Discovery

Unaudited interim financial results
for the six months ended 31 December 2005

Financial highlights

- Operating profit +32% to R526 million
- Post-tax profits +73%, after BEE deal – 1%
- New business of R2,1 billion
- Embedded value +27% to R10 billion

Financial results for the six months ended 31 December 2005

Discovery's core purpose is to make people healthier and enhance and protect their lives. Discovery's business model revolves around our ability to understand consumer needs and develop products that meet them, positioning Discovery well to capitalise on the worldwide trend towards consumerism. The result is a modern insurance organisation that has grown organically through four distinct businesses built around people's needs.

During the six months under review, we have worked hard to drive this people-centred vision in our local businesses. Discovery Health's consumer-driven health care model provides the platform for health assurance products that place consumers in control of their health care spending. In the case of Discovery Life, we have responded to consumers' demand for flexible life assurance products that meet their benefit expectations. In our international operations, Destiny Health and PruHealth, our focus has been on unlocking our unique consumer-driven health care capability in the context of new, global markets.

Operating profits for the Group grew strongly by 32% during the period under review to R526 million (2004: R399), despite a disappointing performance from Destiny Health and before the once-off expense associated with our recent BEE transaction. PruHealth grew strongly and in line with expectations, achieving the 35 000 client milestone as forecast. Discovery Health's annualised new business premium grew by 8%, off a high base, while Discovery Life achieved new business growth of 18% and a 29% increase in profit.

PruHealth

In October 2004, we launched PruHealth in partnership with the Prudential plc, with the aim of creating a company that would lead the trend towards consumerism in the UK private medical insurance market. To date, PruHealth's performance has been exceptional. The investment in PruHealth of R68 million (2004: R80 million) and new business growth of R77 million (2004: R5 million) over the period were in line with our forecasts.

The growth in PruHealth's distribution footprint and operational capability has exceeded our expectations. We believe this reflects the combination of an elegant, easy-to-use product that is attractive to consumers on the one hand and, on the other, the rapid, effective roll-out of Discovery's operational framework to support product distribution and operations. PruHealth has quickly developed a nationwide Vitality footprint, providing clients with access to Vitality wellness benefits across the UK. We have also been encouraged by the significant broker support across the market by well-known intermediary brands and PruHealth's ability to attract young and healthy lives.

This combination of product and back-office efficiency has allowed us to gain a significant competitive price advantage, further bolstering our growth opportunities. The result is a business of exceptional quality that, despite its small size, has proven its ability to compete against traditional, established players, generating strong new business flows at an acceptable medical loss ratio. Based on its strong foundational position, we are cautiously optimistic of the outlook for PruHealth and have set a bold short-term goal of 100 000 lives by 1 January 2007.

Destiny Health

To our disappointment, the period under review saw further operational losses of R80 million (2004: R41 million) for Destiny Health. While new business growth has been strong in the Mid-Atlantic, Wisconsin and Massachusetts markets, the underlying market dynamics in Illinois have negatively impacted Destiny. The operating losses incurred are attributable to slower-than-anticipated expansion into new markets and an over-concentration in the Illinois market, where a significant pricing disadvantage exists relative to the dominant insurer in that market. This placed Destiny under increasing price pressure, resulting in increased lapses and underwriting losses during the period under review. Destiny Health's progress in the three other markets it competes in has demonstrated that our focus must be on rapid expansion into new markets and on providing the technical sales infrastructure to support new business growth in these new markets.

The strategy which has exposed Destiny to a concentration of risk within the Illinois market has been addressed during the period under review with a view to rapidly reversing the negative financial trend in Destiny's results. Premiums have been significantly increased at policy renewal dates and expansion plans have been accelerated to address the claims losses and market concentration in Illinois. Initial results are promising: the rates adjustments are translating into lower loss ratios with target retention rates having been achieved and we have been operational in the Texas market since 31 January 2006, where we have received a positive response.

The category of consumer-driven health care is gaining increasing support in the US, especially at a national health policy level, creating favourable conditions for Destiny Health; this is especially true of the Texas market. Combined with the power of Discovery's consumer-driven health care capability and our joint ventures with Guardian and Tufts Health Plan, we believe there are significant opportunities for Destiny Health in the year ahead.

A rigorous, disciplined approach to the measurement and evaluation of Destiny's progress is being applied on a quarterly basis. The immediate short-term target is to achieve a run-rate of 3 000 new members per month and consistently improve quarter-on-quarter financial results. We remain cautiously optimistic that the achievement of these goals will lead to a viable business and profitability in the medium term.

