Unaudited interim financial results

for the six months ended 31 December 2004

Discovery

Highlights

- Headline earnings +43%
- Embedded value +27% to R8 billion
- New business annualised premium income R2 billion for the six months
- Gross inflows under management +21%
- Destiny Health achieves overall profitability in January 2005
- Discovery Life signs letter of intent with Prudential to market protection products in UK

Introduction

Discovery's performance over the period was pleasing. Its established businesses generated strong organic growth, while intense focus was applied to Discovery's new businesses, yielding significant progress and creating platforms for future growth.

Despite significant start-up costs associated with PruHealth and the Discovery-Card, pre-tax profit increased by 36%, with diluted headline earnings per share increasing by 35%. Annualised new business premium income grew by 34% to R1 957 million.

The Discovery business model is based on the concept of engaging consumers in their health, enabling it to provide financial products that are efficient, sustainable and appropriate. It is this simple idea of "making people healthier and protecting their lifestyles" that underpins all of Discovery's businesses. Importantly, this consumerism is a key emerging trend in most markets and Discovery's experience in this regard places it in a uniquely competitive position going forward. The six months under review reflect this competitiveness and the ability to migrate the model to other markets.

Discovery Health

Discovery Health's performance was particularly pleasing over the period. Discovery Health is resolutely committed to building a robust and efficient private health care system consistent with Government policy. In this regard, it must balance and align the needs of members and the health care system with its corporate needs.

Its performance over the period demonstrates this ability clearly: Members of the Discovery Health Medical Scheme entered 2005 with the lowest level of medical contribution inflation ever, benefits were increased in key areas, and remuneration for general practitioners and specialists was increased significantly. The Discovery Health Medical Scheme generated a surplus of R1,4 billion over the period, increasing its reserve levels to R3,1 billion, marginally missing the target of 25%. By January 2005, this target of R3,2 billion has now been exceeded.

Discovery Health's size, infrastructure and capabilities positioned it for growth and efficiency. Annualised new business premium income to Discovery Health increased 26% to R1 175 million (2003: R935 million). Operating profit increased by 15% to R249 million (2003: R216 million), despite the discontinuation of all reinsurance.

Discovery Life

Discovery Life's performance continues to exceed expectation. Operating profit increased by 82% to R191 million (2003: R105 million), with annualised new business production increasing 19% to R332 million (2003: R279 million). The value of the in-force business increased by 73% to R1 641 million (2003: R946 million).

Discovery Life has established a leadership position within the pure life assurance market. In the period under review it focused on continued innovation and integration with Discovery Health and Vitality. Notably, the quality of business written and the unfolding mortality and morbidity experience significantly exceeded expectation, driving profitability and embedded value.

The integration strategy has proved remarkably successful with 94% of those eligible, opting for the "Integrator" version of the Discovery Life Plan. Early, but strong evidence is beginning to emerge, which illustrates the positive correlation between Vitality membership and better mortality and morbidity experience. This clearly bodes well for future growth and profitability.

Based on Discovery Life's product technology and infrastructure, a letter of intent has been signed with the Prudential Assurance Company Limited, a wholly-owned subsidiary of Prudential plc, for the development and marketing of protection products in the United Kingdom using Discovery's product and administration strengths. The products will be marketed under the Prudential brand, and will be distributed through Prudential's existing sales channels.

Destiny Health

Destiny's performance exceeded expectation. The company had the stated intention of generating an overall profit across all its markets by the end of 2004. This goal was set after Destiny generated a profit in Illinois, its initial market, early in 2004.

To this end, annualised new business increased over the period under review by 84% to R409 million (2003: R222 million). Membership crossed the stated and important target of 50 000 lives and operating losses for the period decreased by 51% to R39 million (2003: R79 million). A maiden operating profit of R1,6 million was generated in January 2005.

Significant progress was made with Destiny's joint venture partners:

- The joint venture with the Guardian Life Insurance Company is performing ahead of expectation. Increasing success is being achieved in the Illinois market and during the period, the company successfully expanded into the Washington DC-Virginia-Maryland market. Early progress in this new market has exceeded expectation.
- While the initial progress in Massachusetts with the Tufts Health Plan was slow, significantly more traction was achieved during the period with new business production more in line with that budgeted.

Overall, Destiny is now well placed in three important markets and is now evaluating a further expansion market for late 2005. A platform for growth has been established with considerable focus now being applied to increase the distribution scale and intensity in these markets.

