ANNUAL REPORT 2006

MEDI-CLINIC

Private Hospital Group

Committed to Quality Care

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SCOPE OF REPORT

The 2006 annual report of Medi-Clinic Corporation Limited presents the operating and financial results of the group for the financial year ended 31 March 2006 and covers all our South African and Namibian operations. The report has been prepared in accordance with International Financial Reporting Standards, the Companies Act No. 61 of 1973, the Listings Requirements of the JSE Limited and the guidelines of the King II Report on Corporate Governance.

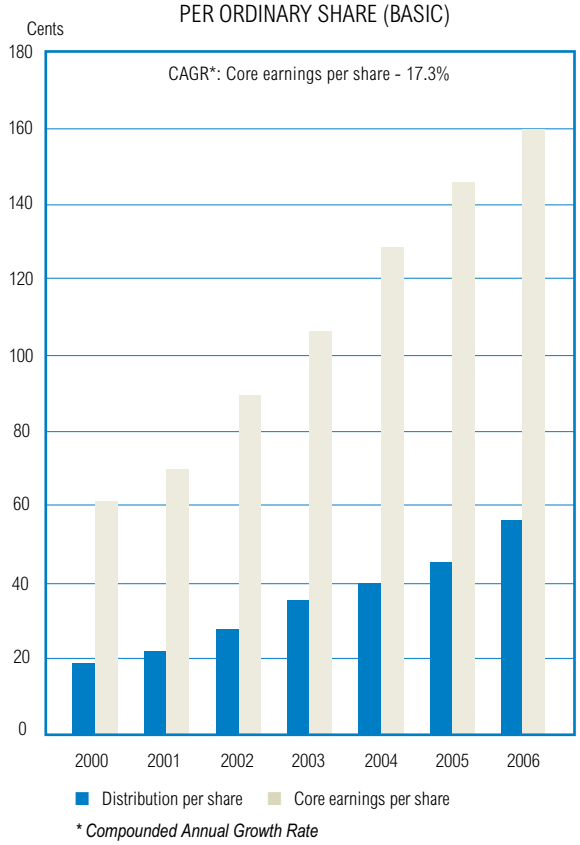
PROUDLY SOUTH AFRICAN

FINANCIAL HIGHLIGHTS

GROUP SUMMARY

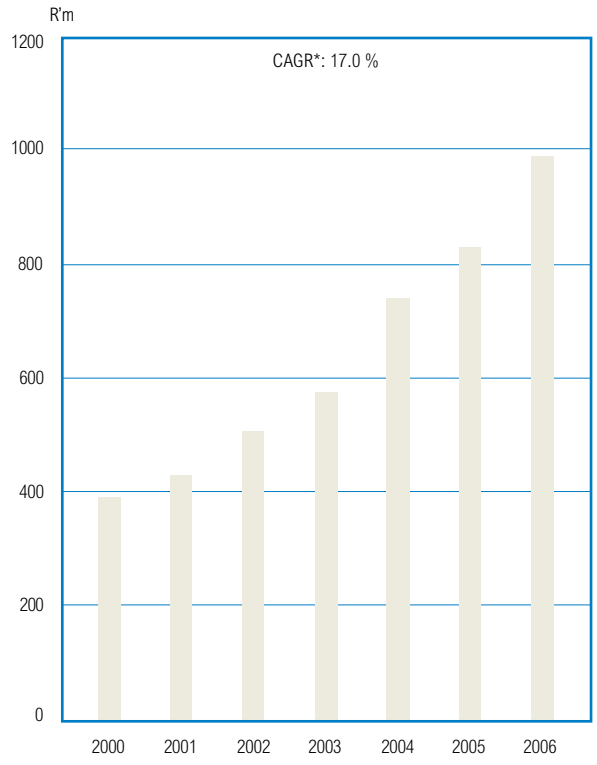
	2006 R'm	2005 R'm	Increase
Revenue	4,723	4,040	16.9 %
Operating profit before depreciation, taxation and amortisation (EBITDA)	987	819	20.5 %
Core earnings attributable to ordinary shares	553	503	10.0 %
Total assets	3,597	3,761	(4.4)%
Net assets attributable to ordinary shares	1,641	2,693	(39.1)%
Return (core earnings) on shareholders equity	33.7 %	18.7 %	80.5 %
	cents	cents	
Core earnings per ordinary share - basic	159.3	146.9	8.4 %
Core earnings per ordinary share - diluted	140.9	145.0	(2.8)%
Total distribution per ordinary share	53.1	45.0	18.0 %
Net asset value per ordinary share (diluted)	460.7	783.7	(41.2)%

CORE EARNINGS AND DISTRIBUTION PER ORDINARY SHARE (BASIC)



* *Compounded Annual Growth Rate*

EBITDA



OUR COMMITMENT TO QUALITY CARE AND OUR VISION

COMMITTED TO QUALITY CARE

From the skills of the doctor to general patient care, from facilities to equipment, our philosophy is that there is a standard to uphold at the fairest possible tariff. This leads to our special kind of Quality Care.

In our hospitals this Quality Care starts with our skilled and motivated personnel who are dedicated to their patients' well-being. It is confirmed by technologically advanced equipment covering the entire spectrum of specialised medical services.

It culminates in a warm and friendly atmosphere – an environment that is tranquil and conducive to swift healing.

Medi-Clinic sets a particular standard in hospital care.

VISION

CORE IDEOLOGY

Core Values

- Client Orientation
- Team Approach
- Mutual Trust and Respect
- Performance Driven

Core Purpose

To enhance the quality of life of patients by providing comprehensive, high quality hospital services.

ENVISIONED FUTURE

Aspiration

To be regarded as the most respected and trusted provider of hospital services.

Vivid Descriptions

- We will focus relentlessly on the needs of our clients
- Every hospital will be the preferred service provider in the community it serves
- We will provide the most cost-effective quality care possible
- We will maintain a contented workforce

OUR VALUES

We, the members of Medi-Clinic, support the following core values:

CLIENT ORIENTATION

In our behaviour we ...

- reflect the image of the company
- deliver the right service in the right place on the right time
- regard everyone who is dependent on our outputs as our client
- determine and meet the expectations of our clients
- measure our clients' satisfaction regularly
- respect our clients' right to confidentiality
- personally accept responsibility for client service

TEAM APPROACH

In our behaviour we ...

- promote positive team behaviour
- ensure the participation of all role players in problem solving
- set common goals
- exhibit responsible, fair, honest and effective leadership and followership

MUTUAL TRUST AND RESPECT

In our behaviour we ...

- share information to the benefit of the company
- listen with empathy
- communicate openly and honestly
- exhibit respect for the individual and his or her dignity
- respect personal and company property
- solve problems on a win-win basis
- greet and acknowledge one another
- maintain an ethical standard

PERFORMANCE DRIVEN

In our behaviour we ...

- set objectives and give regular performance feedback
- ensure that each individual knows what the standards are and what is expected
- give recognition to whom it is due
- offer each the opportunity to develop to his or her full potential
- eliminate activities that do not add value
- promote continuous improvement in productivity
- base all appointments and promotions on competence and performance
- accept mentorship as a management task

SEVEN YEAR REVIEW

	2000 R'm	2001 R'm	2002 R'm	2003 R'm	2004 R'm	2005 R'm	2006 R'm	CAGR*
INCOME STATEMENTS								
Revenue	1,859	2,098	2,438	2,924	3,643	4,040	**4,723**	**16.8%**
Operating profit before depreciation and amortisation (EBITDA)	384	434	506	571	722	819	**987**	**17.0%**
Profit on sale of property, plant and equipment	–	–	–	–	1	1	**1**	
BEE share-based payment	–	–	–	–	–	–	**(85)**	
Depreciation	(65)	(76)	(71)	(75)	(101)	(97)	**(124)**	
Amortisation/impairment of goodwill	–	(1)	(1)	(2)	(3)	(3)	**–**	
Operating profit	319	357	434	494	619	720	**779**	**16.0%**
Dividends	7	8	5	–	–	–	**–**	
Income from associates	16	16	18	19	18	25	**13**	
Abnormal items	5	–	–	–	–	50	**43**	
Finance income	10	15	20	43	46	58	**70**	
Finance cost	(33)	(24)	(17)	(16)	(32)	(29)	**(45)**	
Profit before taxation	324	372	460	540	651	824	**860**	
Taxation	(82)	(96)	(126)	(145)	(174)	(214)	**(428)**	
Profit after taxation	242	276	334	395	477	610	**432**	
Attributable to:								
Equity holders of the Company	219	246	308	364	439	543	**338**	**7.5%**
Minority interests	23	30	26	31	38	67	**94**	
	242	276	334	395	477	610	**432**	
Headline earnings attributable to holders of ordinary shares	213	247	309	366	441	503	**300**	**5.9%**
Core earnings attributable to holders of ordinary shares	213	247	309	366	441	503	**553**	**17.2%**
Earnings per ordinary share - cents								
Basic	62.6	70.5	88.5	106.5	128.8	158.7	**97.1**	**7.6%**
Diluted	62.6	69.9	87.2	105.2	127.0	156.7	**85.9**	**5.4%**
Headline earnings per ordinary share - cents								
Basic	61.2	70.6	88.7	107.0	129.5	146.9	**86.3**	**5.9%**
Diluted	61.2	70.0	87.4	105.7	127.7	145.0	**76.3**	**3.7%**
Core earnings per ordinary share - cents								
Basic	61.2	70.6	88.7	107.0	129.5	146.9	**159.3**	**17.3%**
Diluted	61.2	70.0	87.4	105.7	127.7	145.0	**140.9**	**14.9%**
Distribution per ordinary share - cents	18.5	21.7	27.3	33.0	40.0	45.0	**53.1**	**19.2%**

** Compounded Annual Growth Rate*

SEVEN YEAR REVIEW (continued)

	2000 R'm	2001 R'm	2002 R'm	2003 R'm	2004 R'm	2005 R'm	2006 R'm	CAGR*
BALANCE SHEETS								
ASSETS								
Property, plant and equipment	1,212	1,294	1,347	1,611	1,846	1,997	**2,327**	
Intangible assets	7	10	18	36	48	48	**48**	
Investments and loans	83	91	18	92	103	114	**119**	
Deferred income tax assets	36	48	52	69	89	92	**123**	
Current assets	486	546	715	891	1,134	1,510	**980**	
Total assets	1,824	1,989	2,150	2,699	3,220	3,761	**3,597**	
EQUITY								
Capital and reserves attributable to equity holders of the Company	1,283	1,488	1,660	1,917	2,246	2,693	**1,641**	
Minority interests	68	80	75	172	200	235	**290**	
LIABILITIES								
Long-term interest-bearing borrowings	176	134	58	112	168	159	**848**	
Deferred income tax liability	1	2	2	3	3	4	**5**	
Long-term interest-free liability	7	33	40	48	58	73	**102**	
Current liabilities	289	252	315	447	545	597	**711**	
Total equity and liabilities	1,824	1,989	2,150	2,699	3,220	3,761	**3,597**	
Net asset value per ordinary share (diluted) - cents	367.6	426.0	486.2	562.7	657.2	783.7	**460.7**	**3.8%**
CASH FLOW STATEMENTS								
Cash generated from operating activities	382	407	541	520	819	923	**994**	**17.3%**
Net finance income/(cost)	(23)	(9)	3	27	14	29	**25**	
Dividends	-	-	28	-	-	-	**-**	
Abnormal item	-	-	-	-	-	50	**-**	
Taxation paid	(77)	(99)	(123)	(143)	(196)	(243)	**(448)**	
Cash flow from operating activities	282	299	449	404	637	759	**571**	
Cash flow from investment activities	(105)	(151)	(96)	(276)	(325)	(178)	**(388)**	
Cash flow from financing activities	(141)	(117)	(224)	(142)	(106)	(185)	**(830)**	
Cash distributions to minorities	(3)	(11)	(15)	(19)	(32)	(34)	**(39)**	
Distributions to shareholders	(56)	(68)	(80)	(100)	(120)	(142)	**(166)**	
Special dividend to shareholders	-	-	-	-	-	-	**(1,327)**	
Movement in borrowings	(82)	(39)	(73)	(16)	40	(21)	**689**	
Other	-	1	(56)	(7)	6	12	**13**	
Net movement in cash and bank overdrafts	36	31	129	(14)	206	396	**(647)**	
Opening balance of cash and bank overdrafts	12	48	79	208	194	400	**796**	
Closing balance of cash and bank overdrafts	48	79	208	194	400	796	**149**	

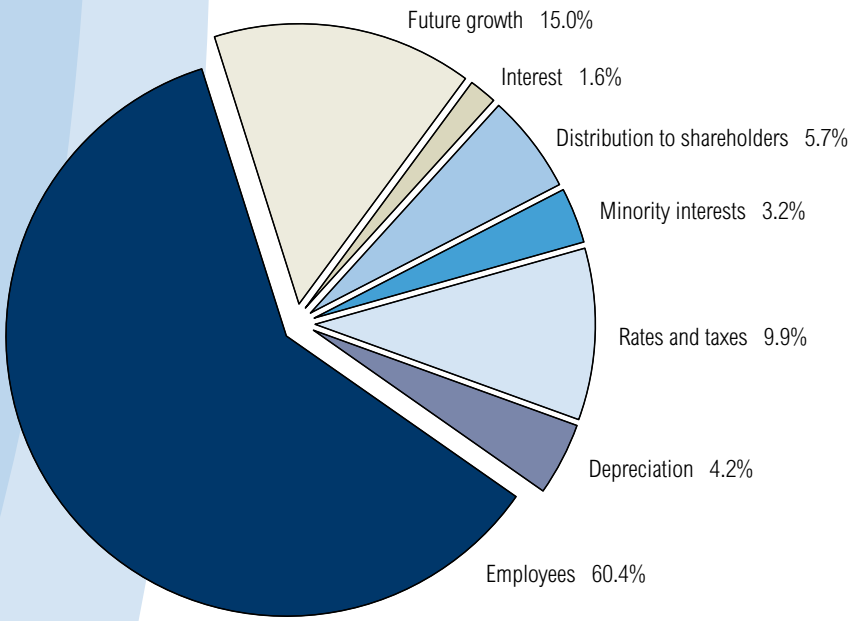
** Compounded Annual Growth Rate*

VALUE ADDED STATEMENT

for the year ended 31 March 2006

	2006 R'm	%	2005 R'm	%
VALUE CREATED				
Revenue	**4,723**		4,040	
Cost of materials and services	**(1,892)**		(1,669)	
Interest received	**68**		58	
	2,899	**100.0**	2,429	100.0
DISTRIBUTION OF VALUE				
To employees as remuneration and other benefits	**1,750**	**60.4**	1,458	60.0
Taxation and other state and local authority levies	**287**	**9.9**	235	9.8
(excluding VAT and STC on the special dividend)				
To suppliers of capital:				
Minority interests	**94**	**3.2**	67	2.8
Finance cost on borrowed funds	**45**	**1.6**	29	1.2
Distributions to shareholders (excluding special dividend)	**166**	**5.7**	142	5.8
	2,342	**80.8**	1,931	79.6
VALUE RETAINED				
To maintain and replace assets	**123**	**4.2**	97	4.0
Income retained for future growth	**434**	**15.0**	401	16.5
	557	**19.2**	498	20.5

DISTRIBUTION OF VALUE 2006



ADMINISTRATION AND DATES OF IMPORTANCE TO SHAREHOLDERS

ADMINISTRATION

COMPANY SECRETARY

G C Hattingh (41)
B.Acc (Hons), CA (SA)

BUSINESS ADDRESS AND REGISTERED OFFICE

Medi-Clinic Offices, Strand Road, Stellenbosch, 7600
Postal address: P O Box 456, Stellenbosch, 7599
Tel: +27 21 809 6500 Fax: +27 21 886 4037

E-MAIL AND WEBSITE

medimail@mediclinic.co.za
http://www.mediclinic.co.za

COMPANY REGISTRATION NUMBER

1983/010725/06

TRANSFER SECRETARIES

Computershare Investor Services 2004 (Proprietary) Limited
70 Marshall Street, Johannesburg, 2001
Postal address: P O Box 61051, Marshalltown, 2107
Tel: +27 21 370 7700 Fax: +27 11 688 7716

AUDITORS

PricewaterhouseCoopers Inc.
Stellenbosch

SPONSOR

Rand Merchant Bank (A division of FirstRand Bank Limited)

LISTING

JSE Limited
Sector: Non Cyclical Consumer Goods – Health
Share code: MDC ISIN code: ZAE000074142

DATES OF IMPORTANCE TO SHAREHOLDERS

ANNUAL GENERAL MEETING	27 July 2006

FINANCIAL REPORTS

Announcement of annual results	May
Annual report	June
Announcement of interim results	November
Interim report	November

PAYMENTS TO SHAREHOLDERS

Interim Payment: Dividend number 17	
Declaration date	9 November 2005
Record date	9 December 2005
Payment date	12 December 2005
Special Dividend number 1	
Declaration date	4 October 2005
Record date	23 December 2005
Payment date	27 December 2005
Final Payment: Dividend number 18	
Declaration date	10 May 2006
Record date	23 June 2006
Payment date	26 June 2006

BOARD OF DIRECTORS

as at 31 March 2006

CHAIRMAN

E de la H Hertzog (56)
M.B.Ch.B., M.Med., F.F.A. (SA)

Appointed in 1983 as managing director, in 1990 as executive vice-chairman and in 1992 as chairman of the company. Other directorships include Distell, Remgro, Total (SA) and Trans Hex Group.

EXECUTIVE DIRECTOR

L J Alberts (58)
B.Comm, CA (SA) (Managing Director)

Appointed in 1988 as director of the company and in 1990 as managing director.

EXECUTIVE DIRECTOR

J du T Marais (55)
H.N.T.D. (Mec)
(Technical Director)

Appointed in 1985 as director of the company.

EXECUTIVE DIRECTOR

D P Meintjes (49)
B.PI (Hons)
(Executive Director: United Arab Emirates)

Joined the company in 1985 and appointed in 1996 as human resources director. Seconded to Dubai in 2006 to oversee the company's expansion into the United Arab Emirates.

EXECUTIVE DIRECTOR

J G Swiegers (51)
B.Acc (Hons), B.Comm (Hons) (Taxation), CA (SA)
(Financial Director)

Appointed in 1994 as non-executive director of the company and in 1999 as financial director.

NON-EXECUTIVE DIRECTOR

V E Msibi (50)
M.B.Ch.B.

Group Executive Chairman of Phodiso Holdings. Appointed in November 2005 as director of the company.

INDEPENDENT NON-EXECUTIVE DIRECTOR

W P Esterhuyse (69)
BA (Hons), MA, D.Phil

Professor in Business Ethics at the Postgraduate Management School of Stellenbosch University. Appointed in 1992 as director of the company. Other directorships include Metropolitan Health and Barinor Holdings.

NON-EXECUTIVE DIRECTOR

M A Ramphele (58)
M.B.Ch.B., Diploma in Tropical Health and Hygiene, B.Comm, Diploma in Public Health, Ph.D.

Chairperson of Circle Capital Ventures. Appointed in March 2005 as director of the company.

INDEPENDENT NON-EXECUTIVE DIRECTOR

A R Martin (67)
B.Comm, CA (SA)

Appointed in 2002 as director of the company. Other directorships include Trans Hex Group, Santam and Credit Guarantee Insurance of Africa.

NON-EXECUTIVE DIRECTOR

M H Visser (52)
B.Comm (Hons), CA (SA)

Chief Executive Officer of Remgro. Appointed in November 2005 as director of the company. Other directorships include Distell and Nampak. Chairman of Rainbow Chicken.

INDEPENDENT NON-EXECUTIVE DIRECTOR

A A Raath (50)
B.Comm, CA (SA)

Chief Executive Officer of Innofin, a subsidiary of Sanlam. Appointed in 1996 as director of the company.

INDEPENDENT NON-EXECUTIVE DIRECTOR

S Dakile-Hlongwane (55)
BA, MA

Executive director of Nozala Investments. Appointed in 2000 as director of the company.

INDEPENDENT NON-EXECUTIVE DIRECTOR

W L van der Merwe (54)
M.B.Ch.B., M.Med., F.F.A. (SA), MD

Dean of the Faculty Health Sciences of Stellenbosch University. Appointed in 2001 as director of the company.

REPORT TO OUR SHAREHOLDERS

WE ARE PLEASED TO REPORT THAT THE GROUP HAS MAINTAINED ITS CONSISTENT GROWTH PATTERN. IT SUCCEEDED IN INCREASING REVENUE AND ITS DISTRIBUTION TO SHAREHOLDERS WHILE ALSO IMPLEMENTING STRATEGIC INITIATIVES AND INVESTMENTS AIMED AT EXPANDING THE GROUP'S OPERATIONS IN SOUTH AFRICA AND ABROAD. THEREFORE, WE HAVE PLEASURE IN REPORTING AS FOLLOWS:

FINANCIAL PERFORMANCE

Shareholders are referred to the circular dated 1 November 2005 ("the circular") presenting details of the black ownership initiative and the capital restructuring ("the transactions") as well as the trading statement dated 19 April 2006 ("the trading statement"). The transactions were successfully implemented according to the timetable in the circular. The effect of the transactions on the earnings per share ("EPS") and headline earnings per share ("HEPS") of the group was fully disclosed in the circular and the trading statement. The transactions have a once-off and an ongoing financial effect on the group's earnings, EPS and HEPS. The once-off effect of the transactions manifests in the following two charges to the group's income statement: a net STC charge of R168 million ("the STC charge") resulting from the special dividend declared as part of the capital restructuring as well as a charge of R85 million being the IFRS charge on the share-based portion of the black ownership initiative ("the BEE share-based payment"). The ongoing effect of the transactions is mainly reflected in higher interest charges payable by the group as a result of the capital restructuring ("the higher interest charges") which was implemented on 27 December 2005. The higher interest charges consist of the aggregate of the interest income forgone on the cash balance on hand prior to the capital restructuring and the interest paid on the newly introduced debt of R700 million. The 28.5 million new shares issued to the strategic black partners in terms of the black ownership initiative are treated as treasury stock and will be released pro-rata to dividends returned by them relative to the original market value of these shares of R525 million. To date 9.6 million of these shares have been released from treasury stock due to the flow back of the special dividend to the group leaving a balance of 18.9 million treasury

shares at year-end in addition to the existing treasury shares held by the group and the 15.8 million shares issued to the Mpilo Trust. The release of such shares has had and will continue to have a commensurate dilutive effect on the EPS and HEPS of the group.

In this report the core earnings of the group will be emphasised. The core earnings include the headline earnings of the group and the ongoing effect of the transactions, but exclude the once-off effect of the STC charge and the BEE share-based payment.

The transactions do not have a significant financial effect on the operational performance of the group.

With the above as background, revenue, which consists mainly of hospital fees, increased by 17% to R4 723 million (2005: R4 040 million) for the year under review. Operating profit before interest, taxation, depreciation and amortisation (EBITDA) was 21% higher at R987 million (2005: R819 million). After incurring the higher interest charges of about R33 million before tax from the date of implementation of the capital restructuring, core earnings (which exclude the STC charge and the BEE share-based payment) rose by 10% to R553 million (2005: R503 million) resulting in an increase of 8% in core earnings per share ("CEPS") to 159.3 cents (2005: 146.9 cents). Taking into account the STC charge and the BEE share-based payment, HEPS declined by 41% from 146.9 cents per share to 86.3 cents per share. The total distribution per share at 53.1 cents for the year (2005: 45.0 cents) is 18% higher.

LOUIS ALBERTS AND DR EDWIN DE LA H HERTZOG

ER24 became a wholly-owned subsidiary of the group with effect from 1 April 2005. The group also acquired a 49.9% interest in the Wits Donald Gordon Medical Centre ("WDGMC") (190 beds) as well as 100% in the Legae Private Hospital ("Legae") (137 beds) effective from 1 July 2005 and 1 December 2005 respectively. The current period's results are, therefore, not directly comparable with those of the previous period. Excluding the increase in capacity, the group's revenue growth amounted to 14%.

The group's EBITDA margin increased from 20.3% to 20.9% mainly due to improved operational efficiencies. The improved performance of the Curamed group also contributed to this increase.

The group sold its interest in the HMS JV, accounted for under Investments in Associates, for R84 million with effect from 1 October 2005 deriving a capital profit of R43 million.

Cash flow continued to be strong during the period under review, mainly due to more efficient working capital management. The group converted 101% (2005: 113%) of EBITDA into cash generated from operating activities. The group's strong cash flow continues to underline the quality of its earnings.

The capital restructuring resulted in cash and cash equivalents declining from R849 million to R160 million while new interest-bearing debt of about R700 million was introduced at the same time. Consequently, interest bearing debt increased from R240 million to R922 million. This resulted in an increase in the debt: equity ratio from 8% to 48% with a concomitant increase in the return (core earnings) on shareholders' equity from 19% to 34%.

Due to corporate activity during the period under review, the group had limited opportunity to repurchase its own shares. Commencing the financial year with a balance of 6 447 510 treasury shares, the group did not acquire any more of its own shares while 2 385 072 of the treasury shares were utilised for the group's share option scheme, 365 449 for the group's management share incentive scheme and a further 229 804 treasury shares were sold to the Mpilo companies in terms of the scheme of arrangement (see BEE). At year end the group therefore held 3 467 185 treasury shares.