Discovery Health

Discovery Health continues to deliver robust growth and financial performance with operating profit increasing by 9% to R266 million (2004: R245 million), despite a reduction in real terms of administration fees and loss of re-insurance income over time. The combined membership of the schemes under Discovery Health's administration grew to 1 883 879 as at 1 January 2006 (2005: 1 704 240 members). This reflects continued growth in new business to R1 211 million (2004: R1 175 million) – which, coming off a high base has exceeded our expectations – as well as a reduction in the lapse rate to 3,3% (2004: 3,7%).

Over the last 13 years, Discovery Health has demonstrated a capability to deliver innovative products that empower the consumer combined with the ability to navigate a complex, evolving regulatory environment. Going forward, Discovery Health must use its leadership position to ensure access to the best quality of care for its members. This is a function of Discovery Health's unmatched scale, which in the period under review manifested in the launch of the Discovery 911 emergency response network, the Discovery Hospital Rating Index (an objective cost and quality assessment tool), as well as successful negotiations with various provider groups to contain cost increases into 2006. Evidence is also starting to emerge establishing the value of Vitality's role in lowering health care costs.

By combining its scale and focus on lowering health care spend by promoting healthy lifestyles, Discovery Health is able to operate at a discount to its competitors. Coupled with its unique footprint and the quality of its client base, Discovery Health is well-positioned to continue delivering growth and more affordable access to quality health care in its existing market. In addition, these attributes position Discovery Health well to capitalise on developments in the emerging and low-income markets. Discovery's KeyCare product (aimed at the R3 500 – R6 500 income market) now exceeds 100 000 members, more than half of which are new entrants to the private health care industry and the development of Discovery Health's primary care network has progressed well with over 1 500 doctors now represented within the network.

Operationally, Discovery Health's performance is at the best levels ever – from service to customer retention to the ability to manage costs on behalf of our members. A significant focus has been applied to improving efficiencies and enhancing service further during the period under review. The front-line servicing and back-office operations, representing over 2 000 staff members, have recently been merged to support this strategy and generate annualised administrative savings in excess of R50 million over the next 12 months.

Discovery Life

Discovery Life's performance has exceeded expectations with operating profit growing 29% to R246 million (2004: R190 million) and new business growing 18% to R392 million (2004: R332 million). Unlike other players in the market who employ a banc assurance model that centres on investments and cross-selling, Discovery Life has adopted a "health-assurance" model. This model integrates our health management capabilities with Discovery's risk management expertise. The ability to accurately price health risk and encourage health improvements through integration with Vitality and Discovery Health, has translated into better-than-expected mortality and morbidity rates, resulting in exceptional growth in underwriting profits during the period under review from R126 million to R216 million.

The same health insurance mindset has informed our entry into the investment market with the Discovery Life retirement Optimiser. The Optimiser makes use of "unneeded" life assurance post-retirement to fund much needed retirement income and provides real guarantees regarding benefit expectations. We are already seeing the Optimiser gain traction, with an estimated 17% of the retirement funding business written by independent brokers being written with Discovery Life, just six months after the launch of the Optimiser product.

We are cautiously optimistic about Discovery Life's future prospects.

In addition to growing its primary risk assurance business by continuing to leverage the integration opportunities with other Discovery products and businesses, Discovery Life will aim to solidify its entry into the retirement funding market by securing 20% of the independent broker new business market during the current financial year.

The future

While each of Discovery's businesses is at a different stage of its evolution, we are cautiously optimistic of their future growth prospects.

1. PruHealth: Our aim is to capitalise on growing consumerism in the UK private market through product leadership. In the six months ahead, we expect to see accelerated growth and we will focus on expanding our distribution footprint to support this growth.
2. Destiny Health: Our aim is to build a business of scale in the US by capitalising on the move toward consumer-driven health care. In the months ahead, we will continue to drive hard to achieve expansion into new markets and to reduce underwriting losses through appropriate rate increases.
3. Discovery Health: Our aim is to use our scale to help build a better health care system in South Africa. Going forward, we will continue to focus on leveraging our scale and our unique health management model to contain costs and increase quality.
4. Discovery Life: Our aim is to create new-generation life assurance products that people need and want through continued innovation, leveraging our "health-assurance" approach to further grow new business and operating profits.
5. Discovery Vitality forms the strategic underpin to each of our businesses. In the months ahead, we will continue to leverage the integration capability provided by Vitality and unlock the strategic capability of the DiscoveryCard.