The performance of the company's products has exceeded expectation and operationally, the company has performed well. The move of back-office functionality to South Africa was accelerated during the period, providing the company with competitive advantage both functionally and in terms of cost. More than 200 people now serve Destiny from South Africa.

PruHealth

During the period, PruHealth was successfully launched into the UK private medical insurance market. The start-up costs amounted to R80 million over the period, in line with the budget set.

By the end of the period under review – three months from its launch – approximately 1 800 lives were covered. Going forward, the company is well positioned for strong growth and significant overall potential:

- The product construct and its Vitality chassis has been received particularly well by press and brokers. Its structure and approach is consistent with UK Government health policy of now focusing on making people healthier.
- Recent research illustrates the success of PruHealth's positioning. The company's brand awareness amongst consumers rivals that of its major competitors, AXA PPP, Standard Life and Norwich Union – reflecting the powerful brand platform provided by the Prudential plc.
- The infrastructure built is significant, utilising the back-office capabilities of Discovery. The platform built is now ready to support significant growth going forward.

The focus in the short-term is on building the distribution capabilities so that the significant potential within PruHealth can be realised.

Vitality and Discovery Card

Vitality continues to play a foundational role in all of Discovery's businesses and is the embodiment of Discovery's vision of making people healthier. The marked and positive impact of Vitality on morbidity and mortality is becoming statistically clear and strongly supports the Discovery strategy of intense focus in this area.

In the period under review operating profit reduced by 55% to R9 million (2003: R20 million). This was caused by the enhancement of certain key Vitality benefits and the significant investment in the development and rolling out of the DiscoveryCard, Discovery's new generation credit card. The combined positive knock-on effect elsewhere within Discovery will more than compensate for this going forward, and it is expected that the Vitality profit levels will return to and grow off previous levels.

The launch of DiscoveryCard during the period was particularly successful, with over 60 000 cards purchased in just the first three months. However, the combination of significant sales, the chosen courier delivery system and the onerous documentation requirements of the Financial Intelligence Centre Act (FICA) created significant delivery bottlenecks. This has largely been addressed and it is anticipated that card sales will continue to grow significantly, providing a foundation for an intensifying of Discovery's drive to incentivise better health.

Prospects

All of Discovery's businesses are well positioned for strong growth going forward without requiring recourse to additional capital.

By order of the board

LL Dippenaar
Chairman

A Gore
Chief Executive Officer

17 February 2005

Directors
LL Dippenaar (Chairman), A Gore (Chief Executive Officer), JM Robertson (Chief Operating Officer), Dr BA Brink, JP Burger, Dr NJ Dlamini, SB Epstein** (USA), MI Hilkowitz, NS Koopowitz*, HP Mayers*, B Swartzberg*, SV Zilwa, SD Whyte*
**Executive **Appointed 17 February 2005*

Transfer secretaries
Computershare Investor Services 2004 (Pty) Limited
(Registration number 2004/003647/07)
Ground Floor, 70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

Sponsors
Rand Merchant Bank (A division of FirstRand Bank Limited) Corporate Finance

Secretary and registered office
MJ Botha
155 West Street, Sandton, 2146
PO Box 786722, Sandton, 2146
Tel: (011) 529 2888 Fax: (011) 529 2958

Discovery Holdings Limited
(Registration number 1999/007789/06)
Share code: DSY ISIN code: ZAE000022331

Income statement

for the six months ended 31 December 2004

R million	Group Six months ended December 2004 Unaudited	Group Six months ended December 2003 Unaudited	% change	Group Year ended June 2004 Audited
Gross income of group	1 840	2 021		3 698
Outward reinsurance premiums	(145)	(168)		(293)
Net income	1 695	1 853		3 405
Policyholder benefits	(370)	(796)		(1 078)
Recoveries from reinsurers	99	138		237
Net policyholder benefits	(271)	(658)		(841)
Commissions	(363)	(279)		(576)
Operating and administration expenses	(837)	(787)		(1 495)
Vitality benefits	(190)	(144)		(314)
Transfer from assets/liabilities arising from insurance contracts	296	277		529
Profit from operations	330	262	26	708
Local operations	449	341		842
Foreign operations	(119)	(79)		(134)
Investment income	85	70		124
Realised and unrealised investment gains	82	52		68
Fair value adjustment to liabilities arising from investment contracts	(91)	(60)		(71)
Financing costs	(23)	(31)		(47)
Foreign exchange loss – unrealised	(33)	(36)		(62)
Profit before taxation	350	257	36	720
Taxation	(144)	(123)		(299)
Profit after taxation	206	134	54	421
Minority share of loss	–	1		(3)
Net profit attributable to ordinary shareholders	206	135	53	418
Earnings per share (cents)				
– undiluted	39.7	27.3	45	83.0
– diluted	38.5	26.6	45	79.7
Headline earnings per share (cents)				
– undiluted	36.7	27.1	35	80.5
– diluted	35.7	26.4	35	77.4
Weighted number of shares in issue (000's)	518 793	494 914		504 051
Diluted weighted number of shares (000's)	549 271	526 922		536 025
Headline earnings				
Net profit attributable to ordinary shareholders	206	135		418
Adjusted for realised profit on available-for-sale financial instruments	(15)	(1)		(13)
Headline earnings	191	134	43	405