The long-term growth trend of your group is gratifying. The compounded annual growth rate (CAGR) of the group's revenue and EBITDA over the past seven years is 17% while the corresponding CAGR of its distribution per ordinary share amounts to 19%.

STRATEGIC OBJECTIVES

The group set itself three strategic objectives at the beginning of the financial year, namely to implement its

Black Economic Empowerment ("BEE") initiative, to explore alternatives aimed at optimising the capital structure of the group and to intensify its investigation into meaningful growth opportunities in other countries. Significant progress has been made on all of these matters.

BEE

The group views itself as an integral part of the South African political, social and economic community and as such, embarked on a process aimed at achieving the following objectives:

- transforming Medi-Clinic as a growing company while continuing to fulfil a leadership role in the healthcare sector in South Africa;
- active participation by black partners in the management of Medi-Clinic;
- participation by employees in a share ownership programme;
- maintaining to the extent possible, financial neutrality to existing shareholders; and
- building on a commitment by all shareholders to the joint creation of wealth within Medi-Clinic.

In fulfilment of these objectives, the group implemented a BEE transaction with a total value of R1.1 billion, through which an effective 15% of the group is now owned by a broad-based group of black entities, including Medi-Clinic staff.

The BEE transaction involved the introduction of two strategic black partners, Phodiso Holdings Limited ("Phodiso") and Circle Capital Ventures (Proprietary) Limited ("Circle Capital"), which together acquired 11% of the group, each acquiring 6.875% and 4.125% respectively. The Mpilo Trust, an employee share trust, holds a further 4%. The trust will benefit an estimated 11 000 employees of whom 52% are black and 89% are women.

The ownership was effected partly through the purchase of existing shares (4.25%) from shareholders of the group in terms of a scheme of arrangement ("the scheme") in the amount of some R280 million, and partly through the issue of 28.5 million new shares at par, valued at about R525 million. The purchase of the existing shares was financed by the strategic partners themselves by providing R80 million of their own capital and by Standard Bank in the amount of R200 million. In respect of the shares issued at par, the group will be entitled to receive all dividends earned by the strategic partners on their equity interest of 11% in the group until the R525 million less the par value of the shares so acquired have been repaid to the group.

The Mpilo Trust was funded through capital contributions by the group's operating subsidiaries in the amount of R290 million which enabled the trust to acquire 4% (15.8 million shares) in the group at market value. These shares are treated as treasury shares for accounting purposes due to the consolidation of the Mpilo Trust. The capital contributions plus a coupon of 70% of the prime interest rate as applicable from time to time will be recovered by the operating subsidiaries by way of the vesting in them of 80% of all ordinary dividends and 100% of all special dividends earned by the trust from its shareholding in the group. The remaining 20% of all ordinary dividends earned by the trust will be paid to participating employees.

A ten-year lock-in period is applicable to both the strategic black partners and the participating employees in the Mpilo Trust.

To fulfil one of the group's key BEE objectives, namely the active participation by black partners in the management of the group, Dr Nkaki Matlala (a surgeon by training and an executive director of Phodiso) has joined the group on a fulltime basis as Director: Clinical Relations with representation on the Executive Committee. He quickly settled in and has already made positive contributions to the group at various levels and we look forward to his ongoing input and participation.

CAPITAL RESTRUCTURING

A capital restructuring programme was announced on 4 October 2005 with the objective of increasing the return on the group's shareholder equity. It entailed the introduction of debt funding in the amount of R700 million. This debt was used to repay existing inter company indebtedness in the group. The introduction of the debt through facilities arranged with Standard Bank leaves sufficient capacity to allow the group to fund future strategic initiatives and respond to growth opportunities.

In addition, a special dividend in the amount of about R1.6 billion was declared which equated to R4.02 per share. This dividend was paid to shareholders on 27 December 2005.

OPPORTUNITIES IN OTHER COUNTRIES

It was recently announced that the group has entered into an agreement for the acquisition of a 49% interest for US$46.4 million in Emirates Healthcare Holdings Limited ("Emirates Healthcare"), the ultimate holding company of the healthcare interests of the Varkey Group, a private healthcare group based in Dubai, United Arab Emirates

("UAE"). Emirates Healthcare owns the 120-bed Welcare Hospital, currently the largest private hospital in Dubai, along with one ambulatory care centre and two clinics close by. It also has the rights to develop two new hospitals (approximately 400 beds) in the new Dubai Healthcare City as well as five related clinics.

These projects will be funded by the equity capital to be injected at the implementation of the transaction plus debt at a projected debt to equity ratio of 45:55. The Varkey Group has an existing strategic relationship with General Electric ("GE") and is well positioned for further growth in the UAE and adjoining regions. The group believes that the Varkey Group and GE are good partners with whom to build an expanded private hospital business in the Gulf countries and beyond. Three senior staff members of the group have already been seconded to support this initiative. The relationship also offers the potential for the group to export its expertise and to broaden the career opportunities available to other members of staff. The agreement is subject to the fulfilment of several conditions precedent by not later than 30 June 2006. Exchange control approval has been received for this transaction.

Initially the income to be derived from this investment will be neutral after finance costs. It may, however, have a slightly negative impact on the earnings of the group a year to eighteen months later on, due to the green fields nature of the two hospitals to be developed in the Dubai Healthcare City.

AFFORDABILITY OF HEALTHCARE

Affordability will always remain a critical issue in the healthcare industry especially in developing countries.

The group will therefore continue its efforts to improve the affordability of healthcare in South Africa. Medi-Clinic's initiative in relation to the net acquisition price model ("NAP model") promotes transparency in the pricing of medicines and scheduled drugs as well as surgical consumables and has gone a long way to bring the spiralling inflation of these prices to substantially lower levels.

The South African private hospital industry recognised the need to place private hospital costs in a sound and proper perspective, explaining the fundamental cost drivers in a typical private hospital. To this end, the Hospital Association of South Africa, of which Medi-Clinic has always been a member, commissioned independent research into the cost drivers and other variable factors influencing expenditure on private hospitals. The results of the first phase of this comprehensive, independent economic study show that the industry achieved an inflation rate of just 5,2% for the 2005 fiscal year, within the SA Reserve Bank's target of 3% to 6%. The results were benchmarked internationally against eight other countries, among which South Africa's private hospital industry's inflation rate was ranked the third lowest. Hospital inflation in the USA is currently 6,8%.

REVIEW OF OPERATIONS

Virtually all the group's hospitals have been designed and equipped as multi-disciplinary units which provide, as far as possible, a one-stop service to doctors and patients. Effective operational management is a process which requires, and receives, meticulous ongoing attention. To ensure efficiency, operational management is decentralised into five regions each with its own limited support base. Head Office functions are mainly to plan, co-ordinate, control and provide certain specialised services.

Your group remains focused on its core business and at present operates 44 hospitals throughout South Africa and 3 in Namibia.

OPERATIONAL ISSUES AND HIGHLIGHTS

TRADING ENVIRONMENT

The trading environment seemed less tight than in previous years. The country as a whole experienced good growth, but it is not clear whether the medical scheme membership also grew as the annual report of the Council for Medical Schemes for 2005 is not yet available. No significant growth in cash paying patients was experienced.

On a comparable basis, revenue growth of 14% was achieved through a 7.6% increase in in-patient bed-days, a 5% increase in the average income per bed-day and a 1.5% change in the case profile of patients treated. The increase in utilisation was evident in both surgical and medical cases. The number of patients admitted to our hospitals increased by 6.9% while the average length of stay increased slightly mainly due to an increase in the average length of stay of medical cases.

The increase in the average income per bed-day sold of 5% is, as alluded to in earlier reports, the result of the successful implementation of the fully transparent NAP model on all pharmaceutical items referring to both medicines and scheduled drugs as well as surgical consumables. The NAP model enabled the group to gain a significant slowdown in pharmaceutical price inflation to well below the general and the healthcare inflation experienced over the comparable period. This trend is expected to continue.

REPORT TO OUR SHAREHOLDERS (continued)

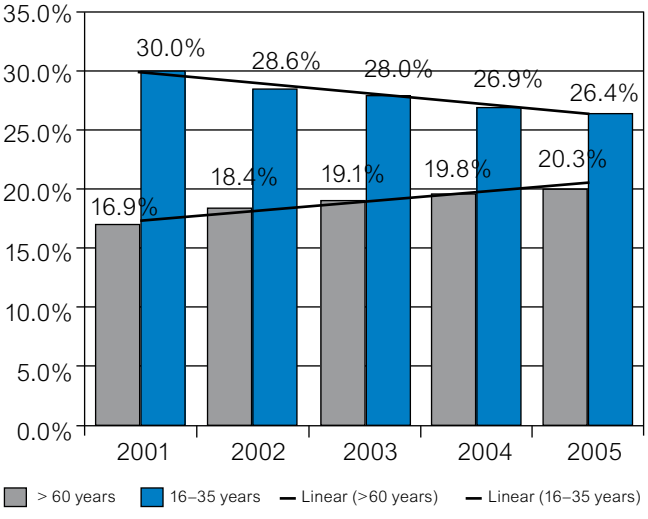
The staff of the group deserve special mention for their dedicated and energetic efforts which enabled the group to achieve the published results. These results would also not have been possible without the loyal and competent support of the doctors utilizing the group's facilities. Sincere thanks have to be expressed to these important role-players.

STATISTICAL FACTORS IMPACTING ON THE INCREASED PRIVATE HOSPITAL COSTS EXPERIENCED BY MEDICAL SCHEMES

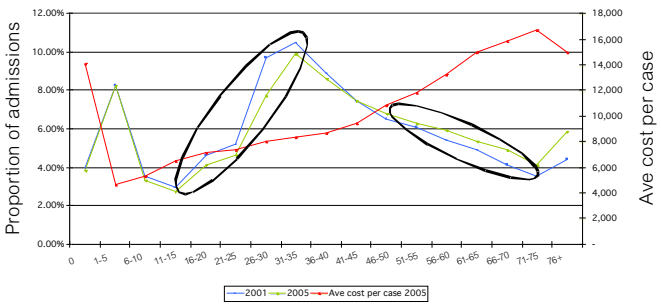
The ageing medical scheme population has led to an increase in the average age of patients being admitted to the group over the past number of years. The group's data has shown that between 2001 and 2005 the proportion of admissions in the 16 to 35 year age band decreased from 30.0% to 26.4%, while the proportion older than 60 years increased from 16.9% to 20.3%. The fact that the average cost per admission for the latter group is approximately double than that of the former, contributes significantly to the increased costs experienced by medical schemes.

The following two graphs illustrate this trend:

PROPORTION OF ADMISSIONS OVER TIME



AGE PROFILE OF ADMISSIONS VS AVERAGE BILLED PER CASE BY AGE BAND

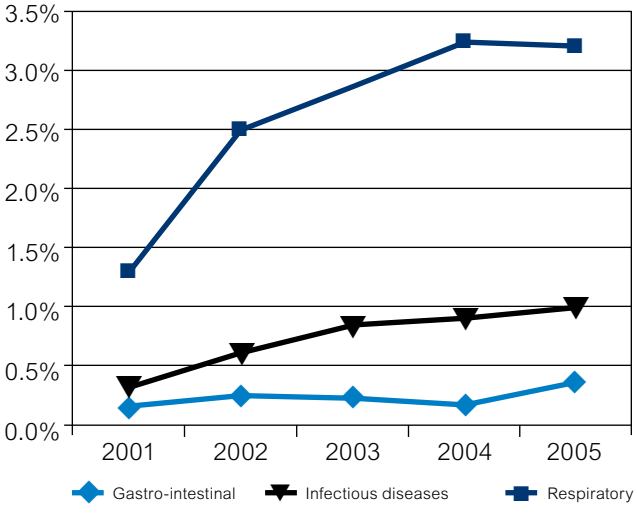


The graphs also provide interesting insight into the change that occurred in the profile of the medical scheme population. Some of the young and the healthy dropped off, while older members, who need more healthcare, increased. The natural and desirable cross-subsidy by the young and the healthy towards the old and the sick has deteriorated, contributing to higher per capita healthcare costs within the medical scheme population. This highlights an unintended consequence of current government policy.

The burden of disease also affects the cost of care. Disease prevalence and the progression thereof affects the number of hospital admissions as well as the severity of a given admission, which in turn impacts on the number of bed-days sold and the level of care of such bed-days (e.g. more high care compared to general ward). For example, the progression of the HIV/AIDS pandemic can be monitored by considering admissions for respiratory, gastro-intestinal and infectious diseases as a proxy for HIV/AIDS related admissions. The proportion of revenue related to these three categories in the 16 to 55 year age band has increased from 1.8% in 2001 to 4.5% in 2005.

The following graph illustrates this increase:

TYPICAL "HIV" CATEGORIES AS % OF TOTAL BILLED IN 16–55 YR AGE BAND



PROJECTS AND EXPANSIONS

Major upgrades at Morningside Medi-Clinic and Sandton Medi-Clinic, each involving about R100 million, are in progress so as to ensure their competitiveness in this particularly high income area. Expansions at Durbanville Medi-Clinic and Pietermaritzburg Medi-Clinic are also taking place while a project at Nelspruit Medi-Clinic consisting of additional consulting rooms and the upgrade

of the original hospital, is underway. Routine upgrades continue at various other hospitals.

It is envisaged that the total expenditure on these projects over the next two years will amount to about R400 million.

ER24 became a wholly-owned subsidiary of the group with effect from 1 April 2005. The group also acquired a 49.9% interest in the Wits Donald Gordon Medical Centre ("WDGMC") (190 beds) as well as 100% in the Legae Private Hospital ("Legae") (137 beds) effective from 1 July 2005 and 1 December 2005 respectively.

Phodiclinics (Proprietary) Limited ("Phodiclinics"), a company owned 51% by Medi-Clinic and 49% by Phodiso, acquired the hospitals of the 200 bed Protector group consisting mainly of the Medivaal MediCentre in Vanderbijlpark. The Competition Commission made a positive recommendation to the Competition Tribunal which now has to finally decide on the transaction.

Phodiclinics has also been awarded a license to build a 140 bed hospital in the northern suburbs of the Cape Town Metropole which can be regarded as tangible evidence of the value created by the group's BEE initiative.

SHORTAGE OF NURSES

The acute industry shortage of skilled nursing staff abated slightly due to factors such as the strong Rand and the stability of the number of operational hospital beds in the country.

The medium- to long-term solution remains the training of more staff by both the private and public sectors. In this regard, the group has maintained the amount spent on the training of nursing staff (and certain other staff categories) to nearly 4% of its payroll cost in the current budget. Nursing staff of the group who received training have so far always achieved excellent results in the SA Nursing Council's registered examinations. Fortunately the vast number of applicants who apply for training at the hospitals of the group is continuing. A total of 456 students in all categories of nursing registered on learnerships during the year under review while 422 acquired new qualifications in the same period. A further 263 students were engaged in courses that will lead to a qualification. The initiative taken in 1997 to further expand our nursing education capacity has enabled us to reduce the effect of the nursing shortage on our commitment to quality care and will continue to do so in the future.

Uncertainty surrounding the effect that the proposed Nursing Bill may have on nursing education in the private sector, and specifically the model successfully employed by Medi-Clinic, has necessitated a reduction of students for 2007. This is particularly due to the stated intention to phase out the Bridging Course leading to registration as a registered nurse. This course is offered in collaboration with UNISA on a facilitated distance learning basis utilising adult education principles and has proven to be both cost effective and successful.

While we applaud the Department of Health's National Plan for Human Resources for Health, we have to indicate that the specific needs of the private healthcare sector should also be accommodated and that synergies must be achieved between the public and private sector in the implementation of the plan. The nursing shortage and the migration of nurses are national issues that must be addressed by all the role players in the country as well as other countries. With more than 300 000 school leavers matriculating in 2005, South Africa has the available human resource to recruit potential nursing students from and to create the level of staffing that is required. In this context we must work together to establish infrastructure that enables access to a high standard of nursing education instead of creating barriers.

The group firmly believes that its training investment contributes to empowering talented people in our country to participate in growing the economy and to attain sustainable socio-economic freedom.

In addition, the group embarked upon a unique retention bonus scheme for nursing staff to reward the loyal nurses who select Medi-Clinic as their employer of choice for the longer term. Although the scheme adds to the overall cost structure, it has already proved its worth: the group has experienced a decrease in its nursing staff turnover. The concomitant increase in quality care for patients as well as peace of mind for doctors, are not measurable in monetary terms.

Most of the group's nurses are members of the Mpilo Trust created as part of the BEE initiative. The group believes that employee participation in the BEE initiative is an imperative (just as BEE is a business imperative) to also economically empower its staff. It is believed that the loyalty it creates converts directly into quality care as is the case with the nursing retention bonus.

DOCTOR RELATIONSHIPS

Sound long-term doctor relationships built on ethical and fair business practices will always be one of the cornerstones of the strategic approach of the group.

The group has invested in infrastructure to strengthen and enhance its doctors' network in which free association and as much clinical independence as possible for the doctors, are key elements. It is strongly believed that these values, together with factors such as improving their working environment, providing them with the right address and peace of mind through the necessary support systems, are critical in gaining and maintaining enthusiastic doctors' support for the provision of cost effective quality healthcare. The associate specialists network and referring general practitioners network amount to approximately 1 500 and 3 800 respectively.

On the whole the group has fortunately never experienced any significant shortage of doctors' availability regarding the use of its facilities, especially consulting rooms. Currently it is more a question of striving to be fair and effective when attempting to satisfy the demand.

THE GOVERNMENT EMPLOYEE MEDICAL SCHEME ("GEMS")

GEMS was registered with effect from 1 January 2005 to address the challenges in respect of the current provision of medical assistance to public service employees by government. Government employees were able to join the scheme as at 1 January 2006. GEMS seeks to improve access to healthcare by increasing the number of insured people from those who are employed in Government. Government employs approximately 1.1 million people of which an estimated 400 000 are uninsured.

The development and implementation of GEMS came after substantial research, analysis and intense consideration by Cabinet. It is a closed medical scheme where membership is limited to current and retired public service employees. GEMS offers their members five options, all named after gemstones, namely Onyx, Ruby, Emerald, Beryl and Sapphire. These options give members the opportunity to choose medical benefits based on individual needs and cost considerations.

Medi-Clinic supports government in this initiative to widen access to healthcare to more citizens of our country. It represents an opportunity for Medi-Clinic to provide health services to a new and emerging market in South Africa.

THE LOW INCOME MEDICAL SCHEME ("LIMS")

The purpose of the LIMS process was to examine the market environment in all its facets to define the potential market and the probable benefit design which, with the current availability of personnel and infrastructure, can deliver a low cost medical scheme to employees who until now were not able to afford medical scheme cover.

The LIMS process is very clearly located within the broad context of the Social Health Insurance (SHI) policy framework being pursued by the Department of Health (DOH). A key objective of the SHI policy is to, over time, extend risk pooling through health insurance as broadly as possible to all those who can afford to participate in a formal medical scheme.

The private healthcare industry is ready to take on these challenges to try and contribute towards the prosperity of the broader society. With the LIMS initiative (as well as the GEMS project), both the public and private healthcare sectors should work together to find solutions that represent "the best of both worlds".

EMERGENCY MEDICINE

The group strengthened its emergency service offering to the communities it serves from 1 April 2005 when the pre-hospital services company, ER24, became a wholly owned subsidiary of the group. This transaction will enable the group to streamline its pre-hospital services so as to optimise service delivery to hospitals.

The group has embraced the discipline of emergency medicine and complies with national regulations with regards to design, function, equipment and staff training.

The group continued to see a steady increase in patient volumes through the emergency units and it is anticipated that emergency medicine will continue to be a growth area.

There is a financial risk involved in providing these services to patients who are not in a position to pay, but this is closely monitored and at this stage regarded as part of the corporate social investment of the group.

INDUSTRY MATTERS

The group is actively involved in the development of a healthcare charter for South Africa. Since the launch of the charter negotiation process in August 2004 by the Minister of Health, significant progress has been made and a third draft of the charter was published during May 2006. Negotiations are ongoing and various healthcare stakeholders are actively involved to finalise the charter towards the end of the year. The charter mainly seeks to address the following fundamental issues:

- Access to healthcare services;
- Equity in the delivery of healthcare services;
- Quality of healthcare; and
- Broad-Based Black Economic Empowerment (BBBEE).

REPORT TO OUR SHAREHOLDERS (continued)

Addressing affordability of healthcare delivery and increasing access remain two of the major challenges facing the industry. To this end, value is seen in the development of a low cost medical scheme (refer to LIMS above) that can service those individuals currently employed but uninsured. The group believes that a substantive partnership between different role-players, including the State, is necessary to improve such access. It must be recognised that the development of new, innovative delivery models will have to be explored to address this need. Creating the right environment for these developments to take place will also require legislative reform.

Healthcare delivery by the private sector has been placed under the spotlight and has been subjected to many policy and regulatory changes during recent years. Against this background, a closer working relationship between the private healthcare sector and government is considered to be of the utmost importance. In this regard, the group will continue to take part in the many activities of the Hospital Association of South Africa (HASA) and the Private Healthcare Forum (PHF).

PROSPECTS FOR NEXT YEAR

The group expects to continue its track record of consistent growth based on meeting the needs of the market. This includes increasing the use and expansion of facilities and services in its core competencies along with further efficiency improvements. Apart from these internally driven growth focus areas, initiatives by government aimed at broadening the membership base of medical schemes should have a positive impact on growth in the industry in the longer term. It still remains too early to predict the likely outcome of these initiatives.

The Emirates Healthcare opportunity will require time and operational resources from the group especially the two new hospitals to be developed in the Dubai Healthcare City. The group is, however, very confident that this will be done successfully and that it will provide an excellent platform for further growth.

The group remains optimistic about its operational prospects for the next year. The ongoing financial effect of the black ownership initiative and the capital restructuring will, as reported on earlier, have a continued impact on the earnings of the group.

DIRECTORATE AND PERSONNEL MATTERS

Dr V E Msibi, the chairman of Phodiso, was co-opted to the Board on 9 November 2005 as a non-executive director. We welcome him and look forward to his positive contribution to the group.

Mr W E Bührmann, one of the representatives of Remgro Limited ("Remgro"), the largest shareholder in the group, was assigned other duties within Remgro and consequently resigned from the Board on 10 November 2005. His valuable input as member of the Board and the Human Resources Committee as well as the Chairman of the Audit and Risk Committee is greatly appreciated. He was replaced by Mr M H Visser, Chief Executive Officer of Remgro on 10 November 2005.

Mr C I Tingle stepped down as a non-executive director on 7 February 2006 to take up the full-time financial responsibility of the group's international division. We thank him for his long and loyal service of almost 14 years on the Board as well as the Audit and Risk Committee and wish him well in his new challenging environment.

Mr D P Meintjes, an executive director of the company and who acted as Human Resources Director, has been relocated to Dubai to take up the responsibility of overseeing the group's expansion into the United Arab Emirates. He remains a director of the company.

THANKS

We sincerely wish to express our thanks to:

- all patients and doctors for their continued support of our hospitals
- all nurses for their quality care of the patients in our hospitals
- all directors and employees for the dedication towards their work
- all shareholders for the confidence bestowed in our group.

E DE LA H HERTZOG
Chairman

LJ ALBERTS
Managing Director

OPERATIONAL PROFILE

MEDI-CLINIC WAS FOUNDED IN 1983 WHEN OUR CHAIRMAN, DR EDWIN HERTZOG, WAS COMMISSIONED BY THE REMBRANDT GROUP TO UNDERTAKE A FEASIBILITY STUDY ON PRIVATE HOSPITALS. MEDI-CLINIC, BOASTING 7 HOSPITALS WITH 1 500 BEDS, SUBSEQUENTLY LISTED ON THE JSE LIMITED IN 1986. THE GROUP HAS STEADILY EXPANDED AND TODAY OPERATES 44 HOSPITALS THROUGHOUT SOUTH AFRICA AND 3 HOSPITALS IN NAMIBIA WITH MORE THAN 6 600 BEDS.

HOSPITAL SERVICES

Medi-Clinic's core purpose is to enhance the quality of life of patients by providing comprehensive, high quality hospital services in such a way that the group will be regarded as the most respected and trusted provider of hospital services by patients, doctors and funders of healthcare. We provide patients with cost-effective healthcare by offering a wide range of specialised services, ensuring that medical practitioners are provided with the best possible infrastructure in the form of custom-designed facilities, state-of-the-art equipment and above all, excellent nursing care, focusing on the needs and satisfaction levels of our patients and by employing motivated, dedicated and loyal staff.

Through a continuous process of expansion, upgrading and training, we are constantly improving our standards and equipping our personnel with the skills and facilities to support our doctors and to ensure the peace of mind of our patients.

Medi-Clinic currently operates 44 hospitals countrywide and 3 hospitals in Namibia. Opposite is a map of the geographical spread of the group's hospitals in operation. A complete list of hospitals appears on page 40.

