	21
Foreign exchange (profit)/loss	**(3)**	7
Operating lease payments in advance	**2**	19
Investment income	**(186)**	(161)
Realised investment gains and losses	**(236)**	(157)
Premiums, claims and investment charges iro liabilities under investment contracts	**(5)**	–
Non-cash items:		
Amortisation	**31**	26
Deferred acquisition costs	**(17)**	(12)
Depreciation	**67**	90
Impairment of fixed assets	**–**	2
Provisions	**12**	9
Share-based payment expenses	**97**	191
Share of post-acquisition profit in associate	**–**	(3)
Transfer to liabilities under reinsurance contracts	**4**	1
Transfer from assets/liabilities under insurance contracts	**(393)**	(515)
Transfer to liabilities under investment contracts	**141**	–
Translation differences	**(5)**	4
Unrealised gains on investments at fair value through profit or loss	**(99)**	–
Other	**(9)**	5
Working capital changes		
Loans and receivables including insurance receivables	**(198)**	(16)
Trade and other payables	**156**	121
	757	656
37.2 Taxation paid		
Balance at beginning of the year	**(48)**	(10)
Taxation charged for the year in the income statement	**(385)**	(410)
Adjustment for movement in deferred taxation	**203**	166
Taxation charged for the year to the investment liability	**–**	(3)
Taxation recoverable from consortium relief – PruHealth	**(111)**	–
Balance at end of the year	**(4)**	48
	(345)	(209)
37.3 Proceeds from issuance of ordinary shares		
Share capital issued during the year	**–**	4
Deferred delivery shares taken up	**45**	12
Proceeds from issue of ordinary shares in Destiny Health	**3**	7
	48	23
37.4 (Repayment)/increase of borrowings		
Balance at the end of the year	**73**	161
Less: Accrued and unpaid interest on loan to Destiny Health	**(7)**	(22)
Add: Foreign exchange translation	**–**	(9)
Add: Interest paid and foreign exchange loss realised	**8**	22
Less: Balance at the beginning of the year	**(161)**	(136)
	(87)	16

R million		Group 2007	Group 2006
38.	**COMMITMENTS**		
38.1	**Capital commitments**		
	Capital expenditure approved but not contracted for at the balance sheet date is as follows:		
	Property and equipment	**105**	95
	Intangible assets	**135**	64
		240	159
38.2	**Operating lease commitments**		
	Discovery has various operating lease agreements. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.		
	Discovery leases certain land and buildings under operating leases. The remaining periods of the leases are from four months to nine years. The future minimum commitments in terms of the leases of land and buildings, including Discovery's operational head office, are as follows:		
	Due within one year	**101**	76
	Due within two to five years	**329**	268
	Due after five years	**129**	117
	Cash flow commitment	**559**	461
	Accrued to a liability	**(79)**	(64)
	Net commitment	**480**	397
	Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from three months to four years. The future minimum commitments are as follows:		
	Due within one year	**62**	55
	Due within two to five years	**42**	45
	Cash flow commitment	**104**	100

39. CONTINGENCIES

The Group is exposed to various actual or potential claims. No material claims have been instituted against Discovery Holdings Limited or any of its subsidiaries.

40. RELATED PARTIES

List of related parties as defined:

Holding company

Direct holding company: FirstRand Limited – controls 57.09% (2006: 57.09%) of the issued ordinary shares including BEE transaction shares.

Ultimate holding company: RMB Holdings Limited.

Fellow subsidiaries

All subsidiaries of the FirstRand Limited Group are fellow subsidiaries of Discovery Holdings Limited – a full list may be obtained from the company secretary and details are contained in the published annual report of FirstRand Limited.

Subsidiaries

Directly owned

Details of subsidiaries directly owned by Discovery are contained in company note 1.1.

Joint ventures

Details of the joint ventures of Discovery are contained in note 9.

Associates

Details of associates of Discovery are contained in note 8.

Key management personnel

Key management personnel have been defined as Discovery Holdings Limited directors and executive committee members. Details of the directors and the executive committee of Discovery Holdings Limited are to be found on pages 47 to 49.

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent that specific transactions occurred between Discovery and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.

Summary of related party transactions:

For purposes of this section Discovery Holdings Limited will be referred to as the Company and where relevant, amounts are excluding value added taxation.

Direct holding company – FirstRand Limited

Investment in shares

Discovery invests from time to time in securities issued by its holding company, FirstRand Limited for the benefit of shareholders and policyholders.

	Nominal holding		Market value	
FirstRand ordinary shares included in equity investments	**2007 000's**	2006 000's	**2007 Rm**	2006 Rm
– available-for-sale	**1 029**	845	**22 753**	14 285
– at fair value through profit or loss	**370**	313	**8 364**	5 282
Holdings as at 30 June	**1 399**	1 158	**31 117**	19 567

Ultimate holding company – RMB Holdings Limited

Investment in shares

Discovery invests from time to time in securities issued by its ultimate holding company, RMB Holdings Limited for the benefit of shareholders and policyholders.

	Nominal holding		Market value	
RMB Holdings ordinary shares included in equity investments	**2007 000's**	2006 000's	**2007 Rm**	2006 Rm
– available-for-sale	**1 221**	1 347	**40 129**	33 268
– at fair value through profit or loss	**409**	459	**13 428**	11 330
Holdings as at 30 June	**1 630**	1 806	**53 557**	44 598

Transactions with entities in the RMB Holdings Limited Group

First National Bank, a division of FirstRand Bank Limited

Discovery has certain bank accounts with First National Bank. All bank charges and interest are calculated on an arm's length basis. Funds held at First National Bank at 30 June 2007 totalled R99 million (2006: R115 million).