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

22 February 2006

Directors
LL Dippenaar *(Chairman)*, A Gore (Chief Executive Officer), JM Robertson*, Dr BA Brink, JP Burger, Dr NJ Dlamini, SB Epstein (USA), MI Hilkowitz (Israel), NS Koopowitz*, Dr TV Maphai**, HP Mayers*, S Sebotsa**, B Swartzberg*, SV Zilwa, SD Whyte*

*Executive **Appointed 8 December 2005

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Discovery Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 1999/007789/06)
JSE share code: DSY ISIN code: ZAE000022331

Income statement
for the six months ended 31 December 2005

R million	**Group Six months ended December 2005 Unaudited**	Group Six months ended December 2004 Unaudited	% change	Group Year ended June 2005 Audited
Premium income	**1 277**	824		1 820
Other income	**1 246**	1 016		2 209
Gross income of Group	**2 523**	1 840		4 029
Outward reinsurance premiums	**(229)**	(145)		(378)
Investment income	**105**	85		124
Realised and unrealised gains and losses	**118**	82		157
Net income	**2 517**	1 862		3 932
Policyholder benefits	**(681)**	(370)		(841)
Recoveries from reinsurers	**201**	99		262
Net policyholder benefits	**(480)**	(271)		(579)
Acquisition costs	**(440)**	(363)		(714)
Operating and administration expenses	**(1 288)**	(1 034)		(2 166)
Transfer from assets/liabilities under insurance contracts	**293**	296		574
Fair value adjustment to liabilities under investment contracts	**(76)**	(91)		(122)
Profit from operations after BEE expenses	**526**	399	32	925
Local operations	**668**	517		1 154
Foreign operations	**(142)**	(118)		(229)
BEE expenses	**(144)**	—		—
Profit from operations after BEE expenses	**382**	399		925
Financing costs	**(10)**	(28)		(64)
Foreign exchang loss – unrealised	**—**	(33)		(8)
Profit before taxation	**372**	338	10	853
Taxation	**(178)**	(143)		(305)
Profit after taxation	**194**	195	(1)	548
Attributable to:				
Ordinary shareholders	**194**	195		557
Minority shareholders	**—**	—		(9)
	194	195		548
Basic earnings per share (cents)				
– undiluted	**36,8**	37,7	(2)	107,3
– diluted	**35,9**	36,7	(2)	103,0
Weighted number of shares in issue (000's)	**528 468**	518 793		519 188
Diluted weighted number of shares (000's)	**553 749**	549 271		553 227

Balance sheet
at 31 December 2005

R million	Group December 2005 Unaudited	Group June 2005 Audited
ASSETS		
Cash and cash equivalents	**1 031**	916
Money market		
– available-for-sale	**55**	53
– at fair value through profit and loss	**110**	106
Government and public authority stocks		
– available-for-sale	**147**	146
– at fair value through profit and loss	**49**	40
Equity investments		
– available-for-sale	**1 142**	922
– at fair value through profit and loss	**407**	337
Investment in associate	**7**	4
Investment assets	**2 948**	2 524
Loans and receivables	**483**	557
Deferred taxation	**43**	35
Assets arising from insurance contracts	**2 186**	1 881
Intangible assets	**49**	45
Property and equipment	**216**	219
Total assets	**5 925**	5 261
LIABILITIES AND SHAREHOLDERS' FUNDS		
Liabilities		
Trade and other payables	**995**	951
Provisions	**31**	30
Taxation	**37**	17
Deferred taxation	**421**	323
Financial liabilities	**710**	619
– Investment contracts at fair value through profit and loss	**554**	483
– Borrowings at amortised cost	**156**	136
Liabilities arising from insurance contracts	**12**	—
Liabilities arising from reinsurance contracts	**27**	31
Total liabilities	**2 233**	1 971
Shareholders' funds		
Share capital and share premium	**1 346**	1 336
Reserves	**2 346**	1 887
	3 692	3 223
Minority interest	**—**	67
Total shareholders' funds	**3 692**	3 290
Total liabilities and shareholders' funds	**5 925**	5 261