Medi-Clinic's management approach is to run our hospitals on a decentralised basis. Our Head Office is situated in Stellenbosch and is responsible for co-ordination, planning and providing specialised services, such as information technology, data warehousing, marketing, purchasing, technical services and financial services to our hospitals. Our management team consists of the following:

Executive Committee:

Dr Edwin Hertzog	- Chairman
Mr Louis Alberts	- Managing Director
Mr James Marais	- Technical

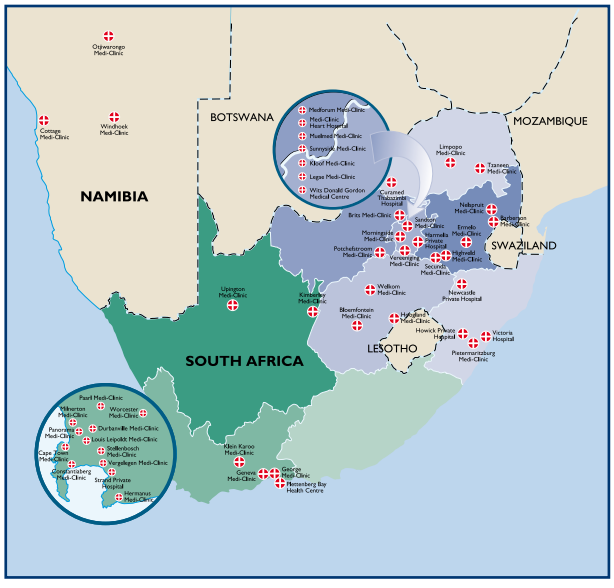
Dr Nkaki Matlala	-	Clinical Relations
Mr Danie Meintjes	-	Executive Director: United Arab Emirates
Mr Koert Pretorius	-	Group Operations
Mr Gerhard Swiegers	-	Financial
Dr Ronnie van der Merwe	-	Clinical Services

Operational:

Mr Wimpie Aucamp	-	Operations (Northern Region)
Mr Frikkie Burger	-	Operations (Central Region)
Mr Johann Geertsema	-	Operations (Tswhane Region)
Mr Pietie van Aarde	-	Operations (Western Cape Region) (retired with effect from 31 May 2006)
Mr Edmund van Wyk	-	Operations (Western Cape Region) (appointed with effect from 1 June 2006)
Mr André Viljoen	-	Operations (Peninsula Region)

Departmental Heads:

Mr Roly Buys	-	Funder Relations and Contracting
Mr Douglas Defty	-	Pharmacy Services
Mr Steve Drinkrow	-	Engineering Services
Ms Clara Findlay	-	Legal Services
Mr Gert Hattingh	-	Company Secretary and Related Business
Ms Estelle Jordaan	-	Nursing
Mr Koos Veldsman	-	Projects
Dr Deon Moulder	-	Medical Affairs
Mr Theo Pauw	-	Information Technology
Mr Biren Valodia	-	Marketing and Corporate Liaison
Mr Linus van Onselen	-	Property Management and Purchasing
Mr Kobus Verster	-	Human Resources and Training & Development



ER24

ER24 is a national private emergency medical care network that owns and operates in excess of 110 response vehicles and ambulances for the treatment and transportation of patients involved in emergency and life-threatening situations. In addition to those resources owned, ER24 also contracts with a number of independent ambulance service providers in different areas to ensure extensive national coverage. This network is supported and co-ordinated by a state-of-the-art emergency medical call centre.

Aero-medical services are rendered via service providers that specialise in the operation of aircrafts that are medically configured and staffed. Through these service providers, clients have access to dedicated aero-medical aircrafts suited to varying conditions and distances.

ER24 is committed to rendering affordable, fast and efficient 24 hour emergency response and medical care in line with international standards and quality.

MEDICAL INNOVATIONS

Medical Innovations has since 1988 been designing and manufacturing quality hospital equipment and providing innovative engineering solutions. The information gained from our doctors and hospital staff is used in refining existing product designs and developing new products on a continuous basis. A wide range of products are designed and manufactured by Medical Innovations.

Our operating tables and products are used in more than 100 hospitals throughout the country and exported to countries such as Mauritius, Mozambique, Zimbabwe, Malawi, Namibia, Angola, Sierra Leone, Senegal, Kenya, Zambia and Botswana.

MEDICAL HUMAN RESOURCES

Medical Human Resources provides temporary and permanent staff over the entire spectrum of the healthcare industry to more than 115 private hospitals throughout the country. The company consists of two divisions, namely Medi-Nurse for temporary placement of nursing staff and Medi-Staff for permanent and temporary placement of administration staff.

We have built up a proven track record over the past ten years, by successfully accommodating 93% of requests for placements of temporary nursing and administrative positions over the past three years alone and placing over 4,6 million hours of temporary personnel annually at our clients throughout the country. We currently have over 11 000 employees available on a part-time basis and a growing database of qualified personnel for permanent positions. We are proud of our reputation for quality service.

Medical Human Resources is registered with the South African Nursing Council and the Association of Nursing Agencies of South Africa.

SUSTAINABLE DEVELOPMENT REPORT

MEDI-CLINIC BELIEVES IN PROVIDING COST-EFFECTIVE QUALITY HEALTHCARE ON A SUSTAINABLE BASIS. THE GROUP CONTINUALLY STRIVES TO BE A RESPONSIBLE CORPORATE CITIZEN BY, INTER ALIA, SUPPORTING BROAD-BASED ECONOMIC TRANSFORMATION, MANAGING THE ENVIRONMENTAL IMPACT OF OPERATIONS AND CONTRIBUTING TO THE GENERAL WELL-BEING OF THE COMMUNITY. THE GROUP IS COMMITTED TO ETHICAL BUSINESS PRACTICES AND EFFICIENT RISK MANAGEMENT.

Medi-Clinic is proud to have qualified once again for inclusion in the 2005/2006 JSE Socially Responsible Investment ("SRI") Index, this year being ranked as one of the top four participating medium environmental impact companies in South Africa. The JSE SRI Index showcases those listed companies who achieve the requisite score in relation to a set of criteria that measure triple bottom line (economic, social and environmental) commitment and performance.

COMMITMENT TO QUALITY

QUALITY IN HEALTHCARE

Medi-Clinic is committed to quality care and aspires to be regarded as the most respected and trusted provider of hospital services by patients, doctors and funders of healthcare. Our focus on quality healthcare stretches from the skills of our supporting doctors to the care of the patients, from the empathy of our nursing staff to the high standards of our facilities, from the meticulous maintenance of our world-class technology to upholding the fairest possible tariff. By focussing on a patient centred team approach to improve quality and safety of care, we have established a culture of quality that permeates every aspect of our business and have ensured that our employees and the doctors continuously strive to improve patient care and patient safety. Our dedication to excellence in healthcare is evidenced by the quality of our facilities.

We approach clinical quality by focusing on structures, processes and outcomes of care. Superior clinical outcomes (or end results) can only be achieved through infrastructure of the highest standards and care processes that are sophisticated, reliable and free of errors.

Medi-Clinic has enjoyed a number of "firsts" in terms of ensuring quality healthcare. We were the first private hospital company in South Africa to implement a facility accreditation program based on a set of strict international accreditation standards. The accreditation process involves external audits of more than 350 standards and 3 500 criteria and a pass rate of 90% and higher is required to achieve accreditation. External audits are repeated every 2 to 3 years to ensure that accreditation standards are maintained. A total of 28 hospitals have been accredited by the Council for Health Service Accreditation of Southern Africa (COHSASA) since 1995, which provides the group with a sound foundation to enhance our quality improvement systems that will sustain and continuously improve our high standard of patient care.

The Medi-Clinic Quality Assurance Team (MQAT) system is a unique and first of its kind approach to ensure continuous training, adherence to quality protocols and international accreditation criteria and ensuring compliance with key operational risk management procedures.

From a process and outcomes perspective Medi-Clinic was the first private hospital company in Africa to implement the internationally acknowledged Vermont Oxford clinical outcomes database at five of its hospitals. The program has over 500 international participants and measures certain clinical process and outcomes parameters in the neonatal intensive care setting. Each participant's results are compared with international benchmarks and reported upon quarterly. Our participating hospitals have benefited substantially from its membership and their respective performances compare favourably with international benchmarks.

Medi-Clinic was also the first hospital group in South Africa to implement the Apache III mortality prediction scoring system in the adult intensive care units of three of its hospitals. The system identifies high risk cases in intensive care, predicts mortality based on internationally developed algorithms and compares it with the actual mortality of each unit. This enabled the hospitals to benchmark themselves against internationally derived mortality norms. Another first was the recent implementation of the American Society of Thoracic Surgeons database at one of our hospitals. This initiative measures numerous process and outcomes parameters in cardiac surgery and will enhance the ability of the cardiac team to manage their complex environment.

To further entrench our proud record in quality care, the coordination of all present and future quality initiatives will be performed by a central committee, called the Clinical Governance Committee. The Medi-Clinic clinical governance framework focuses on professional qualifications and standards, facilities accreditation, professional performance evaluation, clinical risk management, clinical outcomes, education and communication. A wide range of unique abilities and skills are represented on the Clinical Governance Committee, including expertise in areas like patient care, medico-legal, ethical practice and skills in areas like clinical database management, clinical audit and change management.

We believe that Medi-Clinic, through all these initiatives and based on our proud track record, is well positioned to live our commitment to quality and to continue to take the lead as the quality provider of choice.

QUALITY IN TECHNOLOGY

The group strives to provide the best healthcare facilities and technology available in the developed world within budgets generated in a developing country. In doing this, Medi-Clinic has to design, build or improve facilities to meet the needs of our clients and to maintain our commitment to quality care. The life of the group's buildings, plant and equipment has to be maximised through reliable technical support in order to ensure a safe and user-friendly environment for staff and clients.

Medi-Clinic's computerised planned maintenance system is risk-orientated aimed at patient safety and ensures the provision of service excellence that is respected and relied upon. The group's policy applies to three categories of equipment. The first category is all equipment where a failure would create a risk to the patient's life, whether directly or indirectly. The agent or an authorised representative or a person appointed by Medi-Clinic maintains this category of equipment according to the manufacturers' instruction. The second category of equipment is where a failure would cause gross inconvenience to clients, have a substantial financial impact or hamper service significantly. The third category of equipment is general, including all equipment not falling in the preceding categories but which still have an overall effect on the service provided. The second and third categories of equipment are maintained according to Medi-Clinic's in-house policy by our staff, the agent or a contractor appointed by Medi-Clinic. The group's hospitals are subjected to a comprehensive in-depth maintenance audit on an annual basis that covers all three categories of plant and equipment.

The system for the management and replacement of our assets ensures that we are best-suited to provide quality service and care to our patients and clients. The group's

computerised asset management and planned maintenance system has accumulated 7 years of data which provides benchmarking and real-time information so as to ensure the correct and timeous replacement of plant and equipment.

BLACK ECONOMIC EMPOWERMENT

The Board of Medi-Clinic views the company as an integral part of the South African political, social and economic community. The Board endorses the process of democratisation and strives to support this process through a policy of business practices that enhances broad-based black economic empowerment ("BBBEE"), which is regarded as a strategic opportunity to strengthen the economic base of our country. A key success factor is the rapid capital accumulation at all levels of society involving human, social, intellectual and physical capital.

BLACK OWNERSHIP INITIATIVE

Medi-Clinic is proud to have implemented a R1.1 billion Black Ownership Initiative in December 2005 resulting in the immediate introduction of 15% black shareholding in Medi-Clinic, as approved by our shareholders in November 2005. The Black Ownership Initiative introduced Phodiso Holdings Limited ("Phodiso") and Circle Capital Ventures (Proprietary) Limited ("Circle Capital") (collectively "the Strategic Black Partners") as our strategic partners and shareholders in Medi-Clinic. The Strategic Black Partners jointly holds approximately 11% (with Phodiso holding approximately 6.9% and Circle Capital holding approximately 4.1%) of the issued shares. All employees up to and including first line management level ("Participating Employees") were also introduced as shareholders of the company through the issue of Medi-Clinic shares to The Mpilo Trust, an employee share trust formed specifically for that purpose. The Participating Employees holds approximately 4% of Medi-Clinic's issued shares.

The total value of the Black Ownership Initiative was approximately R1.1 billion, which value was based on the transaction price of R18.40 per share, calculated as the 30-day volume weighted average price of Medi-Clinic's shares as traded on the JSE Limited ("the JSE") to the close of business on 30 September 2005.

The rationale for the transaction was to transform Medi-Clinic as a growing company and to fulfil our leadership role in the healthcare sector in South Africa; to create active participation by black partners in the management of Medi-Clinic and participation by employees in a share ownership programme; to the extent possible, provide financial neutrality to existing shareholders; and to obtain a commitment by all shareholders to the joint creation of wealth within Medi-Clinic.

Medi-Clinic is actively participating in the negotiations to finalise the draft Health Charter which was released for comment to all industry participants on 12 July 2005. Since the charter and the black ownership targets have not been finalised, the Board has decided to adopt a phased approach in respect of black economic empowerment, aimed at transferring an initial 15% to black partners, with a view to increasing such stake in due course.

The economic cost of the Black Ownership Initiative was approximately R224.1 million. This translates into approximately 3.48% of the market capitalisation of Medi-Clinic calculated with reference to the Medi-Clinic share price of R18.40 per share. This does not include any costs or taxes that may be directly attributable to Medi-Clinic shareholders.

PHODISO

Phodiso is a focused healthcare group which owns and operates a number of successful businesses centred on the provision of quality healthcare services. Phodiso is owned and operated by a group of 64 healthcare practitioners and business people, and has a black ownership component of 94.4%.

In the last few years Phodiso has expanded its presence in the hospital services industry through a series of joint initiatives with Medi-Clinic, which include a 20.6% interest in Curamed and a 49% interest in Protector. Phodiso's involvement in Medi-Clinic's Black Ownership Initiative is a natural progression from their existing working relationship with the company and is a key strategic imperative for Phodiso.

Two of Phodiso's directors, Dr Nkaki Matlala and Dr Vincent Msibi are involved in key positions within the group. Dr Matlala assumed a full time senior executive position in Medi-Clinic as Director of Clinical Relations since May 2005 and Dr Msibi was elected as a member of the Medi-Clinic Board in November 2005.

Phodiso is well positioned to be Medi-Clinic's long-term value adding Strategic Black Partner given its focus, in-depth experience and successful track record in the healthcare sector.

CIRCLE CAPITAL

Circle Capital, a new order, blue chip investment holding

company, aims to add value to and grow established companies, assisting them in systematically navigating the challenges of transformation to increase shareholder value. Circle Capital participates in investments in companies of various sizes with varying needs such as Black Economic Empowerment, strategic leadership, access to capital and operational management.

Circle Capital's sustainable partnership philosophy is cemented in its commitment to help create opportunities for black South Africans by making strategic investments in companies where Circle Capital will be able to exert influence in human capital and transformation. The investment philosophy of Circle Capital is based on investing in businesses that will deliver sound business returns while enhancing transformation in the South African business landscape. Circle Capital has identified the healthcare sector as one of the fastest growing and most important sectors in the new South African economy.

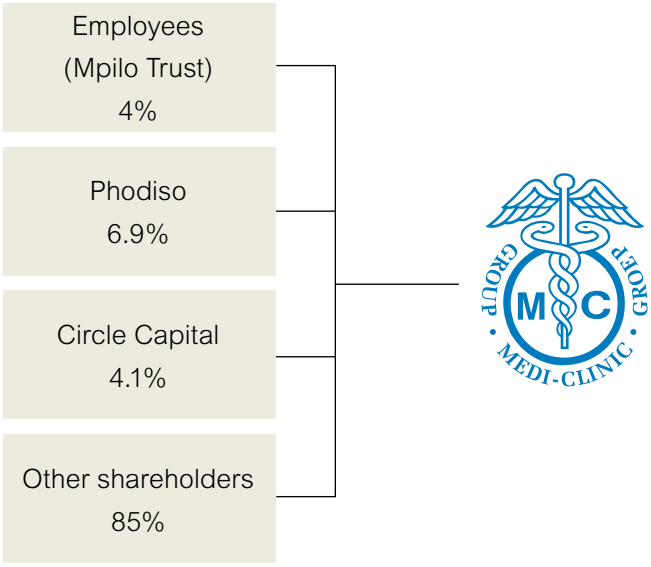
Circle Capital's chairperson, Dr Mamphela Ramphele is a member of the Medi-Clinic Board since March 2005 and her vast experience both locally and globally in the fields of human development makes for a mutually beneficial partnership between Circle Capital and Medi-Clinic.

THE MPILO TRUST

The Board believes that employee share ownership presents a unique opportunity to achieve BBBEE. For this reason, The Mpilo Trust was established and subscribed for 15 773 538 Medi-Clinic shares that are held for the benefit of almost 11 000 Participating Employees (of which 52% are black and 89% are women), which include, inter alia, nursing staff, support staff and administrative staff. All employees of the company up to, and including, first line management level participate in the Black Ownership Initiative through The Mpilo Trust. A minimum of 1 000 Medi-Clinic shares per employee has been allocated to Participating Employees, with a further allocation of approximately 80 Medi-Clinic shares for every completed year of service. In offering participation to employees, Medi-Clinic aims to reward the contribution, loyalty and dedication of its employees. Therefore, the level of participation is linked to length of service in the group. In addition, employee participation is aimed at encouraging greater transparency and aligning the interests of Participating Employees with that of Medi-Clinic shareholders.

GROUP STRUCTURE

The diagram below illustrates Medi-Clinic's group structure subsequent to the implementation of the initiative.



HEALTH CHARTER

Medi-Clinic has been actively involved in the negotiations with the Hospital Association of South Africa ("HASA") regarding the establishment of a Health Charter and supports the transformation in the private healthcare industry. The Minister of Health presented the draft Health Charter in July 2005, requesting comments from role players in the private healthcare sector regarding the BEE targets. Medi-Clinic's comments regarding the proposed Health Charter were submitted in August 2005. Active negotiations have commenced since March 2006 and good progress has been made in this regard.

CURAMED

Medi-Clinic are partners with a black economic empowerment consortium, currently consisting of Nozala Investments (Pty) Ltd ("Nozala") and Phodiso Clinics (Pty) Ltd ("Phodiso"), which owns one-third of Curamed. Medi-Clinic also owns one-third and the balance is held by individual shareholders. Medi-Clinic facilitated the transaction in 2002 and provided the consortium with interim finance of about R49 million to enable them to finance their part of the transaction.

Curamed is a group of five Pretoria-based specialist hospitals comprising of approximately 700 beds, namely the Medi-Clinic Heart Hospital, Medforum Medi-Clinic, Medi-Clinic Gynaecological Hospital, Muelmed Medi-Clinic and Kloof Medi-Clinic. Medi-Clinic is responsible for the management of the hospitals in terms of a management agreement. The Curamed hospitals are strategically placed to take full advantage of the proposed single medical scheme for government employees.

Phodiso has already added notable value to this venture, in particular in relationship building, transformation and on an operational level. At the same time their capital accumulation also increased rapidly. Medi-Clinic's successful relationship with Phodiso has naturally progressed to it being selected as one of our partners in the Black Ownership Initiative referred to earlier. Drs Vincent Msibi and Nkaki Matlala represent Phodiso on the Board of Curamed.

PROTECTOR HOSPITALS

The agreements in respect of the acquisition by Phodiclinics (Pty) Ltd ("Phodiclinics"), a joint venture company owned 51% by Medi-Clinic and 49% by Phodiso Clinics, of the four hospitals of the Protector group (in liquidation), consisting of the Medivaal Medicentre (Vanderbijlpark), Kathu Medicentre (Kathu), Maropong Private Hospital (Lepalale) and the Kingsley Medicentre (Pretoria) was finalised in September 2005 and submitted to the competition authorities for approval. The Competition Commission has recommended that the transaction be approved without conditions. The Competition Tribunal's hearing of the merger proceedings is expected to commence in August 2006.

HOSPITAL LICENSE – CAPE TOWN METROPOLE

Phodiclinics has also been awarded a license to build a 140 bed hospital in the northern suburbs of the Cape Town Metropole which can be regarded as tangible evidence of the value created by the group's BEE initiative.

PREFERENTIAL PROCUREMENT

Medi-Clinic remains committed to the government's BEE Preferred Procurement Strategy and will strive to meet the targets set by the Health Charter, once finalised. A central committee monitors the support of and purchases from BEE suppliers, which provides benefits not only for previously disadvantaged persons and businesses, but also for the development of sustainable growth and prosperity in South Africa. The BEE status of a supplier constitutes one of our selection criteria (carrying a 10% weighting) in our rating process.

FUTURE OPPORTUNITIES

Medi-Clinic's commitment to sustainable growth and prosperity in a democratic South Africa and the location of its hospitals across the country implies that BBBEE strategies can be supported and encouraged across a broad spectrum of opportunities.

ECONOMIC PERFORMANCE

PUBLIC PRIVATE PARTNERSHIPS

Medi-Clinic participated in a Public Private Partnership ("PPP") workshop in 2005 that was sponsored by the Department of Finance and hosted by the Eastern Cape Provincial Government. We believe that such partnership opportunities may provide a way of contributing to efficiencies of delivery by government and have the potential of being win-win situations to participants. We are continuously looking for meaningful opportunities for PPP participation.

WITS DONALD GORDON MEDICAL CENTRE ("WDGMC")

Medi-Clinic's firm commitment to the future of healthcare in South Africa has been illustrated by investing R65 million in the WDGMC during the period under review. In return, Medi-Clinic obtained a 49,9% share in the hospital located in Johannesburg, resulting in greater representation of the Medi-Clinic network in Johannesburg.

This investment will enhance the ability of the University of Witwatersrand in Johannesburg ("Wits") to support the public sector health services without requiring any government subsidy. The significant partnership with the public sector is designed to support the training of specialists and super specialists for both public and private sectors and to make the best clinical staff available to the Johannesburg academic hospitals. Medi-Clinic and Wits will also explore the accreditation of certain units at Medi-Clinic's other Johannesburg hospitals as teaching units affiliated to Wits.

STELLENBOSCH BIOKINETICS CENTRE

Medi-Clinic and Stellenbosch University established a successful partnership during 2004 in respect of the management of the Stellenbosch Biokinetics Centre. Medi-Clinic provided the initial funding required to upgrade the equipment and is also providing marketing and administrative support to the centre. Students and interns associated with the centre are given the opportunity to obtain practical experience at the other biokinetics centres at the group's hospitals.

The capacity to enrol students in 2006 for the honours degree in Biokinetics increased by 24% during the period under review, which is directly attributable to the successes attained by the partnership.

HERMANUS

The group submitted a bid to the Western Cape Department of Health early in 2006 in response to its request for proposal for the improvement and maintenance of facilities and the provision of non-core support services at the Hermanus Provincial Hospital. The submitted bids are in the process of being evaluated. We are optimistic that the outcome will be positive, yielding benefits for both parties.

ADEQUATE RETURNS TO CAPITAL PROVIDERS

Providing proper access to healthcare is a challenge facing all governments, even more so in developing countries.

Apart from resources, the progressively ageing population, new technology and patient consumerism all have the effect that public hospital systems suffer from considerable capacity and investment constraints, which typically translate into longer waiting lists, poor service and poorly maintained facilities. As a result private healthcare experiences an increase in business worldwide.

In South Africa, the private healthcare sector is providing healthcare to a large segment of the population. The industry has become a national asset and one of the important pillars on which the country's future economic growth is based. There are only a few countries in the world where the public health service provides more or less a total healthcare service to all its citizens. As a developing nation, South Africa is one of the many nations where the public sector is not in such a position. The private hospital industry plays a pivotal role in working away the healthcare burden by providing a service of high enough quality to those who can afford to pay for their own healthcare. It thereby increases the overall ability of the nation as a whole to deliver healthcare to all its citizens.

In research commissioned by Discovery Health, The Monitor Group found that the South African private healthcare sector compares head on with quality levels of the best systems in the world.

Certain cynical commentators however seem to believe that the private hospital industry is only profitable at the cost of the consumer. This is far from the truth. Independent analytical studies have conclusively shown that the return on capital in the private hospital industry in South Africa compares quite averagely with companies in other industries.

The market is known to allocate capital very efficiently. Providers of private capital such as shareholders and banks will vote with their feet and invest their capital elsewhere if a business cannot sustain a consistent return on capital equal to or higher than its weighted average cost of capital over the long-term. Medi-Clinic's current return on capital is between 19 and 20 percent.

In this context commentators should be extremely mindful of the important role private hospital groups play and the group's responsibility to the consumer to discharge this responsibility in a sustainable way. Medi-Clinic firmly believes that doing business in a sustainable way is the key to meeting the demands of all stakeholders including the consumer.

AFFORDABILITY OF HEALTHCARE

Affordability will always remain a critical issue in the healthcare industry especially in developing countries. The group will therefore continue its efforts to improve the affordability of healthcare in South Africa. The group's Funder Relations and Contracting Department, as well as its Clinical Services Department provide a strong base for constructive deliberations on affordability with roleplayers in the funding industry. Transparency and constructive engagement with doctors remain key focus areas to ensure enduring solutions.