Discovery Health administers call accounts on behalf of First National Bank. These call accounts comprise funds deposited by Discovery Health's clients to be used for (but not limited to) payment of their daily medical expenses not covered by DHMS and the managed closed medical schemes. These call accounts amounted to R93 million at year-end (2006: R113 million). These call accounts are neither assets nor liabilities of Discovery as it acts solely as administrator.

In October 2004, Discovery launched a joint venture with FNB card division whereby members of the Vitality program are offered substantial discounts on a Discovery branded credit card. In terms of the joint venture, Discovery markets the card, manages the loyalty and related aspects of the card and operates a call centre to interact with cardholders. FNB provide the banking licence required, provide all necessary credit and takes the credit risk on the card. In terms of this venture, Discovery received R111 million (2006: R82 million) in fees from FNB to fund the marketing spend, loyalty program and the card call centre.

Discovery Health (Pty) Limited enters into forward exchange contracts with First National Bank. In terms of these contracts, Discovery Health agreed to sell GBP3 million (2006: GBP6 million) to First National Bank.

FirstRand Limited

Certain insured risks of Discovery are negotiated and/or included in the FirstRand Limited insurance program. These include R3 billion cover for professional indemnity and/or computer crime, R3 billion directors' and officers' cover and R3 billion fidelity guarantee insurance.

Rand Merchant Bank, a division of FirstRand Bank Limited

Discovery has certain call accounts with Rand Merchant Bank. All bank charges and interest are calculated on an arm's length basis. Funds held at Rand Merchant Bank at 30 June 2007 totalled R2 million (2006: R2 million).

Rand Merchant Bank provided consulting and sponsor services to Discovery in the prior year totalling R6 million.

RMB Asset Management (Proprietary) Limited

Discovery utilises RMB Asset Management to manage its investment portfolios. Investment management commission percentages are fixed on an arm's length basis. Discovery paid RMB Asset Management fees of R9 million (2006: R7 million). The total assets under management amounted to R2 640 million (2006: R1 782 million).

RMB Properties (Proprietary) Limited

Discovery entered into property lease agreements with RMB Properties. These leases are based on market related terms and conditions. Discovery paid R11 million (2006: R10 million) in terms of a finance lease and R40 million (2006: R36 million) in terms of an operating lease.

40. RELATED PARTIES (continued)

Transactions with other related parties

Prudential Health Limited ("PruHealth")

In October 2004, Discovery launched PruHealth as a joint venture with Prudential Assurance Company Limited. In terms of the joint venture arrangement, Discovery provides administration and other services to the joint venture. During the year under review, Discovery received fees for these services of R126 million (2006: R92 million).

Discovery Health Medical Scheme ("DHMS")

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed health care fee respectively. These fees are determined on an arm's length basis and totalled R2 003 million (2006: R1 853 million) net of VAT. Discovery offers the members of DHMS access to the Vitality programme.

Interest paid to DHMS amounted to R1 million (2006: R nil). DHMS owes Discovery R230 million (2006: R202 million) at year-end.

Managed medical schemes

Discovery Health administers the following closed medical schemes:
- Anglovaal Group Medical Scheme
- CSIR Medical Scheme
- Edcon Medical Aid Scheme
- IBM (SA) Medical Aid Society
- LA Health Medical Scheme
- Lonmin Medical Scheme
- Mmed Medical Scheme
- Quantum Medical Aid Society
- Retail Medical Scheme
- Tsogo Sun Group Medical Scheme
- Umed Medical Scheme

Discovery Consulting Services

Discovery has established a network of 36 franchises in order to establish a national footprint for its products. Discovery has paid R181 million (2006: R173 million) in fees to the franchises.

The Discovery Foundation

The Discovery Foundation was established as part of Discovery's BEE transaction announced on 13 September 2005. As part of the BEE transaction, the Foundation will have the majority of its trustees being black South Africans. Its objective will be the economic upliftment of black South Africans. Amongst its initial programmes, the Foundation will focus on the educational and professional development of black South Africans for the medical and health care industry.

The Discovery Foundation received contributions from Discovery of R4 million during the year (2006: R5 million).

Transactions with share trusts

Interest free loans to share trusts amounted to R154 million at 30 June 2007 (2006: R206 million).

Key management personnel of Discovery Holdings Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

(i) Discovery Holdings Limited directors' and executive committee members' aggregate compensation paid by the company or on behalf of the company for services rendered to Discovery Holdings Limited:

R million	Group 2007	Group 2006
Salaries and other short-term employee benefits	**37**	36
Share-based payments		
– Non-executive directors : BEE transaction	**2**	5
– Other key management personnel: BEE transaction	**2**	1
– Other key management personnel: Other share-based payments	**15**	7
Directors' fees	**2**	2
Total	**58**	51
Less: paid by subsidiaries	**(58)**	(51)
Paid by holding company	**–**	–

(ii) Aggregate details of insurance, annuity and investment transactions between Discovery Holdings Limited, any subsidiary, associate or joint venture of Discovery Holdings Limited and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Insurance contracts

	Aggregate insured cover		Premiums received		Claims paid	
R'000	**2007**	2006	**2007**	2006	**2007**	2006
Life	**200 046**	180 326	**813**	737	**0**	0