Cash flow statement
for the six months ended 31 December 2005

R million	**Group Six months ended December 2005 Unaudited**	Group Six months ended December 2004 Unaudited	Group Year ended June 2005 Audited
Health	**327**	316	691
Life	**(64)**	80	25
– operating activities	**(64)**	(120)	(175)
– quota share deposit	**—**	200	200
Vitality	**19**	15	52
Holdings	**(1)**	—	(1)
Destiny	**(90)**	(27)	(42)
PruHealth	**(73)**	(77)	(150)
Cash generated by operations	**118**	307	575
Working capital changes	**128**	(41)	10
	246	266	585
Dividends received	**15**	11	23
Interest received	**79**	40	72
Financing costs	**(5)**	(3)	(93)
Taxation paid	**(83)**	(114)	(179)
Cash flow from operating activities	**252**	200	408
Cash flow from investing activities	**(104)**	(67)	(210)
Investment purchases	**(249)**	(109)	(801)
Proceeds on disposal of investments	**207**	91	724
Purchase of equipment	**(46)**	(36)	(106)
Purchase of intangible assets	**(16)**	(16)	(30)
Decrease in loans receivable	**—**	3	3
Cash flow from financing activities	**(33)**	59	(134)
Proceeds from shares issued	**12**	18	71
Share issue costs written off against share capital	**(2)**	(1)	(1)
Dividends paid to Destiny Health preference shareholders	**(1)**	—	(1)
Minority share buy-back	**—**	(1)	(1)
Increase/(decrease) in borrowings	**25**	43	(202)
Redemption of Destiny preference shareholders	**(67)**	—	—
Net increase in cash and cash equivalents	**115**	192	64
Cash and cash equivalents at beginning of year	**916**	845	845
Effects of exchange rate changes on cash and cash equivalents	**—**	(8)	7
Cash and cash equivalents at end of year	**1 031**	1 029	916

Statement of changes in equity
for the six months ended 31 December 2005

R million	Attributable to ordinary shareholders							
	Share capital and share premium	Share-based payment reserve	Invest-ment reserve	Trans-lation resesrve	Hedging reserve	Retained earnings	Minority interest	Total
31 December 2005								
Balance at 1 July 2005	**1 336**	**20**	**209**	**98**	**3**	**1 557**	**67**	**3 290**
Issue of capital	**12**	**—**	**—**	**—**	**—**	**—**	**—**	**12**
Share issue expenses	**(2)**	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**
Net profit for the period	**—**	**—**	**—**	**—**	**—**	**194**	**—**	**194**
Movement in share-based payment reserve	**—**	**157**	**—**	**—**	**—**	**—**	**—**	**157**
Unrealised gains on investments	**—**	**—**	**155**	**—**	**—**	**—**	**—**	**155**
Realised gains on investments transferred to income statement	**—**	**—**	**(42)**	**—**	**—**	**—**	**—**	**(42)**
Revaluation of forward exchange contract	**—**	**—**	**—**	**—**	**(3)**	**—**	**—**	**(3)**
Translation of foreign subsidiary	**—**	**—**	**—**	**(2)**	**—**	**—**	**—**	**(2)**
Redemption of Destiny Health preference shares	**—**	**—**	**—**	**—**	**—**	**—**	**(67)**	**(67)**
Balance at 31 December 2005	**1 346**	**177**	**322**	**96**	**—**	**1 751**	**—**	**3 692**
31 December 2004								
Balance at 1 July 2004	1 276	—	51	69	(6)	1 002	67	2 459
Issue of capital	18	—	—	—	—	—	—	18
Share issue expenses	(1)	—	—	—	—	—	—	(1)
Movement in share-based payment reserve	—	7	—	—	—	—	—	7
Net profit for the period	—	—	—	—	—	195	—	195
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 exchange contract	—	—	—	—	6	—	—	6
Translation of foreign subsidiary	—	—	—	9	—	—	—	9
Balance at 31 December 2004	1 293	7	199	78	—	1 196	67	2 840