Balance sheet

at 31 December 2004

R million	Group December 2004 Unaudited	Group June 2004 Audited
ASSETS		
Cash and cash equivalents	1 186	998
Government and public authority stocks		
– available-for-sale	135	130
– at fair value through profit and loss	51	52
Equity investments		
– available-for-sale	801	602
– at fair value through profit and loss	322	251
Investment in associate	3	2
Investment assets	2 498	2 035
Loans and receivables	438	430
Taxation	17	–
Deferred taxation	10	10
Assets arising from insurance contracts	1 615	1 318
Intangible assets	42	38
Equipment	183	201
Total assets	4 803	4 032
LIABILITIES AND SHAREHOLDERS' FUNDS		
LIABILITIES		
Current liabilities	739	578
Provisions	23	22
Taxation	–	43
Deferred taxation	262	128
Liabilities arising from insurance contracts	7	6
Liabilities arising from reinsurance contracts	34	36
Financial liabilities	850	716
– Investment contracts at fair value through profit and loss	470	400
– Borrowings at amortised cost	380	316
Total liabilities	1 915	1 529
Outside shareholders' interest	67	67
SHAREHOLDERS' FUNDS		
Share capital and share premium	1 293	1 276
Reserves	1 528	1 160
Total shareholders' funds	2 821	2 436
Total liabilities and shareholders' funds	4 803	4 032
Net asset value per share (cents)	542.4	474.6
Number of shares in issue (000's)	520 139	513 287

Cash flow statement

for the six months ended 31 December 2004

R million	Group Six months ended December 2004 Unaudited	Group Six months ended December 2003 Unaudited	Group Year ended June 2004 Audited
Health	**316**	282	655
Life	**80**	(164)	(248)
– operating activities	**(120)**	(164)	(248)
– quota share deposit	**200**	–	–
Vitality	**15**	22	62
Holdings	**–**	–	(1)
Destiny	**(27)**	(82)	(103)
PruHealth	**(77)**	–	(28)
Cash generated by operations	**307**	58	337
Working capital changes	**(41)**	(62)	(119)
	266	(4)	218
Dividends received	**11**	5	14
Interest received	**46**	61	88
Interest paid	**(3)**	(16)	(14)
Taxation paid	**(114)**	(132)	(214)
Cash flow from operating activities	**206**	(86)	92
Cash flow from investing activities	**(69)**	(363)	(504)
Investment purchases	**(111)**	(336)	(565)
Proceeds on disposal of investments	**91**	40	176
Purchase of equipment	**(36)**	(48)	(93)
Purchase of intangible assets	**(16)**	(23)	(26)
Decrease in loans receivable	**3**	4	4
Cash flow from financing activities	**59**	(28)	(39)
Proceeds from shares issued	**18**	878	878
Share issue costs written off against share capital	**(1)**	(28)	(30)
Dividends paid to Destiny Health preference shareholders	**–**	(2)	(2)
Minority share buy-back	**(1)**	–	(9)
Increase in borrowings	**43**	–	–
Repayment of short-term loan	**–**	(876)	(876)
Net increase/(decrease) in cash and cash equivalents	**196**	(477)	(451)
Cash and cash equivalents at beginning of year	**998**	1 469	1 469
Effects of exchange rate changes on cash and cash equivalents	**(8)**	(48)	(20)
Cash and cash equivalents at end of year	**1 186**	944	998