Investment contracts

	Fund value	
R'000	**2007**	2006
Balance at 1 July	**–**	–
Premiums received	**64**	–
Investment return credited net of charges	**(4)**	–
Balance at 30 June	**60**	–

(iii) Aggregate details of transactions between Vitality Healthstyle (Pty) Limited and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Vitality loyalty program

	Premiums received		Amounts paid	
R'000	**2007**	2006	**2007**	2006
Vitality benefits	**24**	24	**66**	50

DiscoveryCard

	Card fees received		Discounts paid	
R'000	**2007**	2006	**2007**	2006
DiscoveryCard	**5**	5	**273**	227

Key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management accrued 1 204 847 Discovery miles as part of the DiscoveryCard loyalty program for the year ended 30 June 2007 (2006: 1 357 919).

(iv) Aggregate shareholdings of key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management, in Discovery Holdings Limited as at 30 June 2007 was 91 841 371 ordinary shares (2006: 92 403 894 ordinary shares).

41. COMPARATIVE FIGURES

No changes have been made to prior year comparatives.

42. EVENTS AFTER BALANCE SHEET DATE

- The board has declared a final dividend of 21 cents per share. The salient dates are as follows:

– Last date to trade "cum" dividend	Friday, 12 October 2007
– Date trading commences "ex" dividend	Monday, 15 October 2007
– Record date	Friday, 19 October 2007
– Date of payment	Monday, 22 October 2007

  Share certificates may not be dematerialised or rematerialised between Monday, 15 October 2007 and Friday, 19 October 2007, both days inclusive.
- In July 2007, Discovery Health, following discussions with the Trustees and Principal Officer of the Discovery Health Medical Scheme (DHMS), agreed to reduce administration fees charged to DHMS by approximately R3 million a month for the 2007 calendar year (backdated to 1 January 2007). The impact of this agreement is a reduction in administration fees in Discovery Health of R18 million before tax in the 2008 financial year.

Company balance sheet

as at 30 June 2007

R million	Note	Company 2007	Company 2006
ASSETS			
Investments in subsidiaries and associates	1	**1 728**	1 487
Loan to share incentive trust	2	**154**	207
Cash and cash equivalents	3	**21**	1
Total assets		**1 903**	1 695
EQUITY			
Capital and reserves			
Share capital and share premium	4	**1 708**	1 716
Other reserves		**248**	200
Retained income		**(184)**	(226)
Total equity		**1 772**	1 690
LIABILITIES			
Trade and other payables		**131**	5
Total liabilities		**131**	5
Total liabilities and equity		**1 903**	1 695

Company income statement

for the year ended 30 June 2007

R million	Company 2007	Company 2006
Investment income	**548**	202
Marketing and administration expenses	**(1)**	(6)
Impairment of investment in subsidiaries	**(218)**	(1 000)
Fair value adjustment to the loan to share incentive trust	**–**	25
Profit/(losses) before taxation	**329**	(779)
Taxation	**(33)**	–
Profit for the year	**296**	(779)

Company statement of changes of equity

for the year ended 30 June 2007

R million	Share capital	Share premium	Retained earnings	Share-based payment reserve	Hedging reserve	Total
30 June 2006						
Balance at 1 July 2005	1	1 662	553	–	–	2 216
Issue of capital	*	57	–	–	–	57
Share issue expenses	–	(4)	–	–	–	(4)
Net loss for the year	–	–	(779)	–	–	(779)
Movement in share-based payment reserve	–	–	–	200	–	200
Balance at 30 June 2006	1	1 715	(226)	200	–	1 690
30 June 2007						
Balance at 1 July 2006	**1**	**1 715**	**(226)**	**200**	**–**	**1 690**
Treasury shares	*****	**(8)**	**–**	**–**	**–**	**(8)**
Net profit for the year	**–**	**–**	**296**	**–**	**–**	**296**
Dividends paid	**–**	**–**	**(254)**	**–**	**–**	**(254)**
Movement in share-based payment reserve	**–**	**–**	**–**	**48**	**–**	**48**
Balance at 30 June 2007	**1**	**1 707**	**(184)**	**248**	**–**	**1 772**

* *Amount is less than R500 000.*

Company cash flow statement

for the year ended 30 June 2007

R million	Note	**Company 2007**	Company 2006
Cash flow from operating activities		**632**	201
Cash utilised by operations	5.1	**125**	(1)
Dividends received		**536**	201
Interest received		**4**	1
Taxation paid	5.2	**(33)**	–
Cash flow from investing activities		**(358)**	(273)
Increase in investment in subsidiary	5.3	**(411)**	(285)
Decrease in loan to share incentive trust	5.4	**53**	12
Cash flow from financing activities		**(254)**	53
Proceeds from issuance of ordinary shares	5.5	**–**	57
Share issue expenses		**–**	(4)
Dividends paid to equity holders		**(254)**	–
Net increase/(decrease) in cash and cash equivalents		**20**	(19)
Cash and cash equivalents at beginning of year		**1**	20
Cash and cash equivalents at end of year	3	**21**	1