Segmental information
for the six months ended 31 December 2005

R million	South Africa	Health United States of America	United Kingdom	Life	Vitality	Holdings	Total
31 December 2005							
New business annualised premium income	**1 211**	**383**	**77**	**392**	**51**	**—**	**2 114**
Gross inflows under management	**7 874**	**647**	**43**	**820**	**315**	**—**	**9 699**
Income statement							
Gross income of Group	**931**	**436**	**21**	**820**	**315**	**—**	**2 523**
Outward reinsurance premiums	**(2)**	**(45)**	**—**	**(182)**	**—**	**—**	**(229)**
Investment income	**15**	**3**	**3**	**79**	**4**	**1**	**105**
Realised and unrealised gains and losses	**—**	**—**	**—**	**118**	**—**	**—**	**118**
Net policyholder benefits	**(5)**	**(339)**	**(15)**	**(121)**	**—**	**—**	**(480)**
Acquisition costs	**—**	**(22)**	**(2)**	**(382)**	**(34)**	**—**	**(440)**
Operating and administration expenses	**(658)**	**(110)**	**(72)**	**(182)**	**(265)**	**(1)**	**(1 288)**
Transfer from assets/liabilities arising from insurance contracts	**—**	**—**	**—**	**216**	**—**	**—**	**216**
Fair value adjustments to liabilities under investment contracts	**—**	**—**	**—**	**(76)**	**—**	**—**	**(76)**
Return on assets arising from insurance contracts	**—**	**—**	**—**	**77**	**—**	**—**	**77**
Profit/(loss) from operations before BEE expenses	**281**	**(77)**	**(65)**	**367**	**20**	**—**	**526**
BEE expenses							**(144)**
Financing costs							**(10)**
Profit before taxation							**372**
Cash flow statement							
Cash generated by operations	**327**	**(90)**	**(73)**	**(64)**	**19**	**(1)**	**118**
Cash flow from financing activities	**—**	**(39)**	**—**	**—**	**—**	**6**	**(33)**
31 December 2004							
New business annualised premium income	1 175	409	5	332	36	—	1 957
Gross inflows under management	6 884	375	*	587	234	—	8 080
Income statement							
Gross income of Group	782	237	*	587	234	—	1 840
Outward reinsurance premiums	(2)	(3)	—	(140)	—	—	(145)
Investment income	17	1	2	61	4	—	85
Realised and unrealised gains and losses	—	—	—	82	—	—	82
Net policyholder benefits	(3)	(171)	*	(97)	—	—	(271)
Acquisition costs	—	(20)	*	(325)	(18)	—	(363)
Operating and administration expenses	(532)	(84)	(80)	(131)	(207)	—	(1 034)
Transfer from assets/liabilities under insurance contracts	—	—	—	232	—	—	232
Fair value adjustment to liabilities under investment contracts	—	—	—	(91)	—	—	(91)
Return on assets arising from insurance contracts	—	—	—	64	—	—	64
Profit/(loss) from operations	262	(40)	(78)	242	13	—	399
Financing costs							(28)
Foreign exchange loss – unrealised							(33)
Profit before taxation							338
Cash flow statement							
Cash generated by operations	316	(27)	(77)	80	15	—	307
Cash flow from financing activities	—	42	—	—	—	17	59

**The amount is less than R500 000.*

Financial commentary

Review of Group results

Gross inflows under management increased 20% for the six months ended 31 December 2005. Gross inflows under management includes flows of the schemes Discovery administers and 100% of the business conducted together with its joint venture partners.

Gross inflows under management	**December 2005 R million**	December 2004 R million	% change
Discovery Health	**7 874**	6 884	14
Discovery Life	**820**	587	40
Discovery Vitality	**315**	234	35
Destiny Health	**647**	375	73
PruHealth	**43**	—	—
Gross inflows under management	**9 699**	8 080	20
Less: collected on behalf of third parties	**(7 176)**	(6 240)	
Discovery Health	**(6 943)**	(6 102)	
Destiny Health	**(211)**	(138)	
PruHealth	**(22)**	—	
Gross income of Group	**2 523**	1 840	37

Earnings

The following table shows the main components of the increase in profit from operations before BEE expense for the six months:

Earnings source	**December 2005 R million**	December 2004 R million	% change
Discovery Health	**266**	245	9
Discovery Life	**246**	190	29
Discovery Vitality	**16**	9	78
Destiny Health	**(80)**	(41)	(95)
PruHealth	**(68)**	(80)	15
Discovery Holdings	**(1)**	—	—
Profit from operations before investment income	**379**	323	17
Investment income	**105**	85	
Realised and unrealised gains and losses	**118**	82	
Fair value adjustment to liabilities under investment contracts	**(76)**	(91)	
Profit from operations before BEE expense	**526**	399	32

Headline earnings

Headline earnings in compliance with International Financial Reporting Standards (IFRS) increased by 64%, excluding the impact of the BEE transaction.

Unrealised gains of R155 million on available-for-sale investments for the six months have been taken directly to equity and are not included in earnings or headline earnings.