Statement of changes in equity

for the six months ended 31 December 2004

R million	Share capital	Share premium	Invest-ment reserve	Retained earnings	Trans-lation reserve	Hedging reserve	Total
31 December 2004							
Balance at 1 July 2004	**1**	**1 275**	**51**	**1 046**	**69**	**(6)**	**2 436**
Issue of capital	*****	**18**	**–**	**–**	**–**	**–**	**18**
Share issue expenses	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Net profit for the period	**–**	**–**	**–**	**206**	**–**	**–**	**206**
Dividends paid to Destiny Health preference shareholders	**–**	**–**	**–**	**(1)**	**–**	**–**	**(1)**
Unrealised gains on investments	**–**	**–**	**163**	**–**	**–**	**–**	**163**
Realised gains on investments transferred to income statement	**–**	**–**	**(15)**	**–**	**–**	**–**	**(15)**
Revaluation of forward foreign exchange contract	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Translation of foreign subsidiary	**–**	**–**	**–**	**–**	**9**	**–**	**9**
Balance at 31 December 2004	**1**	**1 292**	**199**	**1 251**	**78**	**–**	**2 821**
31 December 2003							
Balance at 1 July 2003	1	428	(4)	634	52	(14)	1 097
Issue of capital	*	877	–	–	–	–	877
Share issue expenses	–	(28)	–	–	–	–	(28)
Net profit for the period	–	–	–	135	–	–	135
Unrealised gains on investments	–	–	75	–	–	–	75
Realised gains on investments transferred to income statement	–	–	(1)	–	–	–	(1)
Revaluation of forward foreign exchange contract	–	–	–	–	–	14	14
Translation of foreign subsidiary	–	–	–	–	1	–	1
Balance at 31 December 2003	1	1 277	70	769	53	–	2 170

** Amount is less than R500 000*

Segmental information

for the six months ended 31 December 2004

R million	Health: South Africa	Health: United States of America	Health: United Kingdom	Life	Vitality	Total
31 December 2004						
New business annualised premium income	**1 175**	**409**	**5**	**332**	**36**	**1 957**
Income statement						
Gross income	**782**	**237**	*****	**587**	**234**	**1 840**
Reinsurance	**(2)**	**(3)**	**–**	**(140)**	**–**	**(145)**
Net policyholder benefits	**(3)**	**(171)**	*****	**(97)**	**–**	**(271)**
Commissions	**–**	**(20)**	*****	**(325)**	**(18)**	**(363)**
Operating and administration expenses	**(528)**	**(82)**	**(80)**	**(130)**	**(207)**	**(1 027)**
Transfer from assets/liabilities under insurance contracts	**–**	**–**	**–**	**232**	**–**	**232**
	249	**(39)**	**(80)**	**127**	**9**	**266**
Return on assets under insurance contracts	**–**	**–**	**–**	**64**	**–**	**64**
Profit/(loss) from operations	**249**	**(39)**	**(80)**	**191**	**9**	**330**
Investment income and realised profits						**76**
Financing costs						**(23)**
Foreign exchange loss – unrealised						**(33)**
Profit before taxation						**350**
31 December 2003						
New business annualised premium income	935	222	–	279	26	1 462
Income statement						
Gross income	1 287	165	–	384	185	2 021
Reinsurance	(44)	(44)	–	(80)	–	(168)
Net policyholder benefits	(488)	(82)	–	(88)	–	(658)
Commissions	–	(9)	–	(260)	(10)	(279)
Operating and administration expenses	(539)	(109)	–	(128)	(155)	(931)
Transfer from assets/liabilities under insurance contracts	–	–	–	234	–	234
	216	(79)	–	62	20	219
Return on assets under insurance contracts	–	–	–	43	–	43
Profit/(loss) from operations	216	(79)	–	105	20	262
Investment income and realised profits						62
Financing costs						(31)
Foreign exchange loss – unrealised						(36)
Profit before taxation						257

** Amount is less than R500 000*

Embedded value statement

for the six months ended 31 December 2004

Group embedded value at 31 December 2004

R million	Group 31 December 2004	Group 31 December 2003	% change	Group 30 June 2004
Shareholders' funds	**2 821**[1]	2 170[2]	30	2 436
Value of in-force business before cost of capital	**5 604**	4 402	27	4 803
Cost of capital	**(434)**	(290)	50	(363)
Discovery Holdings embedded value	**7 991**	6 282	27	6 876
Number of shares (millions)	**520,1**	513,5		513,3
Embedded value per share	**R15,36**	R12,23	26	R13,40
Diluted embedded value per share	**R14,71**	R11,67	26	R12,89

(1) Shareholders' funds include R1 605 million in respect of the Life product negative reserve.