Notes to the annual financial statements

for the year ended 30 June 2007

	Issued ordinary capital		Effective percentage holding		Investment in subsidiaries[3]		Amounts owing to subsidiary[4]	
	Rm		%		Rm		Rm	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
1. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES								
1.1 Investments in subsidiaries								
Discovery Life Limited	**1 016**	1 016	**100**	100	**1 289**	1 282	**–**	–
Discovery Health (Proprietary) Limited	*****	*	**100**	100	**156**	117	**130**	4
Vitality Healthstyle (Proprietary) Limited	******	**	**100**	100	**5**	3	**–**	–
Destiny Health Inc[1]	**963**	768	**98**	98	**75**	0	**–**	–
Discovery Offshore Holdings Limited[2]	**547**	331	**100**	100	**203**	85	**–**	–
					1 728	1 487	**130**	4

* *Issued ordinary capital and shares at cost are R1 000.*
** *Issued ordinary capital and shares at cost are R1.*
1 *Incorporated in the United States of America.*
2 *Incorporated in England and Wales.*
3 *Investments in subsidiaries includes cost, less impairments and the value of share options issued to subsidiary staff.*
4 *The amounts owing to a subsidiary are included in the balance sheet with current liabilities.*

1.2 Investment in associate

Healthbridge (Proprietary) Limited ("Healthbridge") investment consisted of 300 shares of R1 each representing 30% of the issued ordinary share capital (2006: 30%). This investment was sold on 15 November 2006.

1.3 Investment in joint venture

Discovery has an investment in a joint venture, Prudential Health (Proprietary) Limited ("PruHealth"), a provider of consumer-engaged private medical insurance to clients in the United Kingdom. The investment consists of 433 500 shares of GBP1 each issued at GBP100 and one share issued at GBP1, representing 50% of the issued ordinary share capital (2006: 50%). For more information refer to Group note 9.

R million	**Company 2007**	Company 2006
2. LOAN TO SHARE INCENTIVE TRUST		
Loan to share incentive trust	**154**	207

The loan will be repaid on delivery of the shares under the share incentive scheme.
Refer to Group note 31.

R million	**Company 2007**	Company 2006
3. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	**5**	1
Short-term deposits	**16**	–
	21	1

		Number of shares	Ordinary shares R million	Share premium R million	Total R million
4.	**SHARE CAPITAL AND SHARE PREMIUM**				
	At 1 July 2005	548 956 741	1	1 662	1 663
	Issued during the year	42 996 439	*	57	57
	Share issue expenses		–	(4)	(4)
	At 30 June 2006	591 953 180	1	1 715	1 716
	At 1 July 2006	**591 953 180**	**1**	**1 715**	**1 716**
	Adjustment due to BEE transaction	**(314 251)**	*****	**(8)**	**(8)**
	At 30 June 2007	**591 638 929**	**1**	**1 707**	**1 708**

* *Amount is less than R500 000*

The total authorised number of ordinary shares is 1 billion (2006: 1 billion) with a par value of 0.1 cents per share.

The unissued share capital is under the control of the directors of the company until the forthcoming annual general meeting of shareholders.

	R million	**Company 2007**	Company 2006
5.	**CASH FLOW INFORMATION**		
5.1	**Cash utilised by operations**		
	Profit/(loss) before taxation	**329**	(779)
	Adjusted for:		
	Investment income	**(548)**	(202)
	Non-cash items:		
	Impairment of investment in subsidiaries	**218**	1 000
	Fair value adjustment against loan to share incentive trust	**–**	(25)
	Working capital changes		
	Trade and other payables	**126**	5
		125	(1)
5.2	**Taxation paid**		
	Balance at beginning of year	**–**	–
	Taxation charged for the year in the income statement	**(33)**	–
	Balance at end of year	**–**	–
		(33)	–
5.3	**Increase in investment in subsidiaries**		
	Balance at the beginning of the year	**1 487**	2 002
	Impairment of investment in subsidiaries	**(218)**	(1 000)
	Share-based payment expense in respect of subsidiaries	**48**	200
	Balance at the end of the year	**(1 728)**	(1 487)
	Increase in investment in subsidiaries	**(411)**	(285)
5.4	**Decrease in loan to share incentive trust**		
	Balance at the beginning of the year	**207**	194
	Reversal against loan to share incentive trust	**–**	25
	Balance at the end of the year	**(154)**	(207)
		53	12
5.5	**Proceeds for shares issued**		
	Share capital issued during the year	**–**	57

Notes to the annual financial statements (continued)

for the year ended 30 June 2007

6. CONTINGENCIES

Discovery Holdings Limited has provided a guarantee in favour of HSBC Bank in the amount of US$20 million for the working capital facility of Destiny Health Inc.

Discovery Holdings Limited has also provided the following guarantees:

- In terms of the alliance agreement with Guardian Life Insurance Company ("GLIC"), Discovery Holdings Limited has guaranteed the obligations of Destiny to GLIC in terms of this agreement.
- In terms of the shareholders agreement between Discovery Offshore Holdings Limited, The Prudential Assurance Company Limited and Prudential Health Limited, Discovery Holdings Limited has guaranteed the obligations of Discovery Offshore Holdings Limited to The Prudential Assurance Company Limited and Prudential Health Limited in terms of this agreement.
- Discovery Health provides certain administration and ancillary services to PruHealth in terms of the Insurance Intermediary Services agreement. Discovery Holdings Limited has guaranteed the obligations of Discovery Health in terms of this agreement.
- In terms of the agreement with AEGON, Discovery Holdings Limited has guaranteed the obligations of Destiny to Stonebridge Life Insurance Company.