The South African private hospital industry recognised the need to place private hospital costs in a sound and proper perspective, explaining the fundamental cost drivers in a typical private hospital. To this end, HASA, of which Medi-Clinic has always been a member, commissioned independent research into the cost drivers and other variable factors influencing expenditure on private hospitals. The results of this in-depth and comprehensive study are referred to in the Report to our Shareholders.

The successful implementation of the fully transparent net acquisition price model ("NAP model") promotes transparency in the pricing of medicines and scheduled drugs as well as surgical consumables and resulted in a significant slowdown in pharmaceutical price inflation to substantially lower levels. This trend is expected to continue.

The group supports the Department of Health in their efforts to create transparency in the pricing of medicines and scheduled drugs. Since the previous report, the group has continued its move to a fully transparent pricing system. The first transparent pricing system with a funder has been in place since January 2003 and there are currently 107 funders on this model. The scope of this model goes beyond ethical drugs and

includes surgical consumables, which are the larger part of the total pharmaceutical portion of a typical private hospital account. This enables the group to focus on pharmaceutical items as cost items and not income contributors with major savings to medical schemes in the long-term and should be regarded as beneficial to the group since it improves the affordability of healthcare.

To ensure sustainable affordability of healthcare, we actively strive to drive down the costs of products procured. This benefit is passed on to the patient or funder. We are also actively promoting the increased utilisation of affordable generic medicines without compromising on patient safety or quality. Although it is an emotional issue at times, we believe there are financial savings.

Medi-Clinic is continuously focusing on initiatives to increase the accessability and affordability of the private hospital market to include amongst others, low income earners.

See the Report to our Shareholders for further detail regarding initiatives to improve the affordability of healthcare.

PROUDLY SOUTH AFRICAN

Medi-Clinic is the first Proudly South African private hospital group. Our membership of this initiative of President Thabo Mbeki confirms that Medi-Clinic is a truly South African company, that we maintain a high standard of quality care, adhere to fair labour practices and that we are committed to being environmentally responsible. The Proudly South African logo appears on all our corporate stationery, advertising and information leaflets. The group is in its second year of membership.

HUMAN RESOURCES

COMMUNICATION WITH EMPLOYEES

Medi-Clinic believes that effective communication is the backbone of an organisation and has done much to improve communication. A Communication Department was set up in January 2005 to improve and manage communication in the organisation. Communication in the group has always been a challenge as our hospitals are distributed throughout South Africa and Namibia. To address this problem a network of satellite and video conferencing facilities was set up to improve communication.

Regular Leadership Conferences are held utilising the satellite facilities on company and industry developments. The message is then filtered down to all personnel using a structured line briefing system.

Various other communication initiatives such as our intranet based *HaemoHighway* e-magazine for staff, our bi-annual *Nursing* magazine for nursing personnel, our quarterly staff magazine, the *Milieu*, and monthly staff newsletters, such as the *People Interest*, are also used to keep employees informed on various issues, such as company and industry developments, the company's values and human resources related matters.

EMPLOYEE REMUNERATION

Our remuneration policy is built on three pillars, namely internal equity, external equity and affordability. To ensure external equity balanced with affordability we participate in one of the largest salary surveys in South Africa. This ensures that our salaries and related benefits remain competitive, thus enabling us to retain and attract good quality staff.

The retention of good quality staff, especially in nursing services, remains a constant challenge in our competitive market. Our retention bonus scheme compensates loyal nursing staff and has contributed towards the reduction of our staff turnover amongst nursing staff.

As referred to earlier in this report, all employees of the company up to, and including, first line management level participate in an employee share ownership scheme through The Mpilo Trust.

A management incentive scheme for senior managers was implemented in March 2006 in order to bring the total remuneration level of senior management closer to the benchmark level in the market and to introduce a risk component to the remuneration packages of senior management. The scheme includes appropriate mechanisms to ensure the retention of participating senior management. The scheme is a cash bonus scheme, in terms whereof a portion of the after tax value of the annual bonus is compulsorily invested in Medi-Clinic shares.

LABOUR RELATIONS

In our competitive labour market sound labour relations becomes a competitive edge. It is also important to us to ensure that our employees are treated fairly and can work in a safe environment. We therefore not only ensure that all the labour related legislation is complied with, but strive to improve on the minimum requirements set by legislation. The majority of our conditions of employment exceed that of the minimum requirements of the Basic Conditions of Employment Act.

Our standard disciplinary and grievance procedures available to all staff via the group's intranet ensure that employees are treated fairly and have the avenues to put grievances forward if they have the need to.

EMPLOYMENT EQUITY

Employment equity remains a strategic commitment in the Medi-Clinic group and we comply with all statutory registration requirements. As in previous years, we have successfully achieved most of the current targets. Our legacy, however, still poses challenges in our ability to meet the targets we set for ourselves, particularly in senior management positions. Although our representation remains unsatisfactory we are encouraged by the 6.12% growth in the African, Coloured and Asian representation in our overall race split as well as the huge growth of 23% in the African, Coloured and Asian representation on our management level during the period under review.

We are pleased to report that the three Trainee Hospital Managers appointed from the designated groups have successfully completed their structured Medi-Clinic management development programs and have been introduced into the mainstream management structures. The three positions will be filled with new candidates from the designated groups to continue with the successful development programme. In addition two Trainee Nursing Managers have been appointed to undergo a similar programme in nursing management.

The race and gender representation of the group is as set out below:

Overall race split	
African, Coloured, Asian	52%
White	48%
Overall gender split	
Female	87%
Male	13%
Management level race split	
African, Coloured, Asian	16%
White	84%
Other levels race split	
African, Coloured, Asian	55%
White	45%

HEALTH AND SAFETY AT WORK

Special attention is given to health and safety aspects in the workplace to ensure a safe environment for our employees and patients.

During our annual planned maintenance audits the function of the Health and Safety Committees are checked and the competency of the responsible staff members is verified. A legal register is maintained to ensure that all legislation is adhered to. Regular training is given to safety representatives and other members of the team.

The health of the group's employees is important so as to ensure the sustainability of quality care to our patients. Medi-Clinic's Corporate Health Program, which was implemented during 2002, provides a framework for primary care and occupational health services to employees that include primary medical care, chronic disease monitoring and support, as well as social and personal problem solving and counselling provided by an Employment Assistance Program (EAP). In addition, the EAP Program has a 24-hour emergency helpline service for employees.

Comprehensive health services are delivered to employees free of charge at the health clinics that have been established at various hospitals and more clinics are being established in order to provide our employees with in-house health services. The management of these clinics have been outsourced to INCON, an independent occupational health and safety provider with considerable experience in this field.

Regular health education programs are presented to employees throughout the year to create a better understanding of their ailments and to ensure a healthy workforce.

HIV/AIDS

Medi-Clinic's commitment to quality healthcare also applies to our employees, ensuring the improvement of our human capital. The Medi-Clinic HIV/Aids Program was implemented in support of this commitment and consists of the following elements:

- education on HIV/Aids combined with awareness programs;
- voluntary counselling and testing;
- prevention of HIV infection and re-infection;
- access to appropriate treatment and monitoring; and
- continuing support through the EAP Program as well as early intervention.

Since the implementation of the program more than 3 070 (26%) of our employees have attended the ongoing awareness sessions, of which 830 (27%) have voluntarily participated in the counselling and testing for HIV/Aids. We aim to reach all our employees with the program,

with at least the majority participating in the voluntary counselling and testing.

After workplace surveys were conducted, statistical analysis indicated a low level of incidence and expected prevalence of HIV/Aids in the group.

The group's HIV/Aids and Corporate Health Program dictate absolute confidentiality, compassion and fairness as well as no discrimination on the grounds of illness. Every effort is made to accommodate HIV positive employees in a risk free work environment.

ETHICS

Ethical behaviour remains a fundamental guiding principle in our business and management continually focuses on establishing a culture of responsibility, fairness, honesty and efficiency in the group.

Our Ethics Line, established in 2001, is managed by an established and respected service provider, which assures that each call will be treated with the utmost confidentiality and is available on a 24-hour basis to all staff and outside contractors. Regular feedback is received via the system and all complaints are investigated according to a set protocol. The majority of calls received to date were of a grievance nature and we have not received any information that has led to the discovery of fraudulent behaviour – a clear indication of an overall commitment to ethical behaviour throughout all levels of our group.

Medi-Clinic follows a strict policy relating to any invitations, gifts or donations received from suppliers, in terms whereof personnel are compelled to declare these to management. All such invitations, gifts or donations are reviewed by the company secretary for recommendation to the Executive Committee. Our staff members involved in the purchasing of equipment or consumables are also bound to a strict code of ethics ensuring that an impeccable standard of integrity is maintained in our business relationships.

The group has joined the Ethics Institute of South Africa as a full member in 2005 to further support its commitment to ethical behaviour as an organisation.

TRAINING AND SKILLS DEVELOPMENT

Medi-Clinic's training programs are focused on maintaining and promoting quality delivery in all aspects of the business, and ensuring that the group's values are reflected in every activity of our business. The group's training goals are directly related to the overall business plan and to improve its human capital.

Our training activities also concentrate on core business processes and the enhancement of our service culture. The main focus remains on risk management, an integral part of which is the standardising of processes based on best practices. The changing nature of this environment has necessitated the use of technology in training delivery, particularly regarding performance support and on-line help systems.

INFRASTRUCTURE

Medi-Clinic has an established training and skills development infrastructure that serves the formal nursing education and operational training and development needs of the company, individuals and teams.

The company considers the professional tutors, mentors and training personnel as strategic assets that consistently ensure competent, caring service delivery. The geographically spread six learning centres are equipped with modern teaching equipment and current learning material to cover all aspects of the learning experience. During the period under review the larger learning centres were equipped with networked computer workstations and an infrastructure was created for delivery via satellite and video conferencing.

Medi-Clinic's commitment to training and skills development is illustrated by its training investment of about 4% of payroll. We firmly believe that our training investment contributes to empowering the talented people of our country to participate in growing the economy and to attain sustainable socio-economic freedom.

CREATING OPPORTUNITIES

A total of 701 employees received new qualifications during the period under review, while 608 commenced their training in courses ranging from basic to post-basic specialist nursing qualifications. These new qualifications create opportunities for advancement and for the 179 externally recruited Pupil Auxiliary Nurses, a guaranteed career opportunity on successful completion of their course.

The current distance learning model successfully employed by Medi-Clinic provides an opportunity for employees to improve their qualifications while earning an income.

CONTINUING PROFESSIONAL DEVELOPMENT

Maintaining competence in the changing healthcare environment is a challenge that requires an individual commitment to learning and performance. Medi-Clinic

has an established continuing professional development system in place that requires all personnel engaged in core business processes to prove that they possess the required knowledge and skills. This structured approach has encouraged learning and has resulted in career enhancement opportunities for participants.

This process is supported by the company's performance management system which serves to align all employees with corporate goals and objectives and the company's risk management initiative.

ENSURING QUALITY SERVICE DELIVERY

Medi-Clinic's entrenched service culture which is ensured through training programs and recruiting processes was further enhanced through a focused service culture enhancement relaunch during the period under review to ensure that all staff is aligned to the group's vision and values. Through this process the company confirmed its commitment to quality care and broadened the campaign with the additional slogan "technology is what we use, caring is what we do". Teams of Brand Champions – with at least one senior manager in each team – visited every hospital and office throughout South Africa and Namibia to entrench the brand which we stand for. The group's revised vision statement provided the impetus for this initiative that brought the message of Medi-Clinic's unwavering commitment to quality care home to each individual employee.

The recruitment, selection and orientation practices have furthermore been revised to maintain and entrench the service culture while utilising current client feedback as guidance.

SUPPORT TO ACADEMIC INSTITUTIONS

Medi-Clinic believes in the upliftment and educational development of the communities which we serve and therefore support various academic institutions around the country. We are proud to have provided considerable financial support to these academic institutions during the period under review.

- STELLENBOSCH UNIVERSITY

  Medi-Clinic has made a financial contribution of R1,2 million during the period under review to the Health Sciences Faculty of the university to support the maintenance of a high standard of education. These funds have mainly been utilised by the university towards education initiatives in the Gynaecology, Haematology, Neurosurgery and Radiology departments, as well as subsidising 4 students enrolled for their master degrees at the Health Sciences Faculty. The rotation of registrars between the public and private sector is being investigated, which will provide definite training benefits to the registrars.

  Medi-Clinic continues to sponsor 50% of the employment costs for the director of the Ukwanda Project. This project provides community health based training opportunities for students of all health disciplines. This model is increasingly regarded as the ideal training method for undergraduate students in the rural areas.

- WITS DONALD GORDON MEDICAL CENTRE JOHANNESBURG

  The group is keen to support the training of specialists, on whom the future of both the public and private hospital sector depends, and will reinvest a portion of its profits from the Wits Donald Gordon Medical Centre ("WDGMC") in the academic activities of the WDGMC.

- UNIVERSITY OF PRETORIA

  The group provided support to the Health Sciences Faculty of the university during the period under review by donating R270 000 towards equipment and providing administrative support to the value of approximately R80 000 to the vascular unit of the academic hospital.

- UNIVERSITY OF LIMPOPO - MEDUNSA

  Medi-Clinic awarded 20 bursaries of R10 000 each to medical students at the university. This forms part of Medi-Clinic's corporate social responsibility project while at the same time creating awareness about Medi-Clinic as a future employer or associate. It is envisaged that some of these candidates will complete their specialised fields of study in 2006.

- PAUL ROOS ACADEMY

  Medi-Clinic sponsored R100 000 during the period under review to the Paul Roos Academy which provides learning opportunities to 247 indigent children from Khayelitsha, Nyanga and Langa and farm schools surrounding Stellenbosch.

COMMUNITY INVOLVEMENT

The group accepts its responsibility to serve the communities in which it operates. Apart from the substantial investment in the training of personnel, Medi-Clinic is committed to a wide variety of community projects and organisations.

SPECIAL EVENTS

To accommodate the growing number of national and international sporting and other events where medical support is required, Medi-Clinic created the Special Events Department as a division of the Marketing and Corporate Liaison Department. During the year under review Medi-Clinic's branding and medical expertise appeared at major sporting events such as the Cape Argus Pick 'n Pay Cycle Tour, the Cape Times Big Walk, the Women's Cup of Golf, the Cape Epic and the Coca-Cola Craven Rugby Week and at arts festivals, including the Klein Karoo Nasionale Kunstefees, Aardklop and Innibos.

EDUCATION AND TRAINING

Please refer to the report on training and skills development on pages 28 to 29.

CONSERVATION OF ENVIRONMENT

As a corporate member of the World Wide Fund for Nature, Medi-Clinic contributes annually to a number of conservation projects managed by the organisation.

HEALTH AND WELFARE

Our hospitals are committed to the health and welfare of the communities which they serve. Many of our community-based activities are centred on introducing the hospital and its facilities to local inhabitants. Our outreach activities can, inter alia, be categorised as follows:

- Support groups: Open days and hospital tours are popular community events during which people can familiarise themselves with the hospital facilities. Pregnant mothers attend antenatal classes and visit the obstetrics unit before their babies are born so that they know what to expect when they are admitted to hospital.

  An important link with local communities is the support groups that we offer to sufferers from cancer, diabetes, Alzheimer's and heart disease, among others. Members of the groups meet regularly at the hospitals, where speakers address them on topics of specific interest and provide them with an opportunity to network. One such group is the Healing Hearts at Panorama Medi-Clinic, aimed specifically at the patients and families of people with heart disease.
- Specialised clinics: Many hospitals have specialised clinics to cater for needs identified in their communities, such as foot clinics, pain clinics, mother and baby clinics. Some hospitals also focus on the elderly in their community by offering a weekly clinic service where registered nurses offer primary healthcare.
- Health education and awareness: Throughout the year, Medi-Clinic supports campaigns on the medical calendar, including Pregnancy Education Week and Heart Awareness Month. We regularly offer free blood glucose, cholesterol and blood pressure tests and where necessary refer clients to doctors for treatment. Tests such as these are also offered at corporate wellness days like the ABSA Bankmed roadshow. There are regular blood donor drives and Medi-Clinic participates in cancer and other medical education programmes.
- Donations: All our hospitals donate Medi-Clinic first-aid bags to local schools and organisations and when items such as wheelchairs and linen are replaced, the used ones are donated to needy institutions. Milnerton Medi-Clinic, for instance, donated an anaesthetic machine to the Anastasis Mercy Ship in the year under review and Kimberley Medi-Clinic adopted a crèche in Galeshwe to whom they have given blankets, curtains and other items.
- Medical support: Our hospitals provide first-aid services at local events such as schools' sports days and local sporting and community events. These events vary greatly in scale and are sometimes part of national events. One example is the Business Relay which takes place throughout South Africa.

ENVIRONMENTAL PERFORMANCE

Medi-Clinic is committed to protecting the environment, conserving our natural resources and ensuring the health and safety of our employees and clients by employing sound health, safety and environmental practices in all our business activities.

ENVIRONMENTAL POLICY

The Medi-Clinic Environmental Policy is aimed at minimising our environmental impacts and contains the following objectives:

- COMPLY with relevant environmental legislation and regulations;

- DEFINE environmental management programmes to achieve continual improvement in our Environmental Management System;
- CREATE an environmental awareness among all employees;
- PREVENT pollution and minimise the impact of our activities on the environment;
- IDENTIFY all aspects of our business that could have a significant impact on the environment and set objectives and targets with a review process to eliminate or reduce the impact of these on the environment;
- ENCOURAGE reduction, re-use and re-cycling of general waste;
- MANAGE hazardous waste including medical waste according to legal and other requirements and where possible apply international best practices;
- INFLUENCE all our suppliers and service providers to adopt similar programmes, in order to limit our overall impact on the environment; and
- NURSE the use of resources, specifically electricity and water.

In support of the above policy, the group has implemented an environmental management system based on the ISO 14001:2004 Specification for Environmental Systems.

ENVIRONMENTAL MANAGEMENT AND RISK ASSESSMENT

Medi-Clinic is committed to ensuring that its environmental management systems and practices are aligned with international best practice, such as the new ISO 14001:2004 standard. The environmental management of resources and waste are integrated into the day-to-day operations of our hospitals. During the period under review, 8 Medi-Clinic hospitals obtained ISO 14001:2004 certification. The group aims to extend the process to cover more hospitals in the future. The hospitals in the group which are not ISO 14001 certified follow the same environmental management practices and are also subject to annual internal audits.

Medi-Clinic revised its environmental aspect register during the period under review, which improved the identification and criticality rating of environmental risks. More emphasis is now placed on the identification of any risk relevant to a specific department and the management process. This improved the approach to develop environmental management programmes to suitably address or manage these aspects, which includes environmental and health and safety issues.

The main environmental impacts that are being managed at the group's hospitals are the utilisation of resources and waste management, details of which appear below.

WATER CONSUMPTION

Water saving projects have been implemented at more hospitals in the group, resulting in 15-20% reduction of water consumption per month. Uncontaminated water is recycled and used for irrigation of our hospitals' gardens. A number of innovative ideas, such as autoclaving, have been implemented with little or no capital costs to recycle water that would normally have gone to waste. Awareness training and the commitment of our staff to save water have also contributed to the reduction in water wastage.

ENERGY CONSERVATION

All our hospitals follow a program on energy saving, involving inter alia, the redistribution of the electrical load, changing of incandescent lighting to energy saving fluorescents, training of staff in the operation of air-conditioning and fitting of reflective solar shields on windows, which program is aimed to reduce energy consumption. Recent power failures in the Western Cape have resulted in an increased focus on responsible power usage and we have already implemented a number of actions requested by ESCOM to further reduce our electricity consumption. A program is also being undertaken to replace the electric stoves in the kitchens with gas units at all our hospitals, which will considerably reduce electricity consumption. As gas is more efficient and provides instant heat, the load on the air conditioning systems will also be reduced.

WASTE MANAGEMENT AND RECYCLING

Stringent protocols are followed to ensure that all refuse removal within the group complies with all legislation and local regulations. There has been a renewed focus on recycling and waste management, with a number of hospitals achieving excellent results by achieving, for example, as much as a 50% reduction in paper usage. Training sessions with regard to the transport of hazardous materials were held to inform the responsible staff of their duties in terms of the new Road Traffic Act. Mechanisms are in place to ensure recycling of waste, including cardboard, paper, tin cans, etc.

STAKEHOLDER ENGAGEMENT

Medi-Clinic's stakeholders cover a wide spectrum. They include, inter alia, patients, doctors, employees, shareholders, suppliers, the communities where our hospitals are situated, healthcare funders and various

government bodies. The very nature of our business implies close personal engagement and the group strives to achieve this through a variety of communication activities.

PATIENTS

Patients have access to our well-being information system whereby they or their relatives complete a daily questionnaire regarding all aspects of the care they receive. Should any problems be highlighted, these are acted upon on a same day basis in order to guarantee satisfaction. Telephonic follow-up interviews are conducted with a percentage of patients after leaving our facilities to gain feedback on their experience. Our quarterly hospital magazine *Gesundheit*, with a print-run of 65 000, is aimed at patients and carries informative articles promoting healthy lifestyle and general health related information. The group's *Medi-Baby* magazine with a print-run of 8 000 is aimed at maternity patients and plays a useful role in promoting proper child-care practices.

DOCTORS

Doctors are a key stakeholder group and play a vital role in Medi-Clinic's commitment to quality care. A team of network marketers maintain regular contact with referring and other general practitioners to build relationships, to enhance communication and to provide information on the latest developments regarding services and specialist facilities at our hospitals.

Medi-Clinic is also committed to the continued professional development of our associated doctors and present regular CPD programs to doctors throughout the year.

Valuable information pertaining to the medical profession is also passed on to doctors via our quarterly Medi-Clinic *Doctors Bulletin* leaflets. Medi-Clinic's *Perspectives* magazine with a print-run of 11 000 provides profession related information as well as entertaining leisure content to doctors.

EMPLOYEES AND TRADE UNIONS

Communication with all employees remains a priority for the group and their active participation in the day-to-day running of the company makes an important contribution to our success. Aside from various mechanisms such as workers forums, collective bargaining agreements, various committees and other formal engagement structures, Medi-Clinic also strives to act on staff opinions and perceptions.

Trade union membership within the group remains below 15% and only a small number of our hospitals have collective agreements with trade unions. Although we do not see trade union involvement as negative, we attribute the low membership to effective human resource management. Our staff members are treated fairly, remunerated competitively and involved in the day to day running of the organisation.

Employee committees are encouraged at hospital level as a means to engage staff in the operation of the business. The Equity and Training committees at hospital level act as a conduit for input from shop floor level on issues that involve staff members.

We anticipate more active participation from staff members contributing positively to both the organisation and staff members following the implementation of our employee share ownership scheme via The Mpilo Trust in 2005.

SHAREHOLDERS

Communication to the public and shareholders are based on the principles of balanced reporting, clarity and transparency. Positive and negative aspects of both financial and non-financial information are provided.

Firm protocols are in place to control the nature, extent and frequency of communication with analysts and financial institutions and to ensure that shareholder information is made available to all parties timeously and simultaneously.

The most recent and historical financial and other information is published on the company's website at *www.mediclinic.co.za.*

SUPPLIERS

Medi-Clinic believes that the choice of supplier is extremely important to assist us in offering quality service to our clients. We therefore make use of strict selection criteria in selecting suppliers, which include proven national service and support, the compliance of products with applicable local or international standards and a responsible, affordable pricing structure.

Medi-Clinic annually hosts a Supplier of the Year Award ceremony, awarding a supplier who has provided the most exceptional service to the group. The ten short-listed suppliers, compiled from nominations received from the group's hospitals, are rated based on a set of weighted criteria. These criteria include response time, quality of

product, service and support, as well as a responsible pricing structure.

The Medi-Clinic Ethics Line, as referred to earlier in this report, is also available on a 24-hour basis to our suppliers.

COMMUNITY

For more information regarding our engagement with the community, please refer to page 30.

HEALTHCARE FUNDERS

Our Funder Relations and Contracting Department, which negotiates and contracts on behalf of all the hospitals within our group, deals directly with all the medical schemes and other insurers in South Africa and abroad. To this end, the Funder Relations and Contracting Department endeavours to understand the healthcare funders' specific needs with a view to building long-term sustainable relationships. A number of product development initiatives have been investigated with various schemes in order to enhance the Medi-Clinic service offering. The South African medical schemes market, consisting of approximately 140 schemes, contributes largely to Medi-Clinic's revenue. We expect there to be significant consolidation in this market in the medium-term, placing greater emphasis on the importance of being regarded the most trusted and respected provider of hospital services by the medical schemes.

The company maintained its strong focus on cash flow management and various funder focussed initiatives were launched to maintain and improve efficiencies in this regard.

GOVERNMENT AND AUTHORITIES

- ### DEPARTMENT OF HEALTH

  Ongoing communication and interaction occur between Medi-Clinic and the national and provincial Departments of Health. Two significant occurrences in healthcare developments during the period under review have been regarding the implementation of the Government Employees Medical Scheme (GEMS) which seeks to improve access to healthcare by increasing the number of insured people from those who are employed in Government and are uninsured and secondly, regarding Chapter 2 of the National Health Act, 61 of 2003, which elevates international norms and ethical standards to law.