(2) Destiny Health preference shares were converted at R14/US$1 during 2003 and not at historical rates of R7/US$1, in accordance with the Group's accounting policy. As described in the 2004 Annual Report, the 31 December 2003 shareholders' funds balance was restated to record the preference shares at historical rates. The effect of this restatement was to increase the currency translation reserve by R60 million and reduce outside shareholders' interest by R60 million.

Value of in-force business at 31 December 2004

R million	Value before cost of capital	Cost of capital	Value after cost of capital
Health and Vitality	**3 329**	**–**[1]	**3 329**
Life	**2 062**	**(421)**	**1 641**
Destiny Health [2]	**213**	**(13)**	**200**
Total	**5 604**	**(434)**	**5 170**

(1) With effect from 1 January 2004, no allowance has been made for the inclusion in the Health value of in-force of any reinsurance contracts and the cost of capital associated with such contracts.

(2) Figures for Destiny Health reflect Discovery's 99,2% shareholding in Destiny Health at 31 December 2004.

Value of in-force business at 30 June 2004

R million	Value before cost of capital	Cost of capital	Value after cost of capital
Health and Vitality	3 194	–	3 194
Life	1 447	(340)	1 107
Destiny Health	162	(23)	139
Total	4 803	(363)	4 440

Embedded value earnings

R million	Six months ended 31 December 2004	Six months ended 31 December 2003	Twelve months ended 30 June 2004
Embedded value at end of period	**7 991**	6 282	6 876
Embedded value at beginning of period	**6 876**	4 928	4 928
Increase in embedded value	**1 115**	1 354	1 948
Net issue of capital	**(17)**	(849)	(847)
Dividends paid to Destiny Health preference shareholders	**1**	1	1
Revaluation of forward foreign exchange contract	**(6)**	(14)	(8)
Embedded value earnings	**1 093**	492	1 094
Annualised return on embedded value (%)	**34,3**	20,9	22,2

Components of embedded value earnings

R million	Six months ended 31 December 2004	Six months ended 31 December 2003	% change	Twelve months ended 30 June 2004
Total profit from new business (at point of sale)	**375**	358	5	637
Profit from existing business				
* Expected return	**286**	272		534
* Change in methodology and assumptions [1]	**315**	(262)		(361)
* Experience variances	**56**	60		230
Acquisition costs [2]	**(60)**	(40)		(5)
PruHealth start-up costs	**(64)**	–		(28)
Adjustment for minority interest in Destiny Health	**1**	4		(4)
Adjustment for Guardian profit share in Destiny Health [3]	**(9)**	–		(8)
Foreign exchange rate movements	**(38)**	(13)		(67)
Interest on loan capital	**(20)**	(25)		(41)
Return on shareholders' funds [4]	**251**	138		207
Embedded value earnings	**1 093**	492		1 094

(1) The change in methodology and assumptions item will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in the table below (for previous periods refer to previous embedded value statements).

(2) A large proportion of Health and Vitality new business was written over the period but only activated on 1 January 2005. Acquisition costs of R37 million (December 2003: R30 million) arise in respect of these members who are not included in the embedded value calculation. Similarly acquisition costs of R15 million (December 2003: R10 million) arise for Destiny Health. Life acquisition costs of R8 million relate to commission paid in respect of new business that was not yet on risk at 31 December 2004.

(3) In terms of the agreement between Destiny Health and the Guardian Life Insurance Company of America, Guardian will share in 50% of the profits from Destiny's non-alliance business once the business written by Guardian reaches the contractual new member threshold. This is modelled to occur in June 2007. Based on Guardian's progress at 31 December 2004 towards achieving this target, the value attributed to Destiny's non-alliance business from 30 June 2007 has been reduced by 13,7% (June 2004: 6,8%) in the embedded value calculation.

(4) Return on shareholders' funds is the investment return on shareholders' funds after tax and management charges. Shareholders' funds include the Life product's negative reserve.