Directorate

REMUNERATION AND FEES

Payments to directors for the year ended 30 June 2007 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance related	Provident fund contributions	Other benefits[1]	Total 2007
Executive						
A Gore	–	1 770	1 523	264	116	3 673
NS Koopowitz	–	2 000	1 504	99	46	3 649
HP Mayers	–	1 665	1 506	333	131	3 635
JM Robertson	–	1 361	1 160	278	31	2 830
B Swartzberg	–	1 527	1 220	156	35	2 938
SD Whyte	–	1 623	466	125	121	2 335
Subtotal	–	9 946	7 379	1 255	480	19 060
Non-executive						
Dr BA Brink[2]	163	–	–	–	–	163
JP Burger[3]	312	–	–	–	–	312
LL Dippenaar	302	–	–	–	–	302
Dr NJ Dlamini	266	–	–	–	–	266
SB Epstein	396	–	–	–	–	396
PK Harris[3]	138	–	–	–	–	138
MI Hilkowitz	396	–	–	–	–	396
Dr TV Maphai	138	–	–	–	–	138
S Sebotsa[4]	213	–	–	–	–	213
SV Zilwa	250	–	–	–	–	250
Subtotal	2 574	–	–	–	–	2 574
Total	2 574	9 946	7 379	1 255	480	21 634
Less: paid by subsidiaries	(2 574)	(9 946)	(7 379)	(1 255)	(480)	(21 634)
Paid by holding company	–	–	–	–	–	–

Directorate (continued)

REMUNERATION AND FEES (continued)

Payments to directors for the year ended 30 June 2006 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance related	Provident fund contributions	Other benefits[1]	Total 2006
Executive						
A Gore	–	1 612	1 300	231	157	3 300
NS Koopowitz	–	1 840	1 330	92	44	3 306
HP Mayers	–	1 521	980	304	153	2 958
JM Robertson	–	1 231	1 056	245	26	2 558
B Swartzberg	–	1 421	1 110	143	36	2 710
SD Whyte	–	2 093	193	113	333	2 732
Subtotal	–	9 718	5 969	1 128	749	17 564
Non-executive						
Dr BA Brink[2]	111	–	–	–	–	111
JP Burger[3]	182	–	–	–	–	182
LL Dippenaar[3]	224	–	–	–	–	224
Dr NJ Dlamini	166	–	–	–	–	166
SB Epstein	300	–	–	–	–	300
MI Hilkowitz	91	–	–	–	–	91
Dr TV Maphai	78	–	–	–	–	78
S Sebotsa[4]	136	–	–	–	–	136
SV Zilwa	276	–	–	–	–	276
Subtotal	1 564	–	–	–	–	1 564
Total	1 564	9 718	5 969	1 128	749	19 128
Less: paid by subsidiaries	(1 564)	(9 718)	(5 969)	(1 128)	(749)	(19 128)
Paid by holding company	–	–	–	–	–	–

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*

2 *Director's fees for services rendered by Dr BA Brink are paid to Anglo American South Africa Limited.*

3 *Director's fees for services rendered by JP Burger are paid to FirstRand Limited. Director's fees for services rendered by LL Dippenaar for the period 1 July 2005 to 31 December 2005 were paid to FirstRand Limited.*

4 *Director's fees for services rendered by S Sebotsa are paid to WDB Holdings (Pty) Ltd.*

The executive directors participate in Group share incentive schemes. Their participation is subject to the approval of the Discovery remuneration committee and allocations are done on pricing parameters consistent with those extended to other senior executives.

DIRECTORS' INTERESTS

According to the Register of Directors' interests, maintained by Discovery in accordance with the provisions of section 140A of the Companies Act, directors of Discovery disclosed the following interests in the ordinary shares of the company at 30 June:

	Direct beneficial	Indirect beneficial	**Total 2007**	Total 2006
Dr BA Brink	25 000	–	**25 000**	25 000
LL Dippenaar	159 938	405 535	**565 473**	565 473
Dr NJ Dlamini	–	203 351	**203 351**	200 000
SB Epstein	34 750	–	**34 750**	34 750
A Gore	534 667	46 733 733	**47 268 400**	47 281 800
PK Harris	–	2 332 296	**2 332 296**	–
NS Koopowitz	222 029	1 703 863	**1 925 892**	2 045 892
Dr V Maphai	–	1 123 105	**1 123 105**	1 106 455
HP Mayers	95 511	6 080 499	**6 176 010**	6 176 010
JM Robertson	476 246	3 459 727	**3 935 973**	4 215 973
B Swartzberg	3 706 027	18 754 719	**22 460 746**	22 460 746
SD Whyte	2 412 056	–	**2 412 056**	2 412 056
SV Zilwa	–	202 900	**202 900**	200 000
	7 666 224	80 999 728	**88 665 952**	86 724 155

SHARE OPTIONS

Outstanding shares under options offered to and accepted by directors in terms of the share incentive schemes are as follows:

Discovery share incentive scheme	Outstanding shares	Strike price cents	Strike date
A Gore	200 000	720	01/09/2007
	250 000	1 440	30/09/2008
	200	0	13/09/2007
NS Koopowitz	112 500	720	01/09/2007
	250 000	1 440	30/09/2008
	200	0	13/09/2007
HP Mayers	25 000	720	01/09/2007
	250 000	1 440	30/09/2008
	200	0	13/09/2007
JM Robertson	200 000	720	01/09/2007
	250 000	1 440	30/09/2008
	200	0	13/09/2007
B Swartzberg	200 000	720	01/09/2007
	250 000	1 440	30/09/2008
	200	0	13/09/2007
SD Whyte	200 000	720	01/09/2007
	200	0	13/09/2007

Destiny stock option plan	Outstanding shares	Strike price US$	Strike date
SD Whyte	30 000	2.00	01/11/2006
	10 000	2.00	01/03/2007
	60 000	2.11	16/09/2007
	52 500	3.38	22/06/2009
	8 750	–	22/06/2009

DISCOVERY LIFE PREFERENCE SHARES

During the 2001 financial year, Discovery Life issued 1 500 000 preference shares to employees at a par value of 1 cent per share. These shares were redeemed as set out in note 14.2 of the financial statements.