The reconciliation between earnings and headline earnings is shown below:

	December 2005 R million	December 2004 R million	% change
Net profit attributable to ordinary shareholders pre IFRS and other adjustments	**356**	206	73
Adjustments for:			
IFRS 2: Share-based payments	**(157)**	(7)	
Leases	**(5)**	(4)	
Net profit attributable to ordinary shareholders post IFRS and other adjustments	**194**	195	(1)
Adjustment for realised profit on available-for-sale investments net of CGT	**(42)**	(15)	
Headline earnings	**152**	180	(16)
Headline earnings per share (cents):			
– undiluted	**28,8**	34,7	(17)
– diluted	**28,3**	33,9	(17)
Headline earnings before BEE transaction	**296**	180	64
Headline earnings per share before BEE transaction (cents):			
– undiluted	**56,1**	34,7	62
– diluted	**54,3**	33,9	60

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 accounted for 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.

Investments

Investments have increased due to additional investments and the continued strong performance of the equity markets. This has resulted in an increase in investment income.

Balance sheet

The increase in the assets arising from insurance contracts of R305 million is as a result of profitable new business written by Discovery Life.

The deferred tax liability is primarily attributable to the application of the Financial Services Board directive 145. This directive allows for the zeroing on a statutory basis of the assets arising from insurance contracts. 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.

During the period, Destiny redeemed US$9 million of Series A preference shares leading to a reduction in outside shareholders of R67 million.

BEE transaction

In December 2005, Discovery issued 38,7 million shares in terms of its BEE transaction. The special purpose vehicles and trusts to which these shares have been issued, have been consolidated into the accounts of Discovery, eliminating the share issue.

These shares have been included in the calculation of diluted HEPS and diluted EPS.

The International Financial Reporting Interpretations Committee (IFRIC) released IFRIC 8 “Scope of IFRS 2” confirming that BEE transactions should be accounted for under IFRS 2.

Discovery has early adopted IFRIC 8, resulting in a charge to the income statement of R144 million in the six-month period ending 31 December 2005. This charge represents the financial effects of the BEE transaction.

An additional R13 million in respect of options granted under employee share incentive schemes has been expensed in the income statement in accordance with the requirements of IFRS 2.

Accounting policies

The interim financial statements have been prepared in accordance with IFRS as well as the South African Companies Act, 1973. This may differ from IFRS actually in effect at 30 June 2006 as a result of ongoing review and possible amendment by interpretive guidance from the International Accounting Standards Board and IFRIC and may therefore be subject to change.

These are Discovery’s first IFRS interim financial statements and the provisions of IFRS 1, *First-time adoption of International Financial Reporting Standards,* have been applied. The interim financial statements do not include all of the information required for full annual financial statements.

Shareholders are referred to the accompanying announcement regarding details of the financial restatement impact as a consequence of the IFRS adoption.

Dividend policy and capital

The directors have recommended that no dividend be paid on ordinary shares. The directors are of the view that the Discovery Group is adequately capitalised at this time. On the statutory basis the capital adequacy requirements of Discovery Life were R91,2 million (2004: R65 million) and were covered 12,5 times (2004: 14,9 times).

Directorate

Dr TV Maphai and Mrs S Sebotsa were appointed as non-executive directors to the board of Discovery with effect from 8 December 2005.

Embedded value statement
for the six months ended 31 December 2005

The embedded value of Discovery at 31 December 2005 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.

In the past, Life has based their embedded value on the Financial Soundness Valuation Method (FSV). A change in actuarial guidance note (PGN107) effective for interim reporting dates after 31 December 2005 now requires Life Insurers to base the embedded value on the Statutory Valuation Method (SVM). The key difference between the two bases for Discovery Life is that the negative reserves calculated on the FSV basis are zeroised under the Statutory Valuation Method. Discovery has adopted this new guidance note for the interim results presented here. The net asset value has been adjusted to reflect the zeroisation of the Life negative reserve in the statutory accounts. The net asset value is thus reduced compared to the amount shown on the balance sheet. This has resulted in a significant decrease in the capital adequacy requirement underlying the calculation of the cost of capital. The value capitalised in the negative reserve on the Financial Soundness Valuation basis is released in the value of in-force of the Statutory Valuation Method over time.

The value of in-force and the value of new business at 31 December 2005 are shown on both the SVM and the FSV bases to allow comparison to prior periods.

For PruHealth, no value has been placed on the current in-force business.

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.