Methodology and assumption changes for the six months ended 31 December 2004

R million	Health and Vitality	Destiny Health	Life	Total
Modelling changes	**–**	**(23)**	**19**	**(4)**
Quota share	**–**	**22**	**–**	**22**
Lapses [1]	**14**	**4**	**(4)**	**14**
Economic assumptions [2]	**35**	**13**	**73**	**121**
Expenses [3]	**160**	**35**	**6**	**201**
Mortality and morbidity	**–**	**(5)**	**8**	**3**
Benefit enhancements [4]	**(72)**	**–**	**(2)**	**(74)**
Premium increase	**–**	**(15)**	**–**	**(15)**
Regulatory change [5]	**–**	**–**	**99**	**99**
Tax [6]	**(55)**	**–**	**–**	**(55)**
Other	**–**	**3**	**(0)**	**3**
Total	**82**	**34**	**199**	**315**

(1) The Life lapse assumption change is in respect of Health Plan Protector policies.

(2) The Life economic assumptions change includes a higher cancellation rate on contribution increases which has been changed to be consistent with the current lower inflationary environment. The impact of this change was a negative R57 million. The impact of the 1,5% reduction in the economic assumptions is positive R124 million.

(3) The Health and Vitality renewal expense assumption change is based on the results of the most recent expense analysis (31 December 2004). For Health and Vitality, the actual experience reflects efficiencies achieved in managing the Health business. The Destiny Health renewal expense assumption has been adjusted to allow for the expected growth in membership over the next 12 months.

(4) The Health and Vitality assumption change includes an allowance for the expected cost of benefit enhancements on Vitality.

(5) This represents the value to shareholders of the deferment of tax. A deferred tax liability has been set up that is explained in the balance sheet section of the financial commentary.

(6) The tax assumption change reflects a higher average VAT rate modelled.

Experience variances for the six months ended 31 December 2004

R million	Health and Vitality	Destiny Health	Life	Total
Renewal expenses	**7**	**9**	**2**	**18**
Non-recurring expenses [1]	**(15)**	**(3)**	**–**	**(18)**
Inflation [2]	**(102)**	**–**	**6**	**(96)**
Extended modelling term [3]	**74**	**6**	**1**	**81**
Lapses [4]	**62**	**(14)**	**(10)**	**38**
Policy alterations	**3**	**2**	**37**	**42**
Mortality and morbidity [5]	**–**	**(34)**	**33**	**(1)**
Quota share [6]	**–**	**–**	**(7)**	**(7)**
Premium increase	**–**	**5**	**–**	**5**
Reinsurance	**–**	**–**	**(2)**	**(2)**
Other	**(8)**	**9**	**(5)**	**(4)**
Total	**21**	**(20)**	**55**	**56**

(1) The non-recurring expenses for Health and Vitality relate to both the launch of the DiscoveryCard as well as costs relating to the discontinuation of the Corporate Funder benefit. For Destiny Health, non-recurring expenses are in respect of restructuring costs as well as costs relating to the recruitment of an executive director.

(2) The negative variance for Health and Vitality is due to a lower 2005 increase (ie 4,2%) in the Health administration and managed care fees compared with that assumed in June 2004 (ie 5,5%).

(3) The projection term for Health, Vitality, Destiny Health and Group Life at 31 December 2004 has not been changed from that used at 30 June 2004. Thus, an experience variance arises because the total term of the in-force business is effectively increased by six months.

(4) Included in the Health and Vitality lapse experience variance is an amount of R131 million in respect of members joining existing employer groups during the period.

(5) The Life mortality and morbidity variance is net of reinsurance.

(6) The impact of implementing the new quota share agreement was negative R7 million. This, however, excludes investment return of R5 million earned on the assets received.

Embedded value of new business

R million	Six months ended 31 December 2004	Six months ended 31 December 2003	% change	Twelve months ended 30 June 2004
Health and Vitality				
Gross profit from new business at point of sale	**67**	43		155
Cost of capital	**–**	–		–
Net profit from new business at point of sale	**67**	43	56	155
New business annualised premium income [1]	**424**	460	(8)	1 834
Life				
Gross profit from new business at point of sale	**369**	370		583
Cost of capital	**(78)**	(63)		(131)
Net profit from new business at point of sale [2]	**291**	307	(5)	452
New business annualised premium income [3]	**245**	214	14	406
Annualised profit margin [4] (%)	**14,3**	12,1		13,3
Destiny Health				
Gross profit from new business at point of sale	**17**	15		36
Cost of capital [5]	**(0)**	(7)		(6)
Net profit from new business at point of sale [6]	**17**	8	113	30
New business annualised premium income [1]	**250**	137	82	378
New business annualised premium income (US$ million)	**41**	19	116	56

(1) Health and Destiny Health new business annualised premium income is the gross medical contribution. For embedded value purposes, Health and Destiny Health new business is defined as members of new employer groups, and includes additions to first year business.