Of the total number of preference shares issued, the following were issued to directors:

	Number of preference shares	Benefit derived June 2006
NS Koopowitz	175 000	6 326 250
HP Mayers	750 000	27 112 500
JM Robertson	30 000	1 084 500

Following the redemption, the preference shareholders subscribed for ordinary shares in Discovery Holdings Limited at a price of R12.57 per share for the full value of the benefit derived.

Shareholders' information

for the year ended 30 June 2007

Contents

Analysis of shareholders

for the year ended 30 June 2007

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	1 714	48.96	771 184	0.13
1 001 – 10 000 shares	1 236	35.30	4 247 301	0.72
10 001 – 100 000 shares	367	10.48	13 024 936	2.20
100 001 – 1 000 000 shares	145	4.14	48 724 955	8.23
1 000 001 shares and over	39	1.11	525 184 804	88.72
	3 501	**100.00**	**591 953 180**	**100.00**

Distribution of shares	Number of shareholders	%	Number of shares	%
Banks	54	1.54	7 592 856	1.28
Close Corporations	34	0.97	2 970 103	0.50
Empowerment	3	0.09	37 510 804	6.34
Endowment Funds	19	0.54	1 626 274	0.27
Individuals	2 639	75.38	20 985 090	3.55
Insurance Companies	33	0.94	8 226 547	1.39
Investment Companies	12	0.34	9 313 359	1.57
Medical Aid Schemes	5	0.14	171 533	0.03
Mutual Funds	117	3.34	23 772 459	4.02
Nominees and Trusts	248	7.08	51 719 864	8.74
Other Corporations	92	2.63	9 479 506	1.60
Pension Funds	157	4.48	34 151 344	5.77
Private Companies	74	2.11	30 720 695	5.19
Public Companies	13	0.37	339 576 561	57.37
Share Trusts	1	0.03	14 136 185	2.39
	3 501	**100.00**	**591 953 180**	**100.00**

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public Shareholders	49	1.40	478 239 579	80.79
Directors of the Company holdings	44	1.25	88 665 952	14.97
Strategic Holdings (more than 10%)	1	0.03	337 926 638	57.09
Empowerment	3	0.09	37 510 804	6.34
Share Trust	1	0.03	14 136 185	2.39
Public Shareholders	3 452	98.60	113 713 601	19.21
	3 501	100.00	591 953 180	100.00

Beneficial shareholders holding of 5% or more	Number of shares	%
FirstRand Limited	337 926 638	57.09
A Gore	47 215 540	7.98

Administration

DISCOVERY HOLDINGS LIMITED
(Registration number 1999/007789/06)
Share code: DSY
ISIN code: ZAE000022331

REGISTERED OFFICE
155 West Street
Sandton
2196

PO Box 786722
Sandton
2146

Telephone (011) 529 2888
Fax (011) 539 2958
E-mail: AskTheCFO@discovery.co.za

COMPANY SECRETARY
MJ Botha

AUDITORS
PricewaterhouseCoopers Inc.

STATUTORY VALUATOR
RD Williams

TRANSFER SECRETARIES
Computershare Investor Services 2004 (Pty) Limited
Ground Floor
70 Marshall Street
Johannesburg
2001

PO Box 61051
Marshalltown
2017

SPONSORS
(In terms of JSE Limited Listings Requirements)
RMB Corporate Finance
1 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
2196

FINANCIAL CALENDAR

Financial year-end	30 June
Annual general meeting	6 December 2007

REPORTS

Interim results	February
Annual results	September
Annual report	November

Dates are subject to change

Triple bottom line reporting

COMPLIANCE WITH GLOBAL REPORTING INITIATIVE

The schedule below references the GRI indices to this annual report and the accompanying abridged sustainability report.

GRI indicator	Topic	Page	Section in these reports
GENERAL PERFORMANCE INDICATORS			
Vision and strategy			
1.1	Vision and strategy	7	Chief executive's report
1.2	Key elements of report	ifc	Contents
Profile			
2.1	Name of organisation	–	Front cover
2.2	Major products and services	2, 3	Group at a glance
2.3	Operating structure	2, 3	Group at a glance
2.4	Description of major divisions	2, 3	Group at a glance
2.5	Countries in which the organisation is located	2, 3	Group at a glance
2.6	Nature of ownership	145	Analysis of shareholders
2.7	Nature of markets served	7	Chief executive's report
2.8	Scale of organisation	37 56	Embedded value statement Annual financial statements
2.9	List of stakeholders	–	Website, sustainability report
2.10	Contact details	146	Administration
2.11	Reporting period	–	Year to 30 June 2007
2.12	Date of previous report	–	2006 annual report
2.13	Scope of report	–	Mainly South African
2.14	Significant changes to Group	7	Chief executive's report
2.15	Basis of reporting	68	Accounting policies
2.16	Restatement of information	–	Not applicable
2.17	Decisions not to apply GRI principles	–	Not applicable
2.18	Definitions	37 68	Embedded value statement Accounting policies
2.19	Significant changes in measurement methods	–	Not applicable
2.20	Practices to enhance quality reporting	–	Not commissioned
2.21	Independent assurance	–	Not commissioned
2.22	Access to additional information	–	www.discovery.co.za
Governance structure and management systems			
3.1	Governance structures	50	Corporate governance
3.2	Independence of directors	50	Corporate governance
3.3	Expertise of board members	47, 48	Directorate
3.4	Board processes	50	Corporate governance
3.5	Executive compensation	141	Directorate
3.6	Organisational structure and key responsible individuals	2, 3 48	Group at a glance Directorate
3.7	Value statements	1 7	Introductory section Chief executive's report
3.8	Communication with shareholders	146	Administration