Table 1: Group embedded value

R million	**Six months to**				Twelve months to
	31 December 2005 SVM basis	**31 December 2005 FSV basis**	31 December 2004	% change	30 June 2005
Shareholders' funds	**3 692**	**3 692**	2 840[1]	30	3 290[1]
Minority interest	—	—	(67)		(67)
Negative reserve zeroised	**(1 877)**	**—**	—		—
Shareholders' funds excluding negative reserves	**1 815**	**3 692**	2 773		3 223
Value of in-force business before cost of capital	**8 466**	**7 028**	5 604		6 483
Cost of capital	**(201)**	**(675)**	(434)		(533)
Discovery Holdings embedded value	**10 080**	**10 045**	7 943	27	9 173
Number of shares (millions)	**529,1**	**529,1**	520,1		528,2
Embedded value per share	**R19,05**	**R18,98**	R15,27	25	R17,37
Diluted number of shares (millions)	**553,2**	**553,2**	553,2		553,2
Diluted embedded value per share[2]	**R18,56**	**R18,49**	R14,62	27	R16,93

(1) The shareholders' funds balance has been adjusted following the adoption of IFRS.

(2) The diluted embedded value per share is calculated by increasing the embedded value by the value of the loan to the Discovery Holdings share trust, and by increasing the number of shares by the number of outstanding shares relating to the redemption value of the Discovery Life preference shares, as well as by the number of shares issued to the share incentive trust which have not been delivered to participants. No allowance has been made for Discovery's BEE transaction as the impact would be anti-dilutive due to the transaction price exceeding the current embedded value per share.

Table 2: Value of in-force business

R million	Value before cost of capital	Cost of capital	Value after cost of capital
at 31 December 2005 – SVM basis			
Health and Vitality	3 953	—	3 953
Life(1)	4 334	(183)	4 151
Destiny Health(2)	179	(18)	161
Total	8 466	(201)	8 265
at 31 December 2005 – FSV basis			
Health and Vitality	3 953	—	3 953
Life(1)	2 896	(657)	2 239
Destiny Health(2)	179	(18)	161
Total	7 028	(675)	6 353
at 30 June 2005			
Health and Vitality	3 844	—	3 844
Life(1)	2 349	(517)	1 832
Destiny Health(2)	290	(16)	274
Total	6 483	(533)	5 950

(1) On the SVM basis, the Life cost of capital is based on a capital adequacy requirement of R92 million. On the FSV basis, the Life cost of capital is based on a capital adequacy requirement of R1 881 million (December 2004: R883 million on the FSV basis; R65 million on the SVM basis).

(2) Figures for Destiny Health reflect Discovery's 97,92% shareholding in Destiny Health at 31 December 2005.

Table 3: Group embedded value earnings

R million	**Six months to 31 December 2005**	Six months to 31 December 2004	Twelve months to 30 June 2005
Embedded value at end of period	**10 080**	7 943	9 173
Embedded value at beginning of period	**9 173**	6 832	6 832
Increase in embedded value	**907**	1 111	2 341
Net issue of capital	**(10)**	(17)	(60)
Dividends paid to Destiny Health preference shareholders	**—**	1	1
Transfer to/(from) hedging reserve	**3**	(6)	(9)
Embedded value earnings	**900**	1 089	2 273
Annualised return on embedded value (%)	**20,6**	34,4	33,3

Table 4: Components of Group embedded value earnings

R million	**Six months to 31 December 2005**	Six months to 31 December 2004	% change	Twelve months to 30 June 2005
Total profit from new business (at point of sale)	**379**	375	1	783
Profit from existing business				
* Expected return	**342**	286		602
* Change in methodology and assumptions(1)	**(35)**	315		307
* Experience variances	**71**	56		363
Acquisition costs(2)	**(58)**	(60)		—
PruHealth start-up costs	**(56)**	(64)		(120)
Adjustment for minority interest in Destiny Health	**3**	1		4
Adjustment for Guardian profit share in Destiny Health(3)	**(8)**	(9)		(28)
Foreign exchange rate movements	**(18)**	(38)		43
Interest on loan capital	—	(20)		(50)
IFRS adjustment	—	(4)		(8)
Return on shareholders' funds(4)	**280**	251		377
Embedded value earnings	**900**	1 089		2 273

(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 Table 5 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 2006. Acquisition costs of R45 million (December 2004: R37 million) arise in respect of these members who are not included in the embedded value calculation. Similarly acquisition costs of R13 million (December 2004: R15 million) arise for Destiny Health.