The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 31 December 2004.

The total Health and Vitality new business annualised premium income written over the period was R1 211 million (December 2003: R961 million). For Destiny Health, the total new business annualised premium income written over the period was R409 million (December 2003: R222 million).

(2) The Life value of new business includes R22 million in respect of the value to shareholders of the deferment of tax. A deferred tax liability has been set up that is explained in the balance sheet section of the financial commentary.

(3) Life new business annualised premium income of R245 million shown above is net of automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R42 million and servicing increases of R45 million was R332 million.

(4) The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums. The majority of policies sold under the Life product have accelerated premiums, ie premiums that increase over the term of the policies, hence expressing the value of new business as a percentage of the current new business premium, 118,8% (December 2003: 143,5%), would overstate the annualised profit margin.

(5) As most of the new business is written on the Guardian and Tufts insurance licences, Destiny Health is not required to hold statutory capital for this business. An explicit charge for the use of their capital is payable to Guardian and Tufts, and this cost is included in the gross profit from new business.

(6) The Destiny Health value of new business allows for the actual new business expenses incurred over the six month period. No allowance for acquisition cost efficiencies which are expected to occur as a result of strong membership growth during 2005 has been made.

Embedded value assumptions

%	31 December 2004	31 December 2003	30 June 2004
Risk discount rate			
– Health and Vitality	**11,00**	13,50	12,50
– Life product	**11,00**	12,50	12,50
– Destiny Health	**10,00**	10,00	10,00
Medical inflation			
South Africa	**7,00**	8,50	8,50
United States	**Current levels reducing to 12,50 over the projection period**	Current levels reducing to 11,50 over the projection period	Current levels reducing to 12,50 over the projection period
Expense inflation			
South Africa	**4,00**	5,50	5,50
United States	**3,00**	5,00	5,00
Pre-tax investment return			
South Africa – Cash	**6,50**	8,00	8,00
– Bonds	**8,00**	9,50	9,50
– Equity	**10,00**	11,50	11,50
United States – Bonds	**2,00**	2,00	2,00
Income tax rate			
– South Africa	**30,00**	30,00	30,00
– United States Federal Tax Rate [1]	**34,00**	34,00	34,00

(1) Various additional State taxes also apply.

Life mortality, morbidity and lapse assumptions were derived from internal experience, where available, augmented by reinsurance and industry information. Renewal expense assumptions were based on the results of the latest expense and budget information.

The Health lapse assumptions were based on the results of recent experience investigations. Renewal expense assumptions were based on the results of the latest expense investigation.

The Destiny Health morbidity and lapse assumptions were based on the results of recent experience investigations as well as future expectations regarding premium increases. The renewal expense assumption was based on the results of the latest expense investigation and allows for the expected growth in membership over the next 12 months.

The investment return assumption was determined with reference to the cashflow-weighted average risk-free yield curve. Other economic assumptions were set relative to this yield.

It was assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 70% equities and 30% fixed interest securities for the purposes of calculating the cost of capital at risk. Allowance has been made for tax and investment expenses in the calculation of the cost of capital.

The embedded value of Discovery at 31 December 2004 is calculated as the sum of the following components:

- The excess assets over liabilities at the valuation date, and
- The value of in-force business at the valuation date (less an allowance for the cost of capital).

The value of in-force business is calculated as the value of projected future after-tax profits of the business in force at the valuation date, discounted at the risk discount rate.

The value of new business is determined at the point of sale as the projected future after-tax profits of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the cost of capital.

PricewaterhouseCoopers Inc. has reviewed the methodology and assumptions used to determine the value of in-force business and the value of new business and have confirmed that, overall, they are reasonable.

Financial commentary

Review of group results

Gross inflows under management, excluding reinsurance premiums received from the Discovery Health Medical Scheme ("DHMS"), increased 30% for the six months ended 31 December 2004. Gross inflows under management includes flows of the schemes Discovery administers and business conducted together with its joint venture partners. The increase is pleasingly driven by growth in all business areas, with new business API increasing by a strong 34% to R1 957 million (2003: R1 462 million).