Triple bottom line reporting (continued)

GRI indicator	Topic	Page	Section in these reports
Governance structure and management systems			
3.9	Identification of major shareholders	145	Analysis of shareholders
3.10	Stakeholder consultation	–	Website, sustainability report
3.11	Information from stakeholder consultations	–	Website, sustainability report
3.12	Use of stakeholder consultation information	–	Website, sustainability report
3.13	Precautionary principles	50	Corporate governance
3.14	Charters and principles	–	Website, sustainability report
		13	Chief executive's report
		50	Corporate governance
3.15	Membership of industry and business association	–	Website, sustainability report
3.16	Procurement	–	Website, sustainability report
3.17	Approach to managing indirect impacts of activities	–	Website, sustainability report
3.18	Decisions regarding location and change	7	Chief exective's report
3.19	Performance improvement	7	Chief exective's report
3.20	Certification status	–	Not applicable
ECONOMIC PERFORMANCE INDICATORS			
Economic performance indicators			
EC1	Net sales/income	85	Income statement
EC2	Geographic breakdown of markets	107	Notes to the annual financial statements
EC3	Costs of all goods and material purchased	36	Value-added statement
EC4	Percentage of contract paid in accordance with terms	–	Not available
EC5	Payroll and benefits	36	Value-added statement
EC6	Distribution to providers of capital	67	Directors' report
EC7	Increase/decrease in retained earnings	86	Statement of changes in equity
EC8	Total taxes	85	Income statement
EC9	Subsidies received	–	Not available
EC10	Donations to community and other groups	–	Website, sustainability report
Environmental performance indicators			
E1-E16		–	Not material
SOCIAL PERFORMANCE INDICATORS			
Labour practices			
LA1	Breakdown of workforce	–	Website, sustainability report
LA2	Net employment creation	–	Website, sustainability report
LA3	Union representation	–	Not applicable
LA4	Consultation with employees	–	Website, sustainability report
LA5	Notification of accidents and diseases	–	Website, sustainability report
LA6	Health and safety committees	–	Website, sustainability report

GRI indicator	Topic	Page	Section in these reports
SOCIAL PERFORMANCE INDICATORS			
Labour practices			
LA7	Work days lost	–	Website, sustainability report
LA8	Policies and programmes on AIDS	–	Website, sustainability report
LA9	Training per employee	–	Website, sustainability report
LA10	Employment equity	–	Website, sustainability report
LA11	Categorisation of staff	–	Website, sustainability report
Human rights			
HR1–HR7	Aspects of human rights	–	Human rights are recognised and observed. The Group complies with the South African Constitution in this regard.
Society			
SO1	Policies to manage impacts on communities	–	Website, sustainability report
SO2	Bribery and corruption	–	Website, sustainability report
SO3	Political contributions	–	Contributions to political parties are not permitted
Product responsibility			
PR1	Customer health and safety	–	Limited relevance
PR2	Product information	–	Website, sustainability report
PR3	Consumer privacy	–	Website, sustainability report

Notice of annual general meeting of shareholders

DISCOVERY HOLDINGS LIMITED

(Registration number: 1999/007789/06)
ISIN: ZAE000022331
Share code: DSY

Notice is hereby given that the eighth annual general meeting of the shareholders of Discovery Holdings Limited ("the company") will be held in the Auditorium, Ground Floor, 155 West Street, Sandton, on Thursday, 6 December 2007 at 09:00 for the following purposes:

ORDINARY BUSINESS

1. To receive, consider and approve the annual financial statements for the year ended 30 June 2007 and the report of the directors and the auditors thereon.
2. To confirm the appointment of Mr PK Harris as a director on 15 February 2007.
3. To confirm the appointment of Mr A Pollard as a director on 30 August 2007.
4. To elect a director in place of Mr SB Epstein who retires in accordance with the company's Articles of Association, but, being eligible, offers himself for re-election.
5. To elect a director in place of Mr MI Hilkowitz who retires in accordance with the company's Articles of Association, but, being eligible, offers himself for re-election.
6. To elect a director in place of Ms S Zilwa who retires in accordance with the company's Articles of Association, but, being eligible, offers herself for re-election.

A brief curriculum vitae of each of the directors mentioned above can be found on pages 47 and 48 of the annual report to which this notice forms part.

7. To confirm the directors' fees paid by the company for the year ended 30 June 2007 as per the notes to the annual financial statements.
8. To confirm the reappointment of PricewaterhouseCoopers Inc. as auditors until the forthcoming annual general meeting.
9. To authorise the directors to fix and pay the auditors' remuneration for the year ended 30 June 2007.
10. To transact such other business as may be transacted at an annual general meeting.