  We have also engaged in discussions with the Department of Health regarding initiatives to improve the management of public hospitals. High-level discussions are planned between Medi-Clinic's executive management and the Department of Health in this regard.

- ### SOUTH AFRICAN NURSING COUNCIL

  Medi-Clinic engages with the Nursing Council on various issues relevant to the profession and the private healthcare sector in particular. At times this is done via HASA, and at other times directly. Medi-Clinic's recent engagement with the Nursing Council included written submissions and a Parliamentary presentation on the release of the Nursing Bill (B26 of 2005), which covers matters such as community service for new graduates and the amended scope of practice for the different nursing categories.

- ### SOUTH AFRICAN PHARMACY COUNCIL

  With legislative changes regarding the Pharmacy Act, input is given as and when requested to the Pharmacy Council. Some of the latest issues apply to good pharmacy practice, virtual wholesalers and drive-through pharmacies. We strive to ensure that the pharmacies comply with all the required standards and this is measured by regular inspections internally as well as by the inspectorate of the Pharmacy Council.

HOSPITAL ASSOCIATION OF SOUTH AFRICA

Three of Medi-Clinic's executive management members are represented on the board of HASA and continually engage in constructive debate regarding issues pertaining to the private healthcare industry, such as proposed legislation and the Health Charter. HASA is an industry association which represents the collective interests of the majority of private hospital groups and independently-owned private hospitals in South Africa.

HEALTH PROFESSIONS COUNCIL OF SOUTH AFRICA ("HPCSA")

Medi-Clinic held discussions with the Ethics Committee of the HPCSA regarding the council's ethical rules of conduct applicable to medical practitioners.

PROMOTION OF RIGHT TO ACCESS TO INFORMATION

Medi-Clinic complies with the regulations of the Act on the Promotion of Access to Information (Act 2 of 2002), which ensures the constitutional right of access to information needed for the exercising or protection of any right.

CORPORATE GOVERNANCE REPORT

MEDI-CLINIC HAS SINCE ITS INCORPORATION IN 1983, ALWAYS UPHELD STRICT PRINCIPLES OF CORPORATE GOVERNANCE AND THE HIGHEST STANDARD OF INTEGRITY AND ETHICS, AS EMBODIED IN THE KING II REPORT ON CORPORATE GOVERNANCE ("THE KING REPORT").

The board of directors accepts full responsibility for corporate governance and is committed to ensuring a high standard of discipline, independence, ethics, responsibility, equity, social responsibility, accountability, cooperation and transparency.

The board believes that the group has materially complied with the principles of the King Report and has met the Listings Requirements of the JSE Limited ("the JSE").

BOARD OF DIRECTORS

COMPOSITION

The composition of the board reflects the required balance between executive and non-executive directors to ensure that the group maintains an appropriate balance between entrepreneurial growth and compliance with corporate governance requirements. Board members possess a variety of skills and experience and are involved in all material business decisions, enabling them to contribute to the strategic and general guidance of management and the business. The roles and responsibilities of the chairman and the managing director are separated.

The chairman of the board, Dr Edwin Hertzog, is also an executive director and should be regarded as a semi-executive chairman. He was involved in a chief executive capacity from the incorporation of the company until his appointment as chairman in 1992. The board considers it in the company and the group's best interest to have him as chairman. He also serves on the boards of Remgro and three other major Remgro associated companies, of which two are listed on the JSE. In addition, he is also the chairman of the Stellenbosch University Council.

Every year, at the first board meeting after the annual general meeting, both the chairman and the managing director are formally elected for a further term of one year by way of a closed ballot.

The managing director and chief executive officer, Mr Louis Alberts, is responsible for the day-to-day management of the company and the implementation of the strategies and policies adopted by the board.

In terms of the Articles of Association of the company, one third of the directors must retire on a rotation basis, but may make themselves available for re-election for a further term. The appointment of directors is a function of the entire board, based on recommendations made by the Human Resources Committee.

Non-executive directors do not receive any material benefits or share options from the company apart from directors' fees. No directors have service contracts with longer than a one month notice period.

BOARD CHARTER AND RESPONSIBILITIES

The board has accepted a formal code of conduct ('the board charter") in which the responsibilities of the board, individual directors and the company secretary are set out. Key responsibilities in terms of the board charter include the following:

- creation of sustainable shareholder value;
- ensuring that the group's objectives are achieved;
- provision of strategic direction and assessing and authorising the strategies developed by management;
- accepting responsibility for the success of the company and the approved strategies;
- the enforcement of adequate risk management practices;
- handling of all aspects that are of material or strategic nature or that may impact the group's reputation;
- monitoring compliance with all laws and regulations and our code of business conduct;
- ensuring an appropriate business culture, management style and retention of management expertise and competence;
- identifying and managing potential conflicts of interest;
- ensuring that relevant and accurate information is communicated to shareholders;
- ensuring that remuneration of directors and senior personnel occurs in terms of the company's remuneration policy;
- ensuring that the Board's composition possesses the necessary skills and experience to ensure strategic management;
- the appointment of directors;
- compliance with the group's values (as set out on page 3); and
- ensuring the maintenance of the group's going concern status.

The board has full and effective control of the company and material resolutions have to be approved by the board. The board meets at least every two months and measures exist to accommodate any resolutions that may have to be approved between meetings. Members of the board and sub-committees receive an agenda containing comprehensive and accurate information well ahead of time. This enables them to meet their commitments and to determine whether or not prescribed functions have been executed according to set standards, within the margins of cautious and predetermined risk levels and according to international best practices.

Every director has free access to senior management and the company secretary.

BOARD EVALUATION AND INDUCTION OF NEW DIRECTORS

The board conducts an objective and confidential evaluation in respect of the board's performance and the effectiveness of its procedures annually.

Newly appointed directors are formally informed of their fiduciary duties by the chairman and the company secretary. An extensive induction programme that includes information sessions with management, as well as visits to the company's hospitals, ensures that new directors obtain a good understanding of the company's core business.

Directors are continuously informed of any new relevant legislation, as well as any change in the business risks that may have an impact on the group.

Directors are entitled, after consultation with the chairman, to obtain independent professional advice about any aspect of the business at the expense of the company.

COMPANY SECRETARY'S ROLE AND RESPONSIBILITIES

The board has unlimited access to the company secretary, who advises the board and the sub-committees on relevant matters, including compliance with the group's rules and procedures, the JSE Listings Requirements, relevant legislation, statutory regulations and the King Report.

The company secretary is responsible to ensure the proper administration of the proceedings and matters of the board, the company and the shareholders of the company in accordance with applicable legislation and procedures.

CORPORATE GOVERNANCE REPORT (continued)

The name and address of the company secretary appear on page 7.

EXECUTIVE MANAGEMENT

The executive directors meet regularly to consider, inter alia, investment opportunities, operational matters and other aspects of strategic importance to the company. They are continuously in contact with department heads and hospital managers to ensure effective communication and decision-making.

SUB-COMMITTEES OF THE BOARD

Specific responsibilities are delegated to the board's sub-committees, with defined tasks in terms of approved mandates. Reports on the committees' activities are also submitted to the board. The main sub-committees are:

- ### HUMAN RESOURCES COMMITTEE

  The Human Resources Committee (the composition of which appears on page 38) meets periodically to discuss matters such as remuneration policy, executive management and staff remuneration, directors' remuneration and incentive schemes. The committee ensures that adequate succession planning measures are in place.

  Independent consultancy studies are used by the committee to ensure remuneration remains competitive and market-related.

  The committee has an independent non-executive director as chairman. The managing and human resources directors also attend meetings.

  The group's remuneration strategies are aimed at ensuring that:
  - the appropriate skills are attracted and retained;
  - employees' earn market-related salaries;
  - remuneration is fair and just;
  - no discrimination exists;
  - good performance is acknowledged and encouraged; and
  - remuneration is cost effective and affordable.

- ### AUDIT AND RISK COMMITTEE

  The Audit and Risk Committee (the composition of which appears on page 37) meets with the internal and external auditors and the executive management at least three times per year to discuss matters pertaining to risk management and internal control. These include internal and external auditing, accounting policy and financial reporting within the mandate provided by the board. The Audit and Risk Committee is responsible for the ongoing identification and evaluation of the group's exposure to significant strategic, asset, legal, statutory, financial, technological and business risks and to evaluate the adequacy and appropriateness of the internal financial and management control systems used to control and manage such risks to levels within the risk tolerance levels set for the group.

  The committee is also responsible for appointing the external and internal auditors. Non-audit services by the external auditors are limited to tax advice, the remuneration of which is disclosed in the financial statements. The services of the internal and external auditors are adequately integrated.

  The committee has a non-executive director as chairman. The chairman of the board also attends the meetings. The internal and external auditors have unlimited access to the chairman of the Audit and Risk Committee.

DEALINGS IN SECURITIES

Procedures have been put in place to ensure that directors and senior management of the company do not trade in the company's shares during price sensitive or closed periods. In terms of the group's policy closed periods commences two months prior to the expected publication date of the year-end or interim financial results of the company up to the publication date, alternatively from the last day of the financial year or the first six month period of the financial year up to the publication date of the financial results of the company, whichever is the longest.

CORPORATE GOVERNANCE REPORT (continued)

ATTENDANCE OF BOARD AND SUB-COMMITTEE MEETINGS

BOARD MEETINGS:

Directors	08/04/05	11/05/05	29/07/05	23/09/05	04/10/05*	09/11/05	16/02/06	17/02/06	31/03/06
E de la H Hertzog (Chairman) (Executive)	✓	✓	✓	✓	✓	✓	✓	✓	✓
L J Alberts (Executive)	✓	✓	✓	✓	✓	✓	✓	✓	✓
W E Bührmann (Non-executive) (resigned 10/11/05)	✓	✓	✓	✓	✓	✓	n/a	n/a	n/a
S Dakile-Hlongwane (Independent non-executive)	✓	✓	✗	✓	✗	✓	✓	✓	✓
W P Esterhuyse (Independent non-executive)	✓	✓	✓	✓	✓	✓	✓	✓	✓
J du T Marais (Executive)	✓	✗	✓	✓	✓	✓	✓	✓	✓
A R Martin (Independent non-executive)	✓	✓	✓	✓	✓	✓	✓	✓	✓
D P Meintjes (Executive)	✓	✓	✓	✓	✓	✓	✓	✓	✓
V E Msibi (Non-executive) (appointed 09/11/05)	n/a	n/a	n/a	n/a	n/a	✓	✓	✓	✓
A A Raath (Independent non-executive)	✓	✓	✓	✓	✓	✓	✓	✓	✓
M A Ramphele (Non-executive)	✓	✓	✓	✓	n/a (recused)	✓	✓	✓	✓
J G Swiegers (Executive)	✓	✓	✓	✓	✓	✓	✓	✓	✓
C I Tingle (Independent non-executive) (resigned 07/02/06)	✗	✓	✓	✓	✓	✓	n/a	n/a	n/a
W L van der Merwe (Independent non-executive)	✗	✓	✓	✓	✗	✓	✓	✓	✓
M H Visser (Non-executive) (appointed 10/11/05)	n/a	n/a	n/a	n/a	n/a	n/a	✓	✓	✓

* Special board meeting scheduled with short notice to discuss Black Ownership Initiative and capital restructuring. Non-local directors were excused from attending. Dr M A Ramphele recused herself from discussions.

AUDIT AND RISK COMMITTEE MEETINGS:

Directors	18/04/05	10/05/05	08/11/05	17/03/06
W E Bührmann * (Chairman) (Non-executive)	✓	✓	✓	n/a
M H Visser * (Chairman) (Non-executive)	n/a	n/a	n/a	✓
L J Alberts (Executive)	✓	✓	✓	✓
A R Martin (Independent non-executive)	✓	✓	✓	✓
A A Raath (Independent non-executive)	✓	✓	✓	✗
M A Ramphele * (Non-executive)	n/a	n/a	n/a	✓
J G Swiegers (Executive)	✓	✓	✓	✓
C I Tingle * (Independent non-executive)	✓	✓	✓	n/a

* Mr M H Visser and Dr M A Ramphele were appointed as members of the Audit and Risk Committee with effect from 9 November 2005. Messrs W E Bührmann and C I Tingle were not re-appointed due to their resignation as directors.

HUMAN RESOURCES COMMITTEE MEETINGS:

Directors	13/05/05	18/07/05	25/07/05	27/01/06
W P Esterhuyse (Chairman) (Independent non-executive)	✓	✓	✓	✓
W E Bührmann * (Non-executive)	✓	✓	✓	n/a
E de la H Hertzog (Executive)	✓	✓	✓	✓
V E Msibi * (Non-executive)	n/a	n/a	n/a	✓
W L van der Merwe (Independent non-executive)	✓	✗	✗	✓
M H Visser * (Non-executive)	n/a	n/a	n/a	✓

* Mr M H Visser and Dr V E Msibi were appointed as members of the Human Resources Committee with effect from 9 November 2005. Mr W E Bührmann was not re-appointed due to his resignation as director.

CONFLICT OF INTERESTS

All board members are required to disclose their shareholding in the company, other directorships and any potential conflict of interests, which is monitored annually by the company secretary. Where a potential conflict of interests exists, directors are expected to recuse themselves from relevant discussions and decisions.

In terms of the company's conditions of employment personnel are obliged to disclose any potential conflict of interests.

INTERNAL CONTROL AND RISK MANAGEMENT

INTERNAL CONTROL

The directors are responsible for the company and its subsidiaries' system of internal control, which is designed to provide reasonable, but not absolute, assurance against material misrepresentation and loss. Internal control is broadly defined as a process, instituted by a company's board of directors, management and other personnel, to ensure the effectiveness of operations, sound financial controls and compliance with applicable laws and regulations.

The system contains self-monitoring mechanisms and actions are also taken to correct deficiencies where they are identified. One of the aims of an effective system of internal control is to provide reasonable assurance regarding the reliability of financial information and, in particular, the information presented in financial statements.

The internal audit of financial controls of the company has been outsourced. The effectiveness of operational issues is audited internally by the Medi-Clinic Quality Assurance Team (MQAT) under direction of the director responsible for the continuous quality improvement process. The company secretary is responsible for guidance in respect of the compliance with applicable laws and regulations. The assurance that the system of internal control is effective and that it is timeously adjusted to changing conditions is enhanced by the performance of these duties as well as the duties of the central risk management committee.

The Audit and Risk Committee has reviewed the internal control systems of the company and its subsidiaries for the financial year up to 31 March 2006. Based on inquiries and the reports of the internal and external auditors and MQAT, the directors are satisfied that the internal control measures for the period under review were effective.

RISK MANAGEMENT

Effective risk management is integral to the group's objective of continuously adding value to the business whilst ensuring its sustainability. The group follows an approach in terms whereof the probability and the potential impact of all known risks throughout the group are evaluated. Appropriate controls and action plans ensure that the fundamental risks are limited to acceptable levels. The board, which is ultimately responsible for risk management, pays continuous attention to fundamental risks and addresses these in annual business plans which are approved by the directors.

A central risk management committee comprising of members of management, representing all disciplines considered core to the business, who report to the Audit and Risk Committee, is responsible for drawing up policies and procedures on risk management as well as the financing of residual risks, including self-insurance. The board believes that the group's risk funding strategy and existing cover are appropriate and adequate.

The effectiveness of risk management is measured in terms of the reduction in the group's cost of risks.

Reported incidents are escalated to senior management level to ensure timeous corrective action. MQAT is tasked to ensure continuous training, adherence to quality protocols, accreditation criteria and ensuring compliance with key operational risk management procedures.

The group's ability to identify and timeously respond to new emerging risks is also ensured.

The risk management process, encompassing all aspects of the group, has been documented and the board has considered the effectiveness and efficiency thereof. Such considerations have been supplemented by independent compliance reports.

The Board considers the group's residual risk profile to be within the group's risk capacity and risk appetite.

Risk management practices are incorporated into daily activities through control mechanisms, risk awareness training and procedures.

The financing of catastrophic or residual risks that could not be managed cost-effectively is reviewed against risk profiles. Investment in control procedures and management has the strategic focus to enhance the group's risk retention capacity.

MOST SIGNIFICANT RISKS

The company has identified and continually monitors the following key risk activities as the most significant risks:

- the availability of trained personnel;
- medico-legal accountability;
- medical practitioner selection and support;
- technology;
- operational activities;
- fee structuring;
- legislative requirements; and
- pandemics.

EXTERNAL AUDIT

The Audit and Risk Committee is responsible for appointing the external auditors. The external auditors, whose report appears on page 43, are responsible for providing an independent opinion on the financial statements. The external audit function offers reasonable, but not absolute assurance on the fair presentation of the financial disclosures.

As referred to earlier in the report, the non-audit services provided by the external auditors are limited to tax advice. The remuneration payable in respect of these services is disclosed in the financial statements. The Audit and Risk Committee meet at least three times per year with the external auditors, internal auditors and executive management to ensure that their efforts pertaining to risk management and internal control are properly co-ordinated.

ETHICS

Conducting business in an honest, fair and legal manner is a fundamental guiding principle in Medi-Clinic, which is actively endorsed by the board and management, ensuring that the highest ethical standard is maintained in all our dealings with stakeholders.

To this end the group has established an independent Ethics Line in 2002, which enables all staff and outside stakeholders to report any possible incidences of fraud, corruption or any other unethical behaviour on an anonymous basis. All gifts or invitations by suppliers are also monitored and are subject to a strict approval procedure by executive management.

Our sound long-term relationships with our supporting doctors are built on ethical and fair business practices which also ensure their free association and clinical independence, and will always be one of the cornerstones of the strategic approach of the group.

INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATION

The board is committed to keeping shareholders informed of developments in the group's business. Communication with our shareholders is based on the principles of balanced reporting, clarity and transparency. Both positive and negative aspects of financial and non-financial information are provided.

For further information regarding the group's initiatives on shareholder communication, please refer to page 32 under Stakeholder Engagement.

HOSPITALS IN OPERATION

WESTERN CAPE
Cape Town Medi-Clinic
Constantiaberg Medi-Clinic
Durbanville Medi-Clinic
Geneva Clinic
George Medi-Clinic
Hermanus Medi-Clinic
Klein Karoo Medi-Clinic
Louis Leipoldt Medi-Clinic
Milnerton Medi-Clinic
Paarl Medi-Clinic
Panorama Medi-Clinic
Plettenberg Bay Private Health Centre
Stellenbosch Medi-Clinic
Strand Private Hospital
Vergelegen Medi-Clinic
Worcester Medi-Clinic

GAUTENG
Kloof Medi-Clinic
Medforum Medi-Clinic
Medi-Clinic Gynaecological Hospital
Medi-Clinic Heart Hospital
Morningside Medi-Clinic
Muelmed Medi-Clinic
Sandton Medi-Clinic
Vereeniging Medi-Clinic
Wits Donald Gordon Medical Centre *

MPUMALANGA
Barberton Medi-Clinic
Ermelo Medi-Clinic
Highveld Medi-Clinic
Nelspruit Medi-Clinic
Secunda Medi-Clinic

KWAZULU-NATAL
Howick Private Hospital
Newcastle Private Hospital
Pietermaritzburg Medi-Clinic
Victoria Hospital

FREE STATE
Bloemfontein Medi-Clinic
Hoogland Medi-Clinic
Welkom Medi-Clinic

NORTHWEST PROVINCE
Brits Medi-Clinic
Legae Medi-Clinic
Potchefstroom Medi-Clinic

NORTHERN CAPE
Kimberley Medi-Clinic
Upington Medi-Clinic

LIMPOPO PROVINCE
Limpopo Medi-Clinic
Tzaneen Medi-Clinic

NAMIBIA
Cottage Medi-Clinic
Otjiwarongo Medi-Clinic
Windhoek Medi-Clinic

* Proportionally consolidated (100% = 190 beds and 11 theatres)

HOSPITAL MANAGER	LOCATION	LICENCED BEDS	LICENCED THEATRES
Mr K Seaman	Cape Town	150	5
Mr C K W Lake	Cape Town	238	8
Mr H Calitz	Durbanville	180	6
Mr G T Schutte	George	60	4
Mr G T Schutte	George	160	4
Mr JP Lotz	Hermanus	45	2
Mrs A Nortjé	Oudtshoorn	38	2
Mr J Hofmeÿr	Bellville	235	7
Mrs C Defty	Milnerton	112	4
Mr O A Dippenaar	Paarl	139	5
Mr G M Harris	Parow	386	12
Mr G T Schutte	Plettenberg Bay	25	-
Mrs C D van Zyl	Stellenbosch	90	4
Mr E G Fismer	Strand	24	2
Mr E G Fismer	Somerset West	237	8
Vacant	Worcester	207	5
Mr B J Otto	Pretoria	169	10
Mrs J le Roux	Pretoria	204	14
Vacant	Pretoria	53	2
Dr B M Duminy	Pretoria	90	3
Mr D Hadley	Sandton	230	9
Mrs R Swart	Pretoria	222	8
Vacant	Sandton	379	10
Mr L Lambrechts	Vereeniging	165	7
Mr S J van der Walt	Johannesburg	95	5
Mrs M van der Merwe	Barberton	30	1
Mr W Schoonbee	Ermelo	40	2
Mr R A van Zyl	Trichardt	202	4
Mr W Kruger	Nelspruit	260	7
Mr R A van Zyl	Secunda	43	3
Mr M J R Vorster	Howick	26	2
Mr F G Meiring	Newcastle	90	3
Mr M J R Vorster	Pietermaritzburg	127	5
Vacant	Tongaat	120	4
Mr F C Bührmann	Bloemfontein	377	10
Mr J C van der Walt	Bethlehem	107	3
Mr F X van Niekerk	Welkom	191	8
Mrs R Janse van Rensburg	Brits	80	3
Mr M Crotz	Mabopane	137	4
Vacant	Potchefstroom	114	4
Mr H R Hendricks	Kimberley	234	8
Mrs J D van Niekerk	Upington	40	2
Mr A Spek	Polokwane (Pietersburg)	186	6
Mr Z Fanie	Tzaneen	64	2
Mr P J Sander	Swakopmund	72	2
Mrs JJ von Solms	Otjiwarongo	20	1
Mr G T Snyman	Windhoek	120	4
		6,613	234

DIRECTORS' RESPONSIBILITY STATEMENT

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation of the annual financial statements and related information in a manner that fairly presents the state of affairs of the company. These annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and incorporate full and responsible disclosure in line with the accounting policies of the group which are supported by prudent judgements and estimates.

The directors are also responsible for the maintenance of effective systems of internal control which are based on established organisational structures and procedures. These systems are designed to provide reasonable assurance as to the reliability of the annual financial statements, and to prevent and detect material misstatement and loss. These systems and procedures are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties.

Nothing has come to the attention of the directors to indicate that any material interruption in the functioning of these controls, procedures and systems has occurred during the year under review.

The annual financial statements have been prepared on a going concern basis and the directors believe that the company and the group will continue to be in operation in the foreseeable future.

The annual financial statements and group financial statements as set out on pages 45 to 76, have been approved by the board of directors and are signed on their behalf by:

E DE LA H HERTZOG
Chairman

LJ ALBERTS
Managing director

Stellenbosch
10 May 2006

CERTIFICATE BY THE COMPANY SECRETARY

In terms of section 268G(d) of the Companies Act, No 61 of 1973, as amended, I certify that the company has lodged with the Registrar all such returns as required by the Companies Act, and that all such returns are true, correct and up to date.

GC HATTINGH
Secretary

Stellenbosch
10 May 2006

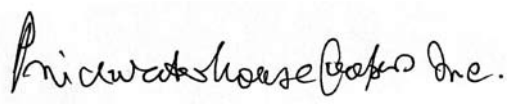
REPORT OF THE INDEPENDENT AUDITORS

to the members of Medi-Clinic Corporation Limited

We have audited the annual financial statements and Group annual financial statements of Medi-Clinic Corporation Limited set out on pages 45 to 76 for the year ended 31 March 2006. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and of the Group at 31 March 2006, 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 Companies Act of South Africa.



PricewaterhouseCoopers Inc.
Registered Auditor

Stellenbosch
10 May 2006

ANNUAL FINANCIAL STATEMENTS 2006

DIRECTORS' REPORT

to the shareholders for the year ended 31 March 2006

NATURE OF ACTIVITIES

The main business of your Group is to enhance the quality of life of patients by providing comprehensive, high-quality hospital services on a cost-effective basis.

GENERAL REVIEW OF ACTIVITIES

Your Group currently operates forty seven hospitals. Sixteen are located in the Western Cape, nine in Gauteng, five in Mpumalanga, four in Kwazulu-Natal, three in the Free State, three in the Northwest Province, two in the Northern Cape, two in the Limpopo Province and three in Namibia.

The Group acquired the balance of the shareholding in ER24 from Life Healthcare effective from 1 April 2005.

The Group also acquired a 49.9% interest in the Wits Donald Gordon Medical Centre (190 beds) as well as a 100% interest in the Legae Private Hospital (137 beds) effective from 1 July 2005 and 1 December 2005, respectively.