Gross inflows under management	December 2004 R million	December 2003 R million	% Change	June 2004 R million
SA Health operations	**6 884**	5 877	17	12 549
Life operations	**587**	384	53	859
Vitality operations	**234**	185	27	403
Destiny operations	**375**	234	60	554
Gross inflows under management	**8 080**	6 680	21	14 365
Less: collected on behalf of third parties	**(6 219)**	(4 652)		(10 647)
Gross income of group	**1 861**	2 028		3 718
Less: DHMS reinsurance premiums	**–**	(596)		(596)
	1 861	1 432	30	3 122

Earnings

Discovery achieved an increase of 43% in headline earnings. Unrealised gains of R148 million on available-for-sale investments for the period have been taken directly to reserves and are not included in earnings or headline earnings.

The following table shows the main components of the increase in group operating profit for the six months:

Earnings source	December 2004 R million	December 2003 R million	% Change
SA Health operations	249	216	15
Life operations	191	105	82
Vitality operations	9	20	(55)
Destiny operations	(39)	(79)	51
UK set-up costs	(80)	-	-
Group operating profit	330	262	26

The operating profit of Discovery is weighted to the second half of the financial year as premium increase anniversaries are on 1 January each year while salary increases occur on 1 July each year. In addition, significant new business is activated effective 1 January each year.

Discovery Health

Discovery Health increased operating profits by 15% to R249 million (2003: R216 million). This strong financial performance is attributable to a growth in membership under administration of 9% to 1 640 151 lives (2003: 1 505 896 lives), coupled with administration efficiencies.

With effect from 1 January 2004, DHMS was no longer reinsured by Discovery.

Discovery Life

Discovery Life's profits increased by 82% to R191 million (2003: R105 million) and new business annualised premium income increased to R332 million (2003: R279 million), generating significant value. The number of individual policyholders grew by 50% to 150 411 (2003: 100 218). Group lives covered increased to 53 858 (2003: 34 968).

Destiny Health

In the six months to 31 December 2004, the group incurred a foreign exchange loss of R33 million on the rand denominated borrowings made by Destiny Health. This loss was caused by the strengthening of the rand against the dollar from R6,18/US$1 to R5,63/US$1 over the six month period.

On 31 December 2004, Discovery Holdings invested US$61 million into Destiny Health. These funds were used by Destiny to redeem the rand denominated borrowings on 18 January 2005.

PruHealth

Start-up costs of R80 million were incurred for the six month period under review. In September 2004, Discovery invested GBP15 million into PruHealth to meet its capital requirements. An additional GBP5 million was invested in January 2005.

Taxation

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

An asset has been raised in loans and receivables on 50% of the PruHealth losses for which group tax relief is available to Prudential plc in the UK. No deferred tax asset has been accounted for on the balance of the PruHealth losses.

Balance sheet

Included in cash and cash equivalents is R200 million received in terms of a quota share agreement entered into by Discovery Life with effect from 1 July 2004 which effectively reinsures 50% of the risk profits on certain classes of business in-force as at 31 December 2003 for a period of approximately six years. We previously considered that this amount would be included in income in the current period. In line with recent developments in revenue recognition principles, the profits will be recognised as they are earned. R32 million has been recognised in income for the six months ended 31 December 2004 and the balance has been included in current liabilities.

Investments have increased due to the strong performance of the equity markets.

The increase in the assets under insurance contracts of R296 million is as a result of the significant increase in profitable new business written by Discovery Life.

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

The minority interest of R67 million in the balance sheet comprises the Series A preference shares of Destiny Health.

The first tranche of Discovery Life preference shares was redeemed, by agreement with the preference shareholders, on 31 August 2004 resulting in the issue of 4 270 530 Discovery Holdings shares. Discovery Holdings issued a further 8 000 000 shares to the Share Incentive Trust in September 2004.

Accounting policies

The accounting policies applied are in accordance with South African Statements of Generally Accepted Accounting Practice. These accounting policies are consistent with those of the prior year.

Dividend policy

The directors have recommended that no dividend be paid at this time.

Comparative figures

Comparative figures have been restated where necessary to afford a more meaningful comparison with the current year's figures in the following instances:

- As disclosed at 30 June 2004, money market instruments in the investment portfolios, previously included in investments, have been reclassified as cash and cash equivalents in the 31 December 2003 comparatives.
- In line with industry practice, automatic premium increases have been excluded from the new business annualised premium income for the Group Life business. This has effectively reduced new business annualised premium income for the Life business segment in the Segmental information for the six months ended 31 December 2003, from R290 million to R279 million.

Discovery

e-mail questions to: AskTheCFO@discovery.co.za

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