VOTING AND PROXIES

Shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder. Proxy forms must be forwarded to reach the registered office of the company/company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited at Ground Floor, 70 Marshall Street, Johannesburg, or PO Box 61051, Marshalltown 2107 by no later than 09:00 on Tuesday, 4 December 2007.

On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll, every shareholder of the company shall have one vote for every share held in the company by such shareholder.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own name" registration, should contact their CSDP or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order of the board

MJ Botha

Company Secretary

Form of proxy

DISCOVERY HOLDINGS LIMITED

(Registration number: 1999/007789/06)

ISIN: ZAE000022331

Share code: DSY

For use by shareholders, who have not dematerialised their shares or who have dematerialised their shares but with own name registration ("entitled shareholders"), at the annual general meeting to be held at 09:00 on Thursday, 6 December 2007, in the Auditorium, Ground Floor, 155 West Street, Sandton.

Shareholders who have not dematerialised their shares, other than those shareholders who have dematerialised their shares with own name registration should contact their CSDP or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

FORM OF PROXY FOR THE EIGHTH ANNUAL GENERAL MEETING OF DISCOVERY HOLDINGS LIMITED

I/We ____________________ (name in block letters)

of ____________________ (address)

being a shareholder of Discovery Holdings Limited and entitled to ____________ votes do hereby appoint:

1. of ____________________ or failing him
2. of ____________________ or failing him
3. the chairman of the company, or failing him, the chairman of the annual general meeting as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the company to be held in the Auditorium, Ground Floor, 155 West Street, Sandton, on Thursday, 6 December 2007 at 09:00 for the following purposes:

I/We desire to vote as follows:

	In favour*	Against*	Abstain*
1. To receive, consider and approve the annual financial statements for the year ended 30 June 2007			
2. To confirm the appointment of director Mr PK Harris			
3. To confirm the appointment of director Mr A Pollard			
4. To re-elect director Mr SB Epstein			
5. To re-elect director Mr MI Hilkowitz			
6. To re-elect director Ms S Zilwa			
7. To confirm the directors' fees paid by the company for the year ended 30 June 2007			
8. To confirm the re-appointment of PricewaterhouseCoopers Inc. as auditors until the forthcoming annual general meeting			
9. To authorise the directors to fix and pay the auditors' remuneration for the year ended 30 June 2007			

*Note: Insert an "X" in the relevant spaces above according to the manner in which you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in Discovery, insert the number of shares held in respect of which you desire to vote (see note 6 overleaf).

Signed at ____________________ on ____________________ 2007

Signature of shareholder ____________________

Assisted by (where applicable) (state capacity and full name) ____________________

Please read the notes appearing on the reverse hereof

Notes to form of proxy

1. Only shareholders who have dematerialised their shares or who have dematerialised their shares and registered them in their own name ("certificated or own name dematerialised shareholders") may complete a form of proxy or alternatively attend the meeting.
2. Certificated shareholders whose shares are not registered in their own names but in the name of another person, eg, a nominee, may NOT complete a form of proxy nor attend the meeting unless a form of proxy is issued to them by the registered shareholder.
3. A certificated or own name dematerialised shareholder may insert the name of a proxy or the name of two alternate proxies of his/her choice in the space provided, with or without deleting "the chairman of the annual general meeting". Such shareholder must initial any such deletion. The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
4. A certificated or own name dematerialised shareholder's instructions to the proxy must be indicated by the insertion of an X in the appropriate space/s provided (or, if such shareholder wishes to cast his/her votes in respect of a lesser number of shares than he/she owns in the company, he/she must insert the number of shares held in respect of which he/she wishes to vote). Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all such shareholder's votes exercisable thereat but, where the proxy is the chairman, failure to comply will be deemed to authorise the proxy to vote in favour of the resolution. A certificated or own name dematerialised shareholder or his/her proxy is not obliged to use all the votes exercisable by such shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded, may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
5. Certificated or own name dematerialised shareholders are advised that the company has appointed Computershare as the shareholder communications consultant. To be effective, forms of proxy must be received by Computershare Investor Services 2004 (Pty) Limited at Ground Floor, 70 Marshall Street, Johannesburg, or PO Box 61051, Marshalltown 2107, by no later than 09:00 on Tuesday, 4 December 2007.
6. The completion and lodging of this form of proxy will not preclude the relevant certificated or own name dematerialised shareholder from attending the annual general meeting and speaking and voting in person thereat instead of the proxy should such shareholder wish to do so.
7. The chairman of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
8. Any alteration to this form of proxy other than a deletion of alternatives must be initialled by the signatories.
9. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless recorded by the company or waived by the chairman.
10. Where there are joint holders of shares:

    10.1 any holder may sign the form of proxy; and

    10.2 the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
11. Shareholders who have dematerialised their shares and registered them in a name other than their own name ("dematerialised shareholders") and who wish to attend the meeting in person may only do so by timeously requesting their Central Security Depositary Participant ("CSDP") or broker to issue them with a letter of representation in terms of the custody agreements entered into with the registered holder.
12. Dematerialised shareholders who do not wish to attend the meeting in person must contact their CSDP or broker and provide them timeously with their voting instructions, in the manner and cut-off time stipulated by their CSDP or broker.

www.discovery.co.za