A complete list of hospitals appear on page 40.

The financial results are fully disclosed in the income statement and discussed in the report to shareholders.

BLACK ECONOMIC EMPOWERMENT ("BEE")

The Group implemented a BEE transaction with a total value of R1,1 billion, on 19 December 2005 through which an effective 15% of the Group are now owned by a broad-based Group of black entities, including Medi-Clinic staff.

The BEE transaction involved the introduction of two strategic black partners, Phodiso Holdings Limited ("Phodiso") and Circle Capital Ventures (Proprietary) Limited ("Circle Capital"), which together acquired 11% of the Group, being 6.875% and 4.125% respectively. The Mpilo Trust, an employee share trust, holds a further 4%.

CAPITAL RESTRUCTURING

The Group implemented a capital restructuring programme with the objective to increase the return on shareholder equity. It entailed the reduction of the cash available to the Group and the introduction of debt funding in the amount of R700 million. The debt was used to repay existing inter company indebtedness.

In addition, a special dividend in the amount of about R1,6 billion was declared which equated to R4,02 per share. This dividend was paid to shareholders on 27 December 2005.

SHARE CAPITAL

There was no change in the Company's authorised share capital during the year under review.

44 272 457 new ordinary shares were issued in respect of the BEE transaction on 19 December 2005 of which 15 773 538 shares were issued to the Mpilo Trust at R18,40 per share. The balance of 28 498 919 ordinary shares, valued at R525 million (at R18,40 per share) were issued to Phodiso (17 811 824 shares) and Circle Capital (10 687 095 shares) at par value of 10 cents per share.

In respect of the shares issued at par value to Phodiso and Circle Capital, the Group will be entitled to receive all dividends earned by the strategic partners on their total interest of 11% until the market value of R525 million less the par value of the shares so acquired has been repaid to the Group.

The number of shares issued to Phodiso and Circle Capital to the extent that the amount to be repaid as explained above has not been received, as well as the shares issued to the Mpilo Trust, are treated as treasury shares.

In terms of the executive share option scheme the Group utilised 2 385 072 (2005: 1 903 690) of its treasury shares held through a wholly owned subsidiary. The Group also sold 595 253 of its treasury shares in terms of the scheme of arrangement which formed part of the BEE transaction.

DISTRIBUTION TO SHAREHOLDERS

The Board of Directors has declared a dividend of 36,6 cents per ordinary share. This, together with the interim dividend of 16,5 cents per share, brings the total normal dividend for the year to 53,1 cents per share. The Group also paid a special dividend of R4,02 per share on 27 December 2005.

	2006 R'000	2005 R'000
Interim distribution of 16,5 cents (2005: 13,3 cents)	**57,761**	46,558
Final distribution of 36,6 cents (2005: 31,7 cents)	**144,328**	110,971
Special distribution of R4,02	**1,585,241**	–
	1,787,330	157,529

MANAGEMENT

Remgro Finance & Services Limited, a wholly-owned subsidiary of Remgro Limited, is a service company which provides limited specialised management services on request to your Group. Your Group does not own any shares in this company.

HOLDING COMPANY, SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Remgro Limited, through a wholly-owned subsidiary, presently holds 43.36% (2005: 51%) of the issued ordinary shares. Details of subsidiaries, joint ventures and associates appear in the annexure on page 74.

DIRECTORS AND SECRETARY

The names of the directors and secretary of the Company, as well as the Company's postal address, appears on pages 7 to 9.

Messrs W E Bührmann and C I Tingle resigned as non-executive directors with effect from 9 November 2005 and 7 February 2006 respectively.

Dr V E Msibi and Mr M H Visser have been appointed as non-executive directors with effect from 9 November 2005.

In terms of the provisions of the Articles of Association of your Company, Messrs J du T Marais, A A Raath, J G Swiegers, M H Visser and Dr V E Msibi are to retire as directors and are eligible for re-election.

Prof W P Esterhuyse will also retire as director, but will not put himself up for re-election since he has reached the customary retirement age for directors.

Your board recommends that directors' fees for services rendered during the past financial year be fixed at R1 524 500 (2005: R546 591).

DIRECTORS' INTERESTS

Details of the direct and indirect interest in the issued permanent capital structure of your Company by directors are set out on page 75. Indirect interests through listed public companies have not been taken into account. No material change in the interest of directors has taken place between the financial year-end and the date of this report except as indicated.

EVENTS AFTER THE BALANCE SHEET DATE

An announcement was made on 28 April 2006 that the Group has entered into an agreement for the acquisition of a 49% interest in Emirates Healthcare Holdings Limited ("Emirates Healthcare"), the ultimate holding company of the healthcare interests of the Varkey Group, a private healthcare Group based in Dubai, United Arab Emirates for US$46,4 million. Emirates Healthcare owns the already successful 120-bed Welcare Hospital, one ambulatory care centre and two clinics in Dubai. It also has the rights to develop two new hospitals in the new Dubai Healthcare City and five related clinics.

The agreement is subject to the fulfilment of several suspensive conditions. The transaction will be implemented, and payment made, once all such suspensive conditions have been fulfilled.

BALANCE SHEETS
at 31 March 2006

COMPANY 2005 R'm	COMPANY 2006 R'm		Notes	GROUP 2006 R'm	GROUP 2005 R'm
		ASSETS			
1,036	**441**	**Non-current assets**		**2,617**	2,251
-	**-**	Property, plant and equipment	6	**2,327**	1,997
-	**-**	Intangible assets	7	**48**	48
1,022	**419**	Interests in subsidiaries	8	**-**	-
-	**-**	Investments in associates	9	**3**	50
-	**-**	Other investments and loans	10	**116**	64
14	**22**	Deferred income tax assets	11	**123**	92
8	**-**	**Current assets**		**980**	1,510
-	**-**	Inventories	12	**153**	136
8	**-**	Trade and other receivables	13	**667**	525
-	**-**	Cash and cash equivalents		**160**	849
1,044	**441**	**Total assets**		**3,597**	3,761
		EQUITY			
		Capital and reserves attributable to equity holders of the Company			
35	**39**	Ordinary shares		**39**	35
45	**289**	Share premium		**289**	45
-	**-**	Treasury shares		**(310)**	(38)
80	**328**	Share capital	14	**18**	42
3	**93**	Share-based payment reserve	15	**93**	3
953	**20**	Retained earnings	15	**1,530**	2,648
1,036	**441**			**1,641**	2,693
-	**-**	**Minority interests**	16	**290**	235
1,036	**441**	**Total equity**		**1,931**	2,928
		LIABILITIES			
-	**-**	**Non-current liabilities**		**955**	236
-	**-**	Borrowings	17	**848**	159
-	**-**	Deferred income tax liabilities	11	**5**	4
-	**-**	Retirement benefit obligations	18	**102**	73
8	**-**	**Current liabilities**		**711**	597
-	**-**	Trade and other payables	19	**590**	483
-	**-**	Borrowings	17	**74**	81
8	**-**	Current income tax liabilities		**47**	33
8	**-**	**Total liabilities**		**1,666**	833
1,044	**441**	**Total equity and liabilities**		**3,597**	3,761

INCOME STATEMENTS
for the year ended 31 March 2006

COMPANY				GROUP	
2005 R'm	2006 R'm		Notes	2006 R'm	2005 R'm
-	-	**Revenue**		**4,723**	4,040
-	-	Cost of sales		**(2,571)**	(2,236)
-	-	Administration and other operating expenses	20	**(1,288)**	(1,084)
-	-	**Trading profit**		**864**	720
86	974	Dividends received from subsidiaries		**-**	-
-	-	BEE share-based payment		**(85)**	-
86	974	**Operating profit**		**779**	720
-	-	Income from associates	22	**13**	25
-	-	Profit on sale of associate		**43**	-
50	-	Consideration for the termination of agreements		**-**	50
-	-	Finance income		**70**	58
-	-	Finance cost		**(45)**	(29)
136	974	**Profit before taxation**		**860**	824
3	(191)	Taxation	23	**(428)**	(214)
139	783	**Profit for the year**		**432**	610
		Attributable to:			
		Equity holders of the Company		**338**	543
		Minority interests		**94**	67
				432	610
		Earnings per ordinary share attributable to the equity holders of the Company - cents			
		Basic	24	**97.1**	158.7
		Diluted	24	**85.9**	156.7

STATEMENTS OF CHANGES IN OWNERS' EQUITY

for the year ended 31 March 2006

COMPANY				GROUP	
2005 R'm	**2006 R'm**		Notes	**2006 R'm**	2005 R'm
35	**39**	Ordinary shares	14	**39**	35
35	**35**	Opening balance		**35**	35
-	**4**	Shares issued		**4**	-
45	**289**	Share premium	14	**289**	45
190	**45**	Opening balance		**45**	190
-	**289**	Shares issued		**289**	-
(145)	**(45)**	Capital distribution paid to shareholders		**(45)**	(145)
		Treasury shares	14	**(310)**	(38)
		Opening balance		**(38)**	(53)
		Shares acquired by the Mpilo Trust		**(290)**	-
		Capital distribution received		**1**	3
		Utilised for share option scheme		**17**	12
3	**93**	Share-based payment reserve	15	**93**	3
1	**3**	Opening balance		**3**	1
2	**5**	Employees: value of services		**5**	2
-	**85**	Strategic Black Partners: value of services		**85**	-
953	**20**	Retained earnings	15	**1,530**	2,648
814	**953**	Opening balance		**2,648**	2,105
-	**(7)**	Share issue costs		**(7)**	-
139	**783**	Profit for the year		**338**	543
-	**(1,709)**	Dividends paid		**(1,449)**	-
1,036	**441**	**Attributable to equity holders of the Company**		**1,641**	2,693
		Minority interests	16	**290**	235
		Opening balance		**235**	203
		Distributions to minorities		**(39)**	(34)
		Profit for the year		**94**	67
		Minority interests acquired by the Group		**-**	(2)
		Capital invested by minorities		**-**	1
1,036	**441**	**Total equity at the end of the year**		**1,931**	2,928

CASH FLOW STATEMENTS

for the year ended 31 March 2006

COMPANY Inflow/(outflow)				GROUP Inflow/(outflow)	
2005 R'm	2006 R'm		Notes	2006 R'm	2005 R'm
		CASH FLOW FROM OPERATING ACTIVITIES			
-	-	Cash received from customers		4,637	4,090
-	-	Cash paid to suppliers and employees		(3,643)	(3,167)
-	-	Cash generated from operations	25.1	994	923
86	974	Dividends received		-	-
50	-	Consideration for the termination of agreements		-	50
-	-	Finance income		70	58
-	-	Finance cost		(45)	(29)
1	(207)	Taxation paid	25.2	(448)	(243)
137	767	**NET CASH FLOW FROM OPERATIONS**		571	759
8	701	**CASH FLOW FROM INVESTMENT ACTIVITIES**		(388)	(178)
8	701	Investment to maintain operations	25.3	(118)	(93)
-	-	Investment to expand operations	25.4	(357)	(87)
-	-	Proceeds on sale of property, plant and equipment	25.5	3	2
-	-	Proceeds on sale of associate	25.6	84	-
145	1,468			183	581
(145)	(1,468)	**CASH FLOW FROM FINANCING ACTIVITIES**		(830)	(185)
-	293	Proceeds of shares issued		3	-
-	-	Cash distributions to minorities	16	(39)	(34)
(145)	(1,754)	Distributions to shareholders	25.7	(1,493)	(142)
-	(7)	Share issue costs		(7)	-
-	-	Proceeds from borrowings		717	-
-	-	Repayments of borrowings		(28)	(21)
-	-	Treasury shares utilised		17	12
-	-	Net movement in cash, cash equivalents and bank overdrafts		(647)	396
-	-	Opening balance of cash, cash equivalents and bank overdrafts		796	400
-	-	Closing balance of cash, cash equivalents and bank overdrafts	25.8	149	796

1. GENERAL INFORMATION

Medi-Clinic Corporation Limited (the Company) and its subsidiaries ("the Group") operates multi-disciplinary private hospitals.

The main business of the Group is to enhance the quality of life of patients by providing comprehensive, high-quality hospital services on a cost-effective basis.

The Company is a limited liability company incorporated and domiciled in South Africa. The address of its registered offices is:

Medi-Clinic Offices, Strand Road, Stellenbosch 7600.

The Company is listed on the JSE Limited.

These consolidated financial statements have been approved for issue by the Board of Directors on 10 May 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The annual consolidated financial statements of the Medi-Clinic group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared on the historical cost convention, as modified by the available-for-sale financial assets, in accordance with the requirements of the South African Companies Act and the Listing Requirements of the JSE Limited.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

New standards, amendments and interpretations

The Group early adopted IFRIC 8 - Scope of IFRS 2 which was issued in January 2006, which requires that BEE transactions involving equity linked instruments be accounted for under IFRS 2 (Share-based payments).

The following new accounting standards, amendments and interpretations have been published that are mandatory for accounting periods beginning on or after 1 April 2006 or later periods but which the entity has not early adopted and which would not have a material effect if implemented:

- *IFRS 6 - Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)*
  The Standard specifies the financial reporting for the exploration for and evaluation of mineral resources.
- *IFRS 7 - Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)*
  IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.
- *IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment) - Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).*
  If an entity adopts IFRS 1 before 1 January 2006, it does not need to restate its comparative figures for the effect of IFRS 6.
- *IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006)*
  This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements.
- *IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006)*
  This amendment clarifies that when a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 28 of IAS 21. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 28. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 28. Such exchange differences are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (ie financial statements in which the foreign operation is consolidated, proportionately consolidated or accounted for using the equity method).
- *IAS 39 and IFRS 4 (Amendment) - Financial Guarantee Contracts (effective from 1 January 2006)*
  This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.
- *IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)*
  The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss.
- *IAS 39 (Amendment) - The Fair Value Option (effective from 1 January 2006)*
  This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category.

- *IFRIC 4 - Determining whether an Arrangement Contains a Lease (effective from 1 January 2006)*
  IFRIC 4 applies to situations where an entity enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset (eg an item of property, plant or equipment) in return for a payment or series of payments. The IFRIC proposes that these contracts be treated as leases in accordance with IAS 17.

- *IFRIC 5 - Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)*
  The purpose of decommissioning funds is to segregate assets to fund some or all of the costs of decommissioning plant, equipment, or in undertaking environmental rehabilitation. The contributor shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay. The contributor shall determine whether it has control, joint control or significant influence over the fund by reference to IAS 27, IAS 28, IAS 31 and SIC-12. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

- *IFRIC 6 - Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 January 2006)*
  This Interpretation provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the EU Directive on Waste Electrical & Electronic Equipment in respect of sales of historical household equipment.

- *IFRIC 7 - Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)*
  This Interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29.

- *IFRIC 9 - Reassessment of Embedded Derivatives*
  An entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative 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 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 a reassessment is required as per the previous paragraph.

2.2 Consolidation and equity accounting

a) Subsidiaries

Hospital operations that operate as partnerships or trusts, over which the Group has the power to govern the financial and operating policies are treated as subsidiaries. This includes all companies defined as subsidiary companies in terms of the Companies Act. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

b) Joint Ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

c) Associates

Companies and other entities in which the Group has an interest and over which the Group has the ability to exercise significant influence, but not control, are treated as associates on the equity method and are initially recognised at cost. According to the equity method, the share of post-acquisition reserves and retained income is included in the carrying value.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised

losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

The Group operates in the private hospital industry and is not significantly involved in other industries. The Group also has no significant operations outside Southern Africa and therefore no segment reports are produced.

2.4 Property, plant and equipment

Land and buildings comprise mainly hospitals and offices. All property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on the other assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

- Buildings: 50-100 years
- Equipment: 5-10 years
- Furniture and vehicles: 5-7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Due to the system of licensing of private hospitals and the fact that licenses are linked to a specific site, it is fundamentally important that the earnings potential of a hospital building is placed on a permanent basis. The Group therefore follows a structured maintenance program with regards to hospital buildings with the specific goal to prolong the useful lifetime of these buildings.

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

2.5 Intangible assets

a) Trade names

Trade names are capitalised at the cost to the Group and amortised on the straight-line basis over its estimated useful lifetime.

In general trade names are amortised over 20 years. No value is placed on internally developed tradenames.

Expenditure to maintain trade names is accounted for against income as incurred.

b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, joint venture or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures are included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units (CGU's) for the purpose of impairment testing. The allocation is made to those CGU's or groups of CGU's that are expected to benefit from business combinations in which goodwill arose. CGU's has been defined as each individual hospital of the Group.

c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (1-5 years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU's). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Investments

The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method.

Investments available-for-sale

Other long-term investments are classified as available-for-sale and are included within non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date. These investments are carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recognised in non-distributable reserves in the period in which they arise. When available-for-sale investments are either sold or impaired, the accumulated fair value adjustments are realised and included in income.

Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In

the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the investments are impaired. If any such evidence exists for available-for-sale financial assets, 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.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.8 Inventories

Inventories are valued at the lower of cost, determined on the first-in, first-out method, or net realisable value. The valuation excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Trade receivables

Trade receivables are recognised at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and cash on hand. Bank overdrafts are disclosed as part of borrowings in current liabilities on the balance sheet.

2.11 Share capital

Ordinary shares are classified as equity. Shares in the Company held by wholly-owned group companies are classified as treasury shares and are held at cost.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

The difference between the fair value of the equity instruments issued in a BEE transaction and the fair value of the cash and other assets received is recognised as an expense on grant date with a corresponding increase in equity.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 Deferred income tax

Deferred income tax is provided at current rates, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are not raised in respect of deferred income tax on assessed losses, unless it is probable that future taxable profits will be available against which the deferred tax asset can be realised in the foreseeable future.

2.14 Employee benefits

a) Retirement benefit costs

The Group provides for retirement fund benefits to employees by contributing to defined contribution funds. These contributions are accounted for against income when the employees render the related services.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

b) Post-retirement medical benefits

The Group provides for actuarially determined post-retirement medical contributions in relation to current and retired employees. The expected costs of these benefits are accounted for by using the projected unit credit method. Under this method, the expected costs of these benefits are accumulated over the service lives of the employees. Valuation of these obligations is carried out by independent qualified actuaries.

All actuarial gains and losses are spread forward over the average remaining service lives of employees.

c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

d) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonusses. The Group recognises an obligation where contractually obliged or where there is a past practice that has created a constructive obligation.

2.15 Revenue recognition

Revenue comprises hospital fees, net of value added taxes (VAT) and discounts and is recognised when the significant risks and rewards of ownership have been transferred or services have been rendered.

Other revenues earned are recognised on the following bases:

a) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

b) Dividend income

When the shareholders' right to receive payment is established.

2.16 Cost of sales

Cost of sales consist of the cost of inventories, including obsolete stock, which have been expensed during the year, together with personnel costs and related overheads which are directly attributable to the provision of services.

2.17 Leased assets

Leases of property, plant and equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest bearing borrowings. The interest element of the finance charges is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful lives of the assets or the term of the lease agreement if shorter and transfer of ownership at the end of the lease period is uncertain.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Normal business activities of a company exposes it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

a) *Market risk*

Currency risk

The Group has an insignificant exposure regarding foreign currency, but a prudent approach towards foreign cover is followed if applicable.

Currently there is no exposure and consequently no forward cover contracts.

Price risk

The Group is not exposed to commodity price risk.

b) *Credit risk*

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of cash, short-term deposits and receivables and prepayments. The Group's cash equivalents and short-term deposits are placed with quality financial institutions with a high credit rating. Trade receivables are represented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base, which consists mainly of medical aid funders. The financial condition of these clients in relation to their credit standing is evaluated on an ongoing basis. After the provision for doubtful receivables has been brought into account, the Group does not have any significant exposure to any individual customer or counter party.

The carrying amounts of financial assets included in the balance sheet represents the Group's exposure to credit risk in relation to these assets. At 31 March 2006 and 31 March 2005, the Group did not consider there to be a significant concentration of credit risk which had not been adequately provided for.

c) *Liquidity risk*

The Group manages liquidity risk by monitoring forecast cash flows.The borrowing powers of the Group can only be limited by the Company's holding company. No such limitation currently exists.

	2006 R'm	2005 R'm
Shareholders' funds and minority interests	1,931	2,928
Interest-bearing debt	922	240
% interest-bearing debt to shareholders' funds	48%	8%
The Group's overdraft facilities are	1,701	642

	Floating interest rate R'm	Fixed interest rate maturing < 1 year R'm	1-5 years R'm	> 5 years- R'm	Non interest-bearing R'm	Total R'm	Weighted average rate %
31 MARCH 2006							
ASSETS							
Cash resouces	160	-	-	-	-	160	6.5
Trade and other receivables	-	-	-	-	667	667	-
Investments and loans	101	-	-	-	18	119	9.4
Total financial assets	261	-	-	-	685	946	
LIABILITIES							
Trade and other payables	-	-	-	-	590	590	-
Interest-bearing debt	88	50	200	584	-	922	9.7
Retirement benefit obligations	-	-	-	-	102	102	-
Total financial liabilities	88	50	200	584	692	1,614	
Net financial assets/(liabilities)	173	(50)	(200)	(584)	(7)	(668)	
31 MARCH 2005							
Total financial assets	901	-	-	-	587	1,488	
Total financial liabilities	128	15	97	-	589	829	
Net financial assets/(liabilities)	773	(15)	(97)	-	(2)	659	

d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain an appropriate mix between fixed and floating rate borrowings and placings (see table below).

3.2 Fair value estimation

The fair value of investments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair values of investments are represented in notes 9 and 10.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of long-term borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.5. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

b) Income taxes

The Group is subject to income taxes in both South Africa and Namibia. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

c) BEE transaction

The Group calculates the difference between the fair value of the equity instruments issued in a BEE transaction and the fair value of the cash and other assets received in accordance with the accountng policy stated in Note 2.11. These calculations require the use of estimates.

d) Share-based compensation to employees

The Group use valuation models to calculate the IFRS 2 expense for share based compensation to employees. These models require a number of assumptions to be made as inputs. These include financial assumptions as well as various assumptions around individual employee behaviour.

5. TRANSITION TO IFRS

5.1 Basis of transition to IFRS

5.1.1 Application of IFRS 1

The Group's financial statements for the year ended 31 March 2006 is the first annual financial statements that comply with IFRS. These annual financial statements have been prepared as described in Note 2.1. The Group has applied IFRS 1 in preparing these consolidated annual financial statements.

Medi-Clinic's transition date is 1 April 2004. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these annual consolidated financial statements is 31 March 2006.

In preparing these annual consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS.

5.1.2 Exemptions from full retrospective application elected by the Group

a) Business combinations

The Group has elected not to apply the retrospective application requirements of IFRS 3, Business Combinations for combinations that occurred prior to 1 April 2004.

b) Share-based payments

The Group has elected not to apply the provisions of IFRS 2, Share-based Payments to the employee share option scheme awards granted on or before 7 November 2002.

c) Employee benefits

The Group has elected to recognise all cumulative actuarial gains and losses as at 1 April 2004.

5.1.3 Cash flow statement

Distributions to shareholders and minorities were previously shown as part of operating activities and are now shown as part of financing activities. Previously bank overdrafts were disclosed as part of interest-bearing borrowings in the cash flow statement and are now shown as part of cash, cash equivalents and bank overdrafts. There have been no other material adjustments to the cash flow statement as a result of the adoption of IFRS.

5.2 Reconcilliation between IFRS and SA GAAP

The following reconcilliations provide a quantification of the effect on the Group of the transition to IFRS.

5.2.1 Balance sheet at 1 April 2004

	Note	SA GAAP R'm	IFRS effects R'm	IFRS R'm
ASSETS				
Non-current assets		2,083	35	2,118
Property, plant and equipment	a	1,846	47	1,893
Intangible assets		48	-	48
Investments in associates		54	-	54
Other investments and loans		49	-	49
Deferred income tax assets	b	86	(12)	74
Current assets		1,134	-	1,134
Inventories		138	-	138
Trade and other receivables		545	-	545
Cash and cash equivalents		451	-	451
Total assets		3,217	35	3,252
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Ordinary shares		35	-	35
Share premium		190	-	190
Treasury shares		(53)	-	(53)
Share capital		172	-	172
Share-based payment reserve	c	-	1	1
Retained earnings	d	2,074	31	2,105
		2,246	32	2,278
Minority interests	e	200	3	203
Total equity		2,446	35	2,481
LIABILITIES				
Non-current liabilities		168	58	226
Borrowings		168	-	168
Deferred income tax liabilities	b	-	3	3
Retirement benefit obligations	f	-	55	55
Current liabilities		603	(58)	545
Trade and other payables	g	324	101	425
Borrowings		74	-	74
Provisions	g	159	(159)	-
Current income tax liabilities		46	-	46
Total liabilities		771	-	771
Total equity and liabilities		3,217	35	3,252

Explanation of the IFRS effects

(a)	*Property, plant and equipment*	
	Decrease in accumulated depreciation due to the application of the revised IAS 16 Property, Plant and Equipment	47
(b)	*Deferred income tax assets*	
	Decrease in accumulated depreciation	(14)
	Actuarial gain on the retirement benefit obligation recognised	(1)
	Reclassification to deferred income tax liability	3
		(12)
(c)	*Share-based payment reserve*	
	Recognition of employee share option expense according to IFRS 2	1
(d)	*Retained earnings*	
	Cumulative after tax effect of changes to property, plant and equipment (note a), retirement benefit obligations (note f) and share option expense (note c).	31
(e)	*Minority interests*	
	After tax effect on decrease in accumulated depreciation attributable to minorities	3
(f)	*Retirement benefit obligations*	
	Recognition of the cumulative actuarial gain on the post retirement medical benefit obligation	(3)
	Reclassification from current liability provisions	58
		55
(g)	*Other*	
	Reclassification of leave and bonus provisions to other payables	(101)
	Reclassification of retirement benefit obligation to non-current liabilities	(58)
		(159)

5.2.2 Balance sheet at 31 March 2005	Note	SA GAAP R'm	IFRS effects R'm	IFRS R'm
ASSETS				
Non-current assets		2,204	47	2,251
Property, plant and equipment	a	1,936	61	1,997
Intangible assets		48	-	48
Investments in associates		50	-	50
Other investments and loans		64	-	64
Deferred income tax assets	b	106	(14)	92
Current assets		1,510	-	1,510
Inventories		136	-	136
Trade and other receivables		525	-	525
Cash and cash equivalents		849	-	849
Total assets		3,714	47	3,761
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Ordinary shares		35	-	35
Share premium		45	-	45
Treasury shares		(38)	-	(38)
Share capital		42	-	42
Share-based payment reserve	c	-	3	3
Retained earnings	d	2,612	36	2,648
		2,654	39	2,693
Minority interests	e	231	4	235
Total equity		2,885	43	2,928
LIABILITIES				
Non-current liabilities		159	77	236
Borrowings		159	-	159
Deferred income tax liabilities	b	-	4	4
Retirement benefit obligations	f	-	73	73
Current liabilities		670	(73)	597
Trade and other payables	g	370	113	483
Borrowings		81	-	81
Provisions	g	186	(186)	-
Current income tax liabilities		33	-	33
Total liabilities		829	4	833
Total equity and liabilities		3,714	47	3,761

Explanation of the IFRS effects

(a)	*Property, plant and equipment*	
	Decrease in accumulated depreciation due to the application of the revised IAS 16 Property, Plant and Equipment	59
	Reclassification of an expense as an asset due to the application of the revised IAS 16 Property, Plant and Equipment	2
		61
(b)	*Deferred income tax assets*	
	Decrease in accumulated depreciation	(18)
	Reclassification to deferred income tax liability	4
		(14)
(c)	*Share-based payment reserve*	
	Recognition of employee share option expense according to IFRS 2	3
(d)	*Retained earnings*	
	Cumulative after tax effect of changes to property, plant and equipment (note a) and share option expense (note c).	36
(e)	*Minority interests*	
	After tax effect on decrease in accumulated depreciation attributable to minorities	4
(f)	*Retirement benefit obligations*	
	Reclassification from current liability provisions	73
(g)	*Other*	
	Reclassification of leave and bonus provisions to other payables	(113)
	Reclassification of retirement benefit obligation to non-current liabilities	(73)
		(186)

5.2.3 Net income for the year ended 31 March 2005	Note	SA GAAP R'm	IFRS effects R'm	IFRS R'm
Revenue		4,040	-	4,040
Cost of sales		(2,236)	-	(2,236)
Administration and other operating expenses	a	(1,093)	9	(1,084)
Operating profit		711	9	720
Income from associates		25	-	25
Consideration for the termination of agreements		50	-	50
Finance income		58	-	58
Finance cost		(29)	-	(29)
Profit before taxation		815	9	824
Taxation	b	(211)	(3)	(214)
Profit for the year		604	6	610
Attributable to:				
Equity holders of the Company		539	4	543
Minority interests		65	2	67
		604	6	610

Explanation of the IFRS effects

(a) Administration and other operating expenses		
Recognition of employee share option expense according to IFRS 2		(2)
Retirement benefit obligation		(3)
Changes due to the application of the revised IAS 16 Property, Plant and Equipment		14
		9
(b) Income tax expense		
Deferred income tax adjustments due to changes to property, plant and equipment and share option expense		(3)

	GROUP 2006 R'm	GROUP 2005 R'm
6. PROPERTY, PLANT AND EQUIPMENT		
Land - cost	**110**	94
Buildings	**1,457**	1,271
Cost	**1,478**	1,287
Accumulated depreciation	**(21)**	(16)
Land and buildings	**1,567**	1,365
Equipment	**485**	399
Cost	**1,179**	1,006
Accumulated depreciation	**(694)**	(607)
Furniture and vehicles	**98**	78
Cost	**264**	210
Accumulated depreciation	**(166)**	(132)
Subtotal	**2,150**	1,842
Capital expenditure in progress	**177**	155
	2,327	1,997

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	GROUP			
	Land and buildings R'm	Equipment R'm	Furniture and vehicles R'm	Total R'm
At 1 April 2004				
Cost	1,291	892	183	2,366
Accumulated depreciation	(13)	(529)	(114)	(656)
Net book value	1,278	363	69	1,710
Year ended 31 March 2005				
Net opening book value	1,278	363	69	1,710
Capital expenditure	68	109	30	207
Business acquisitions	22	1	-	23
Disposals	-	(1)	-	(1)
Depreciation per income statement	(3)	(73)	(21)	(97)
Net closing book value	1,365	399	78	1,842
At 31 March 2005				
Cost	1,381	1,006	210	2,597
Accumulated depreciation	(16)	(607)	(132)	(755)
Net book value	1,365	399	78	1,842
Year ended 31 March 2006				
Net opening book value	**1,365**	**399**	**78**	**1,842**
Capital expenditure	**92**	**149**	**33**	**274**
Business acquisitions	**125**	**29**	**18**	**172**
Disposals	**-**	**(1)**	**(1)**	**(2)**
Impairments	**(12)**	**-**	**-**	**(12)**
Depreciation per income statement	**(3)**	**(91)**	**(30)**	**(124)**
Net closing book value	**1,567**	**485**	**98**	**2,150**
At 31 March 2006				
Cost	**1,588**	**1,179**	**264**	**3,031**
Accumulated depreciation	**(21)**	**(694)**	**(166)**	**(881)**
Net book value	**1,567**	**485**	**98**	**2,150**

Property, plant and equipment with a book value of R234m (2005 : R225m) are encumbered as security for borrowings (see note 17).

The register containing details of land and buildings is available for inspection by members or their proxies at the registered office of the Company. The directors are of the opinion that the market value of land and buildings materially exceeds their book value.

7. INTANGIBLE ASSETS

	GROUP		
	Trade names R'm	Goodwill R'm	Total R'm
At 1 April 2004			
Cost	15	43	58
Accumulated amortisation and impairment	(10)	-	(10)
Net book value	5	43	48
Year ended 31 March 2005			
Net opening book value	5	43	48
Acquired during the year	-	4	4
Amortisation charge	(1)	-	(1)
Impairment charge	-	(3)	(3)
	4	44	48
At 31 March 2005			
Cost	15	47	62
Accumulated amortisation and impairment	(11)	(3)	(14)
Net book value	4	44	48
Year ended 31 March 2006			
Net opening book value	**4**	**44**	**48**
Acquired during the year	**-**	**1**	**1**
Amortisation charge	**(1)**	**-**	**(1)**
	3	**45**	**48**
At 31 March 2006			
Cost	**15**	**48**	**63**
Accumulated amortisation and impairment	**(12)**	**(3)**	**(15)**
Net book value	**3**	**45**	**48**

Trade names with a cost price of R2,5m (2005: R2,5m) have been fully impaired.

The impairment tests for goodwill is based on value-in-use calculations. These calculations use cash flow projections based on financial budgets covering a five-year period. The discount rates used reflect specific risks relating to the hospital industry.

COMPANY			GROUP	
2005 R'm	**2006 R'm**		**2006 R'm**	2005 R'm
		8. INTERESTS IN SUBSIDIARIES		
		Unlisted		
1	**1**	Shares at cost less amounts written off		
1,021	**418**	Due by subsidiaries		
1,022	**419**			
		Details appear on page 74.		
		9. INVESTMENTS IN ASSOCIATES		
		Unlisted		
		Cost	**-**	11
		Opening balance	**11**	15
		Increase in interest in associate to subsidiary level	**-**	(4)
		Decrease in interest in associate	**(3)**	-
		Investment sold	**(8)**	-
		Share of accumulated losses since acquisition	**-**	(3)
		Opening balance	**(3)**	(4)
		Increase in interest in associate to subsidiary level	**-**	1
		Decrease in interest in associate	**3**	-
		Carrying value of investments in associates' equity	**-**	8
		Amounts owing	**3**	42
			3	50
		Directors' valuation	**3**	90
		The total profit of associates are R35m (2005: R65m) of which the Group's share is R13m (2005: R25m).		
		The aggregate balance sheets of associates are summarised as follows:		
		Non-current assets	**3**	93
		Current assets	**9**	24
		Total assets	**12**	117
		Current liabilities	**(5)**	(12)
		Shareholders' funds	**7**	105
		Outside interests	**(4)**	(63)
		Group's share in net assets of associates	**3**	42
		Cost of investments	**-**	8
			3	50
		Details appear on page 74.		
		10. OTHER INVESTMENTS AND LOANS		
		Unlisted - no active market		
		Loans and receivables	**102**	52
		Available-for-sale: Shares	**14**	12
			116	64
		Directors' valuation	**116**	64

COMPANY			GROUP	
2005 R'm	2006 R'm		2006 R'm	2005 R'm
		11. DEFERRED TAXATION		
		Deferred taxation is calculated on all temporary differences according to the liability method using a principal tax rate of 29% (2005: 30%).		
		The movement on the deferred taxation account is as follows:		
3	14	Opening balance	88	71
		Taxation rate change	(3)	-
11	8	Income statement charge for the year	32	16
		Acquired during the year	1	1
14	22	Balance at the end of the year	118	88
		The balance consists of:		
		Accelerated wear and tear for tax purposes on property, plant and equipment	(24)	(22)
14	22	STC credits	34	15
		Accruals and other temporary differences	108	95
14	22		118	88
14	22	Deferred income tax assets	123	92
		Deferred income tax liabilities	(5)	(4)
14	22		118	88
		12. INVENTORIES		
		Inventories consist of:		
		Pharmaceutical products	139	126
		Consumables	8	6
		Finished goods and work in progress	6	4
			153	136
		The cost of inventories recognised as an expense and included in cost of sales amounted to R1 440m (2005: R1 285m).		
		There are no inventories that are valued at net realisable value.		
		13. TRADE AND OTHER RECEIVABLES		
		Trade receivables	663	528
		Less provision for impairment of receivables	(82)	(70)
		Trade receivables - net	581	458
		Other receivables	86	67
			667	525
		Trade receivables to the value of R72m (2005: R55m) have been ceded as security for a banking facility.		

COMPANY			GROUP	
2005 R'm	2006 R'm		2006 R'm	2005 R'm
		14. SHARE CAPITAL		
		Share capital consists of ordinary shares and share premium.		
		Ordinary shares		
		Authorised :		
45	45	450 000 000 ordinary shares of 10 cents each	45	45
		(2005 : 450 000 000)		
		Issued:		
35	39	394 338 449 ordinary shares of 10 cents each	39	35
		(2005 : 350 065 992)		
		The unissued shares are under the control of the directors until the next annual general meeting.		
		The directors are authorised, in the form of a general authorisation until the next annual general meeting, to buy back issued share capital of the Company.		
45	289	**Share premium**	289	45
190	45	Opening balance	45	190
-	289	Premium on shares issued	289	-
(145)	(45)	Distributed to shareholders	(45)	(145)
		Treasury shares		
		38 107 775 (2005 : 6 447 510) ordinary shares of 10 cents each	(310)	(38)
		Opening balance	(38)	(53)
		Shares acquired by the Mpilo Trust	(290)	-
		Distribution received	1	3
		Utilised for share option scheme	17	12
		During the year the Company issued 15 773 538 shares to the Mpilo Trust, an employee share trust.		
		The Company also issued 28 498 919 shares to its strategic black partners. To date, no value was received for an equivalent of 18 867 052 shares.		
		These transactions are in accordance with the Company's memorandum of association and complied with all aspects of the South African Companies Act and the requirements of the JSE Limited.		
		During the year 2 385 072 (2005: 1 903 690) of the existing treasury shares were utilised in terms of the executive share option scheme.		
80	328		18	42

COMPANY			GROUP	
2005 R'm	2006 R'm		2006	2005

14. SHARE CAPITAL (continued)

Share options

In terms of the executive share option scheme, 34 472 230 (2005: 34 472 230) ordinary shares are kept in reserve. To date 23 880 000 share options have been granted, 4 275 800 (2005: 3 867 800) share options have been forfeited and 12 882 162 (2005: 10 497 090) exercised.

No further options will be granted under the share option scheme.

Employees may exercise the existing options from grant date as follows:

- 20% of the options granted vest after 3 years;
- a further 20% of the options granted vest after 4 years;
- a further 20% of the options granted vest after 5 years;
- a further 20% of the options granted vest after 6 years;
- a further 20% of the options granted vest after 7 years.

All options lapse after a period of 8 years from the grant date.

Movement in the number of share options outstanding are:	Average offer price	**Number**	Number
Outstanding at the beginning of the year	R7,15	**9,445,110**	10,276,800
Options granted	R18,11	**70,000**	1,660,000
Options forfeited		**(408,000)**	(588,000)
Options exercised - treasury shares utilised	R3,64	**(2,385,072)**	(1,903,690)
Outstanding at the end of the year	R8,38	**6,722,038**	9,445,110

			R'm	R'm
		15. RESERVES		
		Share-based payment reserve		
3	**6**	Executive share option scheme	**6**	3
-	**2**	Employee share trust	**2**	-
-	**85**	Strategic black partners	**85**	-
3	**93**		**93**	3
		Distributable reserve		
953	**20**	Company	**20**	953
		Subsidiaries and joint ventures	**1,510**	1,698
		Associates	**-**	(3)
953	**20**		**1,530**	2,648
		16. MINORITY INTERESTS		
		Opening balance	**235**	204
		Net income attributable to minorities	**94**	65
		Distributions to minorities	**(39)**	(34)
		Minority interests acquired by the Group	**-**	(1)
		Capital invested by minorities	**-**	1
		Minority interests in hospital activities	**290**	235

COMPANY			GROUP	
2005 R'm	2006 R'm		2006 R'm	2005 R'm
		17. BORROWINGS		
		Unsecured long-term bank loans	716	-
		Long-term portion	694	-
		Short-term portion	22	-
		These loans bear interest at an average fixed rate of 9.3% per annum and are repayable in seven years.		
		Secured long-term bank loans	118	144
		Long-term portion	90	119
		Short-term portion	28	25
		These loans bear interest at an average fixed rate of 12.6% (2005: 14.5%) per annum and are repayable in four years. Property, plant and equipment with a book value of R134m (2005: R155m) are encumbered as security for these loans.		
		Secured long-term bank loans	77	43
		Long-term portion	64	41
		Short-term portion	13	2
		These loans bear interest at variable rates linked to the prime overdraft rate and are repayable in periods ranging between 1 and 14 years. Property, plant and equipment with a book value of R100m (2005: R71m) are encumbered as security for these loans.		
		Bank overdrafts	11	53
			922	240
		Short-term portion transferred to current liabilities	74	81
			848	159
		18. RETIREMENT BENEFIT OBLIGATIONS		
		Post-employment medical benefits		
		The Group accounts for actuarially determined future medical benefits and provide for the expected liability in the balance sheet. During the last valuation on 31 March 2006 a 5.5% (2005: 6.5%) medical inflation cost and a 7.5% (2005: 8.5%) interest rate were assumed. The average retirement age was set at 63 years (2005: 63 years).		
		Amounts recognised in the balance sheet are as follows:		
		Opening balance	73	55
		Acquired during the year	3	-
		Amounts recognised in the income statement	26	18
		Current service cost	13	10
		Interest cost	7	6
		Actuarial loss	7	3
		Contributions	(1)	(1)
		Closing balance	102	73
		Present value of unfunded obligations	102	73

COMPANY			GROUP	
2005 R'm	2006 R'm		2006 R'm	2005 R'm
		19. TRADE AND OTHER PAYABLES		
		Trade payables	311	264
		Other payables	279	219
			590	483
		20. EXPENSES BY NATURE		
		Auditors' remuneration - external audit	2	2
		- other services	*	*
		- total value of other services provided	1	*
		- share issue costs	(1)	-
		Cost of inventories	1,440	1,285
		Depreciation - buildings	3	3
		- equipment	91	73
		- furniture and vehicles	30	21
		Employee benefit expenses	1,750	1,458
		Wages and salaries	1,661	1,383
		Post-retirement medical benefits (note 18)	26	18
		Retirement benefit costs	58	54
		Share-based payment expense	5	3
		Impairment of property, plant and equipment	12	-
		Impairment of goodwill	-	3
		Maintenance costs	154	115
		Managerial and administration fees	3	3
		Operating leases - buildings	27	26
		- equipment	19	15
		Trade names amortised	1	1
		Other expenses	327	315
		General expenses	385	355
		Profit on sale of equipment	1	1
		Other income	57	39
			3,859	3,320
		Classified as:		
		Cost of sales	2,571	2,236
		Administration and other operating expenses	1,288	1,084
			3,859	3,320

* *Amounts less than R0,5m.*

COMPANY			GROUP	
2005	**2006**		**2006**	2005
			R'000	R'000
		21. DIRECTORS' REMUNERATION		
		Executive		
		E de la H Hertzog *	**4,790**	2,286
		L J Alberts	**3,895**	1,973
		J du T Marais	**2,579**	1,505
		D P Meintjes	**2,625**	1,561
		J G Swiegers	**3,052**	1,962
		Total	**16,941**	9,287
		Non-executive fees	**1,525**	547
		W E Bührmann	**213**	108
		W P Esterhuyse	**183**	57
		S Dakile-Hlongwane	**120**	52
		A R Martin	**247**	88
		V E Msibi	**69**	-
		A A Raath	**225**	84
		M A Ramphele	**132**	-
		C I Tingle	**119**	95
		W L van der Merwe	**147**	63
		M H Visser	**70**	-
			18,466	9,834
		Paid by:		
		Subsidiaries	**16,038**	7,548
		Management company *	**2,428**	2,286
			18,466	9,834

Detail for 2006: (R'000)	**Salaries**	**Retirement fund**	**Other benefits (**)**	**Bonus**	**Share options**	**Total**
Executive						
E de la H Hertzog *	**1,941**	**341**	**146**	**2,362**	**-**	**4,790**
L J Alberts	**1,888**	**168**	**25**	**1,814**	**-**	**3,895**
J du T Marais	**1,408**	**123**	**9**	**1,039**	**-**	**2,579**
D P Meintjes	**1,301**	**121**	**143**	**1,060**	**-**	**2,625**
J G Swiegers	**1,237**	**128**	**229**	**958**	**500**	**3,052**
	7,775	**881**	**552**	**7,233**	**500**	**16,941**

Detail for 2005: (R'000)	**Salaries**	**Retirement fund**	**Other benefits (**)**	**Bonus**	**Share options**	**Total**
Executive						
E de la H Hertzog *	1,819	321	146	-	-	2,286
L J Alberts	1,658	148	25	142	-	1,973
J du T Marais	1,255	114	26	110	-	1,505
D P Meintjes	1,211	113	125	112	-	1,561
J G Swiegers	1,122	118	230	114	378	1,962
	7,065	814	552	478	378	9,287

* Dr E de la H Hertzog also earned a further R1,2m (2005: R1,1m) from M & I Group Services (Proprietary) Limited relating to other duties. Also refer to note 28.

** Other benefits include medical aid and vehicle benefits.

None of the current executive directors have a fixed term contract.

COMPANY 2005	COMPANY 2006		GROUP 2006	GROUP 2005
		21. DIRECTORS' REMUNERATION (continued)		
		Share option scheme		
		No shares were offered to directors in the financial year ending 31 March 2006 (2005: nil).		
		The number of outstanding share options are:		
		Offer price	**Number**	Number
		J G Swiegers R2,80	**40,000**	80,000
R'm	R'm		**R'm**	R'm
		22. INCOME FROM ASSOCIATES		
		Unlisted associates		
		Share of income before taxation	**13**	25
		Share of taxation		
		Provided by the Group	**(4)**	(7)
			9	18
		23. TAXATION		
		Taxation on income excluding income from associates	**(424)**	(207)
		Taxation on income from associates		
		Provided by the Group	**(4)**	(7)
		Taxation per income statement	**(428)**	(214)
		Current taxation		
(8)	**-**	RSA taxation	**(251)**	(214)
		Foreign taxation (Namibia)	**(6)**	(15)
-	**(199)**	Secondary taxation on companies ("STC")	**(200)**	-
		Deferred taxation		
		Rate change	**(3)**	-
		Current year	**13**	4
11	**8**	STC Credits	**19**	11
3	**(191)**		**(428)**	(214)
		Reconciliation of rate of taxation:		
		Standard rate for companies (RSA)	**29.0 %**	30.0 %
		Adjusted for:		
		Capital gains taxation	**1.4 %**	1.2 %
		Non-taxable income	**(4.2)%**	(3.6)%
		Non-deductible expenses	**3.6 %**	0.3 %
		Minorities share of profit before taxation	**(1.4)%**	(1.3)%
		Rate differences	**0.4 %**	0.2 %
		STC	**21.0 %**	(0.8)%
		Effective tax rate	**49.8 %**	26.0 %

COMPANY			GROUP	
2005 R'm	2006 R'm		2006 R'm	2005 R'm
		24. EARNINGS PER ORDINARY SHARE		
		Earnings reconciliation		
		Profit attributable to shareholders	338	543
		After tax profit on sale of associate	(37)	-
		After tax consideration for the termination of agreements	-	(42)
		Impairment of goodwill	-	3
		Profit on sale of property, plant and equipment	(1)	(1)
		Headline earnings	300	503
		Net STC on special dividend	168	-
		BEE share-based payment	85	-
		Core earnings	553	503
		Weighted number of issued ordinary shares		
		Number of issued ordinary shares at the beginning of the year	350,065,992	350,065,992
		Weighted number of ordinary shares issued during the year	12,372,394	-
		Weighted number of treasury shares	(15,297,978)	(7,698,183)
			347,140,408	342,367,809
		Diluted number of issued ordinary shares		
		Weighted number of issued ordinary shares	347,140,408	342,367,809
		Weighted number of treasury shares held in terms of the BEE initiative not yet released from treasury stock	41,580,447	-
		Adjustment for outstanding share options granted	3,696,405	4,381,482
			392,417,260	346,749,291
		Earnings per ordinary share (cents)		
		Basic	97.1	158.7
		Diluted	85.9	156.7
		Headline earnings per ordinary share (cents)		
		Basic	86.3	146.9
		Diluted	76.3	145.0
		Core earnings per ordinary share (cents)		
		Basic	159.3	146.9
		Diluted	140.9	145.0

COMPANY			GROUP	
2005 R'm	2006 R'm		2006 R'm	2005 R'm
		25. CASH FLOW INFORMATION		
		25.1 Reconciliation of profit before taxation to cash generated from operations		
		Operating profit before interest and taxation	779	720
		Non-cash items		
		Trade names amortised	1	1
		Movement in share-based payment reserve	90	2
		Depreciation	124	97
		Impairment of property, plant and equipment	12	-
		Impairment of goodwill	-	3
		Movement in retirement benefit obligations	26	18
		Profit on sale of property, plant and equipment	(1)	(1)
		Operating income before changes in working capital	1,031	840
		Working capital changes	(37)	83
		(Increase)/decrease in inventories	(13)	4
		(Increase)/decrease in trade and other receivables	(105)	23
		Increase in trade and other payables	81	56
			994	923
		25.2 Taxation paid		
1	(8)	Prepaid/(liability) at the beginning of the year	(33)	(47)
		Business acquisitions	(5)	-
(8)	(199)	Provision for the year	(457)	(229)
(7)	(207)		(495)	(276)
8	-	Liability at the end of the year	47	33
1	(207)		(448)	(243)
		25.3 Investment to maintain operations		
		Property, plant and equipment purchased	(120)	(114)
8	701	Loans from subsidiaries		
		Distributions from associates	4	15
		Loans from associates	-	8
		Other investments and loans	(2)	(2)
8	701		(118)	(93)
		25.4 Investment to expand operations		
		Property, plant and equipment purchased	(176)	(65)
		Loans granted	(50)	-
		Business acquisitions	(131)	(23)
		Capital contributed by minorities	-	1
			(357)	(87)

COMPANY			GROUP	
2005 R'm	2006 R'm		2006 R'm	2005 R'm
		25. CASH FLOW INFORMATION (continued)		
		25.5 Proceeds on sale of property, plant and equipment		
		Book value of property, plant and equipment sold	2	1
		Profit per income statement	1	1
			3	2
		25.6 Proceeds on sale of associate		
		Book value of associate	41	-
		Profit per income statement	43	-
			84	-
		25.7 Distributions paid to shareholders		
(145)	(45)	Capital distributions declared and paid during the year	(45)	(145)
		Capital distributions received on treasury shares held	1	3
-	(1,709)	Dividends declared and paid during the year	(1,449)	-
(145)	(1,754)		(1,493)	(142)
		25.8 Cash, cash equivalents and bank overdrafts		
		For the purposes of the cash flow statement, cash, cash equivalents and bank overdrafts include:		
		Cash and cash equivalents	160	849
		Bank overdrafts	(11)	(53)
			149	796
		26. COMMITMENTS		
		Capital commitments		
		Incomplete capital expenditure contracts	251	374
		Capital expenses authorised by the Board of Directors but not yet contracted	133	152
			384	526
		These commitments will be financed from Group and borrowed funds.		
		Operating lease commitments		
		The Group has entered into various operating lease agreements on premises and equipment. At 31 March 2006 and 31 March 2005, future non-cancellable minimum lease rentals are payable during the following financial years:		
		Within 1 year	31	26
		1 to 5 years	76	85
		Over 5 years	1	-
			108	111

COMPANY			GROUP	
2005 R'm	2006 R'm		2006 R'm	2005 R'm
		27. RETIREMENT BENEFITS		
		The Group provides retirement benefits to its permanent employees as determined by the rules of the retirement funds by contributing monthly to the funds.		
		The Group has a number of defined contribution funds which are controlled by the Pension Funds Act and administered by financial institutions.		
		On 31 March 2006 87.6% (2005: 89.0%) of all personnel were members of one of the above-mentioned funds.		
		28. RELATED PARTY TRANSACTIONS		
		The major shareholder of the Group is Industrial Partnership Investments Limited (Remgro Limited), which owns 43.36% (2005: 51.01%). The remaining shares are listed and widely held.		
		The following transactions were carried out with related third parties:		
		i) Transactions with shareholders		
		Remgro Finance & Services Limited (subsidiary of Remgro Limited)		
		Managerial and administration fees	**3**	3
		Balance owing to	**2**	-
		Remgro Finance Corporation Limited (subsidiary of Remgro Limited)		
		Interest received	**31**	34
		Balance owing by	**-**	5
		M & I Group Services (Proprietary) Limited		
		Internal audit services	**1**	1
		ii) Key management compensation		
		Directors		
		Information regarding the directors' remuneration appears in note 21.		
		iii) Transactions with subsidiaries		
		Medi-Clinic Investments Limited		
86	**800**	Dividend received		
1,029	**418**	Balance owing from		

COMPANY			GROUP	
2005 R'm	2006 R'm		2006 R'm	2005 R'm

29. BUSINESS ACQUISITIONS

The Group has acquired the remaining 50% interest in ER24 Holdings (Pty) Ltd with effect from 1 April 2005, a 49.9% interest in the Wits University Donald Gordon Medical Centre (Pty) Ltd with effect from 1 July 2005, as well as a 100% interest in Phodiso Health Services (Pty) Ltd t/a Legae Private Hospital with effect from 1 December 2005. The acquired businesses contributed revenues of R127 million for the year.

During the previous year the Group has, with effect from 1 April 2004, acquired the Cottage Private Hospital in Swakopmund, Namibia, as well as the remaining 60% interest in Plettenberg Bay Private Health Centre.

Details of net assets and goodwill acquired is:

Property, plant and equipment	**(172)**	(23)
Investment in associates	**15**	4
Other investments in shares	**-**	(12)
Deferred taxation	**(1)**	(1)
Inventories	**(4)**	(2)
Trade and other receivables	**(37)**	(3)
Cash resources	**(27)**	-
Interest-bearing debt	**35**	17
Retirement benefit obligations	**3**	-
Trade and other payables	**26**	2
Taxation	**5**	-
Minority interest of existing shareholders	**-**	(1)
Value of interests acquired	**(157)**	(19)
Goodwill	**(1)**	(4)
Purchase consideration	**(158)**	(23)
Purchase consideration	**(158)**	(23)
Cash resources	**27**	-
Cash outflow on acquisition	**(131)**	(23)

The goodwill is attributable to the synergies expected from the transactions.

30. EVENTS AFTER THE BALANCE SHEET DATE

An announcement was made on 28 April 2006 that the Group has entered into an agreement for the acquisition of a 49% interest in Emirates Healthcare Holdings Limited ("Emirates Healthcare"), the ultimate holding company of the healthcare interests of the Varkey Group, a private healthcare group based in Dubai, United Arab Emirates for US$46.4 million. Emirates Healthcare owns the already successful 120-bed Welcare Hospital, one ambulatory care centre and two clinics in Dubai. It also has the rights to develop two new hospitals in the new Dubai Healthcare City and five related clinics.

The agreement is subject to the fulfilment of several suspensive conditions. The transaction will be implemented, and payment made, once all such suspensive conditions have been fulfilled.

ANNEXURE – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

at 31 March 2006

SUBSIDIARIES

	Issued share capital		Interest in capital		Book value of shares	
	2006 Rand	2005 Rand	**2006 %**	2005 %	**2006 R'm**	2005 R'm
Company						
Medi-Clinic Investments Limited	**100**	100	**100.0**	100.0	**1**	1
The loan to the subsidiary amounts to R418m (2005 : R1 029m).						
The information required by the 4th Schedule of the Companies Act is only provided for those subsidiaries of which the financial position and results are material. A detailed list of subsidiaries is available at the registered office of the Company.						
Group						
Indirectly held through Medi-Clinic Investments Limited						
Aukland Medicine Distributors (Proprietary) Limited			**100.0**	100.0		
Howick Private Hospital Holdings Limited *			**49.1**	49.1		
Medical Human Resources (Proprietary) Limited			**100.0**	100.0		
Medical Innovations (Proprietary) Limited			**100.0**	100.0		
Medi-Clinic Limited			**100.0**	100.0		
Medi-Clinic Holdings (Namibia) (Proprietary) Limited			**100.0**	100.0		
Medipark Clinic (Proprietary) Limited			**100.0**	100.0		
Newcastle Private Hospital Limited *			**15.1**	15.1		
Paarl Medi-Clinic (Proprietary) Limited			**70.0**	70.0		
Phodiclinics (Proprietary) Limited			**51.0**	51.0		
Phodiso Health Services (Proprietary) Limited			**100.0**	-		
Plettenberg Bay Private Health Centre (Proprietary) Limited			**100.0**	100.0		
Practice Relief (Proprietary) Limited			**100.0**	100.0		
Reef-Med (Proprietary) Limited			**53.9**	53.9		
Tshwane Private Hospitals (Proprietary) Limited			**51.0**	51.0		
Tzaneen Private Hospital (Proprietary) Limited *			**49.4**	49.4		
Victoria Hospital Limited			**33.3**	33.3		
Indirectly held through Medi-Clinic Limited						
Kimberley Medi-Clinic (Proprietary) Limited $			**89.7**	89.7		
Ermelo Medi-Clinic (Proprietary) Limited $			**50.8**	50.0		
Barberton Medi-Clinic (Proprietary) Limited $			**77.0**	77.0		
Hermanus Medi-Clinic Limited * $			**34.9**	34.9		
Potchefstroom Medi-Clinic (Proprietary) Limited $			**94.6**	94.6		
Limpopo Medi-Clinic Limited $			**50.0**	50.0		
Upington Private Hospital (Proprietary) Limited * $			**40.9**	40.9		
Indirectly held through Tshwane Private Hospitals (Proprietary) Limited						
Curamed Holdings Limited (Effective holding = 34%)			**63.0**	63.0		
Indirectly held through Medipark Clinic (Proprietary) Limited						
ER24 Holdings (Proprietary) Limited			**100.0**	50.0		
All increases in the above shareholdings were paid for in cash.						
* Controlled through long-term management agreements						
$ Operating through trusts or partnerships						

JOINT VENTURES

Wits University Donald Gordon Medical Centre (Proprietary) Limited			**49.9**	-		

ASSOCIATES

	Interest in capital		Book value of investment		Amount owing by associates	
	2006 %	2005 %	**2006 R'm**	2005 R'm	**2006 R'm**	2005 R'm
Group						
Unlisted:						
Hospital Medical Systems Joint Venture	-	38.0	-	8	-	24
Commsco Holdings (Proprietary) Limited	-	33.0	-	-	-	-
ER24 Holdings (Proprietary) Limited	-	50.0	-	-	-	16
Curamed-Thabazimbi Trust	38.0	37.0	-	-	3	2
			-	8	3	42
The nature of the activities of the associates is similar to the major activities of the Group.						

ANALYSIS OF SHAREHOLDERS

at 31 March 2006

DISTRIBUTION OF ORDINARY SHAREHOLDERS	Number of shareholders	Number of shares	%
Public shareholders	4,072	158,469,577	40.19%
Non-public shareholders	25	235,868,872	59.81%
Directors and associates		2,262,502	0.57%
Own holdings (treasury shares)		3,467,185	0.88%
Industrial Partnership Investments Limited (Remgro)		170,988,418	43.36%
Black Economic Empowerment shareholders		59,150,767	15.00%
	4,097	394,338,449	100.00%

In terms of the principles of disclosure in accordance with section 140A(8)(a) of the Companies Act, 61 of 1973, as amended, the following shareholders held an interest of more than 5% in the Company on 31 March 2006:

Industrial Partnership Investments Limited (Remgro)		170,988,418	43.36%
Black Economic Empowerment shareholders		59,150,767	15.00%
Mpilo Investment Holdings 2 (Pty) Ltd (Phodiso Holdings)		27,110,768	6.87%
Mpilo Investment Holdings 1 (Pty) Ltd (Circle Capital Ventures)		16,266,461	4.12%
The Mpilo Trust		15,773,538	4.00%

DIRECTORS' INTERESTS*	2006				2005	
	Beneficial		Non-Beneficial		Beneficial	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
E de la H Hertzog	-	1,714,319	6,702	-	-	1,709,000
LJ Alberts	257,177	24,416	-	-	181,700	25,500
S Dakile-Hlongwane	-	-	-	-	-	-
WP Esterhuyse	-	-	-	-	-	-
J du T Marais	20,065	3,685	-	-	2,000	3,900
AR Martin	-	1,915	-	-	2,000	-
DP Meintjes	47,683	500	-	-	30,500	-
V E Msibi	-	-	-	-	n/a	n/a
AA Raath	-	-	-	-	-	-
MA Ramphele	-	-	-	-	-	-
JG Swiegers	54,543	117,135	-	13,405	-	136,334
WL van der Merwe	957	-	-	-	1,000	-
MH Visser	-	-	-	-	n/a	n/a
	380,425	1,861,970	6,702	13,405	217,200	1,874,734

* There has been no change in the directors' interests between the end of the financial year and 10 May 2006.

ANALYSIS OF SHAREHOLDERS

at 31 March 2006 (continued)

SHAREHOLDING ANALYSIS	Number of shareholders	%	Number of shares	%
1 - 1 000 shares	2,138	52.18%	808,380	0.20%
1 001 - 10 000 shares	1,364	33.29%	4,848,186	1.23%
10 001 -100 000 shares	403	9.84%	12,939,028	3.28%
100 001 - 1 000 000 shares	158	3.86%	51,100,448	12.96%
Over 1 000 000 shares	34	0.83%	324,642,407	82.33%
	4,097	100.00%	394,338,449	100.00%

JSE LIMITED	2006	2005
Market capitalisation as at 31 March (R'000)	8,143,089	5,356,010
Price (cents per share)		
31 March	2,065	1,530
Highest	2,230	1,585
Lowest	1,420	1,150
Number of shares traded (000's)	112,967	43,693

SHARE CLOSING PRICE FROM 1987–2006

NOTICE OF ANNUAL GENERAL MEETING

MEDI-CLINIC CORPORATION LIMITED
Registration number: 1983/010725/06
Share Code: MDC
ISIN Code: ZAE000074142
("Medi-Clinic" or "the Company")

NOTICE IS HEREBY GIVEN THAT THE TWENTY-THIRD ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD AT MEDI-CLINIC OFFICES, STRAND ROAD, STELLENBOSCH ON THURSDAY, 27 JULY 2006 AT 15:00 TO CONSIDER, AND IF APPROVED, PASS THE FOLLOWING RESOLUTIONS WITH OR WITHOUT MODIFICATION:

1. CONSIDERATION OF ANNUAL FINANCIAL STATEMENTS

Ordinary Resolution Number 1
Resolved that the audited annual financial statements of the Company and the group for the year ended 31 March 2006 be accepted.

2. APPROVAL OF DIRECTORS' REMUNERATION

Ordinary Resolution Number 2
Resolved that the joint remuneration of the non-executive directors in the amount of R1 524 500 for the year ended 31 March 2006 be approved.

3. RATIFICATION OF CO-OPTION OF DIRECTORS

Ordinary Resolution Number 3
Resolved that the co-option of Dr V E Msibi on 9 November 2005 and Mr M H Visser on 10 November 2005 as non-executive directors of the Company is ratified.

A brief CV of Dr Msibi and Mr Visser appears on page 9 of the annual report.

4. ELECTION OF DIRECTORS

Ordinary Resolution Number 4

4.1 Resolved that Mr J du T Marais who retires in terms of clause 30.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election be hereby re-elected as a director of the Company;

4.2 Resolved that Dr V E Msibi who retires in terms of clause 30.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election be hereby re-elected as a director of the Company;

4.3 Resolved that Mr A A Raath who retires in terms of clause 30.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election be hereby re-elected as a director of the Company;

4.4 Resolved that Mr J G Swiegers who retires in terms of clause 30.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election be hereby re-elected as a director of the Company; and

4.5 Resolved that Mr M H Visser who retires in terms of clause 30.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election be hereby re-elected as a director of the Company;

A brief CV of each of the directors mentioned above appears from pages 8 to 9 of the annual report.

5. AUTHORITY TO PLACE SHARES UNDER CONTROL OF THE DIRECTORS

Ordinary Resolution Number 5
Resolved that 39 433 845 of the unissued ordinary shares in the authorised share capital of the Company be hereby placed under the control of the directors as a general authority in terms of section 221(2) of the Companies Act (Act 61 of 1973), as amended ("the Companies Act"), who are hereby authorised to allot and issue any such shares upon such terms and conditions as the directors in their sole discretion may deem fit, subject to the provisions of the Companies Act, the Articles of Association of the Company and the JSE Limited ("JSE") Listings Requirements ("the Listings Requirements").

6. AUTHORITY TO ISSUE SHARES FOR CASH

Ordinary Resolution Number 6
Resolved that, subject to Ordinary Resolution Number 5, the directors of the Company be and are hereby authorised by way of a general authority, to issue any such number of ordinary shares from the authorised, but unissued shares in the share capital of the Company for cash, as and when the directors in their sole discretion may deem fit, subject to the Companies Act, the Articles of Association of the Company, the Listings Requirements, when applicable, and the following limitations, namely that –

6.1 the securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;

6.2 any such issue will only be made to public shareholders as defined in the Listings Requirements and not to related parties;

6.3 the number of shares issued for cash shall not in the aggregate in any one financial year exceed 10% of the Company's issued share capital of ordinary shares. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue at the date of such application less any ordinary shares issued during the current financial year, provided that any ordinary shares to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to date of application) may be included as though they were shares in issue at the date of application;

6.4 this authority is valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 months from the date that this authority is given;

6.5 a press announcement giving full details, including the impact on the net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of shares in issue prior to the issue; and

6.6 in determining the price at which an issue of shares may be made in terms of this authority post the listing of the Company, the maximum discount permitted will be 10% of the weighted average traded price on the JSE of those shares over the 30 business days prior to the date that the price of the issue is determined or agreed to by the directors of the Company.

This Ordinary Resolution Number 6 is required, under the Listings Requirements, to be passed by achieving a 75% majority of the votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote, at the annual general meeting.

7. AUTHORITY TO REPURCHASE SHARES

Special Resolution Number 1

Resolved that, as a general authority contemplated in sections 85(2) and 85(3) of the Companies Act, the acquisition/s by the Company and/or any subsidiary of the Company, from time to time of the issued ordinary shares of the Company, upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine are hereby authorised, but subject to the Articles of Association of the Company, the provisions of the Companies Act and the Listings Requirements, when applicable, and provided that:

7.1 this authority shall only be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 months from the date this resolution is passed;

7.2 any repurchase of securities will be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party;

7.3 the Company will only appoint one agent to effect any repurchase(s) on its behalf;

7.4 any acquisitions by the Company and/or any subsidiary of the Company of ordinary shares in the aggregate in any one financial year shall be limited to a maximum of 20% of the Company's issued ordinary share capital as at the beginning of the financial year, provided that the acquisition of shares as treasury stock by a subsidiary of the Company shall not exceed 10% of the number of issued shares in the Company;

7.5 in determining the price at which the Company's ordinary shares are acquired by the Company and/or any subsidiary of the Company in terms of this authority, the maximum premium at which such ordinary shares may be acquired will be 10% of the weighted average of the market price at which such ordinary shares are traded on the JSE, as determined over the 5 trading days immediately preceding the date of the repurchase of such ordinary shares by the Company and/or any subsidiary of the Company;

7.6 the Company and/or any subsidiary of the Company may not repurchase securities during a prohibited period, as defined in the Listings Requirements;

7.7 after any repurchase of securities the Company will continue to comply with the Listings Requirements concerning shareholder spread requirements; and

7.8 a press announcement will be published giving such details as may be required in terms of the Listings Requirements as soon as the Company and/or any subsidiary has cumulatively repurchased 3% of the number of shares in issue at the date of the passing this resolution, and for each 3% in aggregate of the initial number of shares in issue acquired thereafter.

The board has no immediate intention to use this authority to repurchase Company shares. However, the board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future. The board undertake that they will not implement the proposed authority to repurchase shares, unless the directors are of the opinion that:

7.9 the Company and the Group will be able in the ordinary course of business to pay its debts for a period of 12 months after the date of the notice of the annual general meeting;

7.10 the assets of the Company and the Group, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the liabilities of the Company and the Group for a period of 12 months after the date of the notice of the annual general meeting;

7.11 the share capital and reserves of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of the annual general meeting; and

7.12 the working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of the annual general meeting.

The Company will ensure that its Sponsor has confirmed the adequacy of the Company's working capital in writing to the JSE in terms of the Listings Requirements, prior to entering the market to proceed with a repurchase.

Please refer to the additional disclosure of information contained in this notice, which disclosure is required in terms of the Listings Requirements.

Reason for and Effect of Special Resolution Number 1

The reason for and the effect of the special resolution is to grant the Company's directors a general authority, up to and including the date of the following annual general meeting of the Company, to approve the Company's purchase of shares in itself, or of shares in its holding Company, or to permit a subsidiary of the Company to purchase shares in the Company.

8. To transact any other business that may be transacted at an annual general meeting.

ADDITIONAL DISCLOSURE OF INFORMATION

Further to Special Resolution Number 1, the Listings Requirements require the disclosure of the following information, some of which appears elsewhere in the annual report of which this notice forms part as set out below:

- Directors and management
  See pages 8 to 9 of the annual report.
- Major shareholders of the Company
  See page 75 of the annual report.
- Material changes
  There are no material changes to report on.
- Directors' interests in securities
  See page 75 of the annual report.
- Share capital of the Company
  See page 75 of the annual report.

NOTICE OF ANNUAL GENERAL MEETING

- Litigation statement
  In terms of section 11.26 of the Listings Requirements, the directors, whose names appear on pages 8 to 9 of the annual report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Group's financial position.
- Directors' responsibility statement
  The directors, whose names appear on pages 8 to 9 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to Special Resolution Number 1 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that Special Resolution Number 1 contains all information required by law and the Listings Requirements.

VOTING AND ATTENDANCE AT THE ANNUAL GENERAL MEETING

Members 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. Any such member is entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member of the Company. Proxy forms must be forwarded to reach the Company's transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 or posted to the transfer secretaries at P O Box 61051, Marshalltown, 2107, South Africa, so as to be received by them by not later than 15:00 on **Tuesday, 25 July 2006**. Proxy forms must only be completed by members who have not dematerialised their shares or who have dematerialised their shares and registered them in their own name.

On a show of hands, every member of the Company present in person or represented by proxy shall have one vote only. On a poll, every member of the Company shall have one vote for every share held in the Company by such member.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with "own" name registration, should contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in their agreement, in order to furnish them with their voting instructions and to obtain the necessary authority to do so, in the event that they wish to attend the annual general meeting.

By order of the Board of Directors.

GC HATTINGH

Company Secretary

STELLENBOSCH

30 June 2006

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Ordinary Resolutions

1. Consideration of annual financial statements

In terms of the Companies Act (Act 61 of 1973), as amended ("the Companies Act"), the directors are obliged to present the annual financial statements and group annual financial statements to the members at the annual general meeting.

2. Approval of directors' remuneration

In terms of the Company's Articles of Association, the remuneration payable to non-executive directors must be determined at the Company's annual general meeting.

Full particulars of directors' emoluments are disclosed on pages 67 to 68 of the annual report of which this notice forms part.

3. Ratification of co-option of directors

The board has approved the appointment of Dr V E Msibi with effect from 9 November 2005 and Mr M H Visser with effect from 10 November 2005 as non-executive directors of the Company. The Company's members are requested to ratify the co-option of Dr Msibi and Mr Visser.

4. Election of directors

In terms of the Company's Articles of Association, one third of the directors are required to retire at each annual general meeting and may offer themselves and are eligible for re-election.

5. Authority to place shares under control of the directors

In terms of the Companies Act, the members of the Company must approve the placement of the unissued shares under the control of the directors. This authority is due to expire at the forthcoming annual general meeting, unless renewed.

6. Authority to issue shares for cash

In terms of the JSE Limited ("JSE") Listings Requirements ("the Listings Requirements"), the members of the Company must approve the issue of shares for cash. The existing authority is due to expire at the forthcoming annual general meeting, unless renewed.

The directors consider it advantageous for the Company to obtain the authority to issue shares for cash to enable the Company to take advantage of business opportunities that may arise in the future.

Special Resolution

7. Authority to repurchase shares

The annual renewal of the authority is required in terms of the Companies Act and the Listings Requirements. The existing authority to the directors is due to expire at the forthcoming annual general meeting, unless renewed.

MEDI-CLINIC CORPORATION LIMITED
Registration number: 1983/010725/06
Share Code: MDC
ISIN Code: ZAE000074142
("Medi-Clinic" or "the Company")

PROXY FORM

THIS PROXY FORM IS ONLY FOR USE BY:

1. REGISTERED MEMBERS WHO HAVE NOT YET DEMATERIALISED THEIR SHARES IN THE COMPANY, AND
2. REGISTERED MEMBERS WHO HAVE ALREADY DEMATERIALISED SHARES IN THE COMPANY AND ARE REGISTERED IN THEIR OWN NAMES IN THE COMPANY'S SUB-REGISTER*

For use by registered members of the Company at the twenty-third annual general meeting of the Company to be held on Thursday, 27 July 2006 at 15:00 at Medi-Clinic Offices, Strand Road, Stellenbosch ("the annual general meeting").

I/We (please print) _____ (name)

of _____ (address)

being the holder of _____ ordinary shares in the Company, hereby appoint (see instruction 1 overleaf):

1. _____ or failing him/her,

2. _____ or failing him/her,

3. the chairman of the annual general meeting,

as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the Company to be held on the 27th day of July 2006 or at any adjournment thereof, as follows (see note 2 and instruction 2 overleaf):

	Insert the number of votes exercisable (one vote per share)		
	For	Against	Abstain
Ordinary Resolutions			
1. Consideration of annual financial statements			
2. Approval of directors' remuneration			
3. Ratification of co-option of directors			
3.1 V E Msibi			
3.2 M H Visser			
4. Election of directors:			
4.1 J du T Marais			
4.2 V E Msibi			
4.3 A A Raath			
4.4 J G Swiegers			
4.5 M H Visser			
5. Authority to place shares under control of the directors			
6. Authority to issue shares for cash			
Special Resolution			
7. Authority to repurchase shares			

Signed at _____ on _____ 2006.

Signature/s _____

Assisted by me (where applicable) _____

Please read the notes and instructions overleaf.
* See explanatory note 3 overleaf.

PROXY FORM
(continued)

NOTES:

1. A member entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

2. Every member present in person or by proxy and entitled to vote at the annual general meeting of the Company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds, but in the event of a poll, every ordinary share in the Company shall have one vote.

3. Members who have dematerialised their shares in the Company and are registered in their own names are members who appointed Computershare Custodial Services as their Central Securities Depository Participant (CSDP) with the express instruction that their uncertificated shares are to be registered in the electronic sub-register of members in their own names.

INSTRUCTIONS ON SIGNING AND LODGING THE PROXY FORM:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A member's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that member in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or by his/her proxy.

3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

4. To be valid the completed proxy forms must be lodged with the transfer secretaries of the Company, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001, South Africa or posted to the transfer secretaries at P O Box 61051, Marshalltown, 2107, South Africa, to be received by them not later than **Tuesday, 25 July 2006** at 15:00 (South African time).

5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.

6. The completion and lodging of this proxy form shall not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.

7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.

8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.