(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 business written by Destiny Health prior to the agreement with Guardian (i.e. non-alliance business) once the business written by Guardian reaches the contractual new member threshold. Based on Guardian's progress towards achieving this target, the value attributed to Destiny Health's non-alliance business has been reduced by 33,1% (June 2005: 26,3%) in the embedded value calculation.

(4) Return on shareholders' funds is shown net of tax and management charges and includes the return on assets under insurance contracts.

Table 5: Methodology and assumption changes for the six months ended 31 December 2005

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Destiny Health Net worth	Destiny Health Value of in-force	Life Net worth	Life Value of in-force	Total
Modelling changes(1)	—	—	—	20	(1 559)	1 603	64
Lapses	—	—	—	(44)	(33)	(28)	(105)
Economic assumptions	—	71	—	—	(1)	113	183
Contribution increases	—	—	—	51	—	—	51
Administration fees(2)	—	(74)	—	—	—	—	(74)
Expenses(3)	—	(71)	—	(82)	—	—	(153)
Mortalilty and morbidity	—	—	—	(51)	—	—	(51)
Vitality benefits(4)	—	74	—	—	—	—	74
Tax(5)	—	—	—	—	—	(23)	(23)
Other	—	—	—	(1)	0	0	(1)
Total	—	0	—	(107)	(1 593)	1 665	(35)

(1) The Life modelling change includes a R1 555 million decrease in the net worth and a R1 604 million increase in the value of in-force in respect of the change from the Financial Soundness Valuation basis to the Statutory Valuation Method used to calculate the embedded value. The R1 604 million increase in the value of in-force includes a reduction of R404 million in the Cost of Capital.

(2) The Health administration fee change relates to an expected below CPIX increase in Discovery Health Medical Scheme administration fees for 2007.

(3) The Health, Vitality and Destiny Health renewal expense assumption change is based on the results of the most recent expense analysis (31 December 2005).

(4) The Health and Vitality assumption change includes an allowance for a reduction in the expected benefit cost on Vitality in line with recent experience.

(5) The tax variance reflects the movements in the value of the tax deferral.

Table 6: Experience variances for the six months ended 31 December 2005

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Destiny Health Net worth	Destiny Health Value of in-force	Life Net worth	Life Value of in-force	Total
Renewal expenses	(8)	—	(16)	—	3	—	(21)
Other expenses(1)	—	—	(2)	—	(10)	—	(12)
Inflation(2)	—	(72)	—	—	(3)	9	(66)
Extended modelling term(3)	—	94	—	13	—	3	110
Lapses(4)	4	82	3	(45)	(20)	2	26
Policy alterations(5)	—	4	—	3	55	16	78
Mortality and morbidity	—	—	(67)	—	50	2	(15)
Premium variance	—	—	—	—	(16)	—	(16)
Commission(6)	—	—	—	—	(8)	—	(8)
Other	5	14	0	(9)	(8)	(7)	(5)
Total	1	122	(82)	(38)	43	25	71

(1) For Destiny Health, other expenses are in respect of Texas office set-up and relocation costs. For Life, the non-recurring expenses relate to costs incurred as a result of the proposed venture with Prudential in the UK.

(2) The negative variance for Health and Vitality is due to a lower 2006 increase in the Health administration fees compared with that assumed in June 2005.

(3) The projection term for Health, Vitality, Destiny Health and Group Life at 31 December 2005 has not been changed from that used at 30 June 2005. 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 R158 million in respect of members joining existing employer groups during the period, offset by an amount of R114 million in respect of members leaving existing employer groups. A positive variance of R42 million is due to lower than expected lapses.

(5) The Life policy alterations include the positive effect of existing policies adding the Discovery Retirement Optimiser.

(6) The commission variance includes a provision for bad debts on commission clawbacks.

Table 7: Embedded value of new business

R million	Six months to 31 December 2005 SVM basis	31 December 2005 FSV basis	31 December 2004	% change	Twelve months to 30 June 2005
Health and Vitality					
Gross profit from new business at point of sale	**60**	**60**	67		229
Cost of capital	**—**	**—**	—		—
Net profit from new business at point of sale	**60**	**60**	67	(10)	229
New business annualised premium income[(1)]	**369**	**369**	424	(13)	1 734
Life					
Gross profit from new business at point of sale	**332**	**414**	369		676
Cost of capital	**(27)**	**(98)**	(78)		(157)
Net profit from new business at point of sale	**305**	**316**	291	5	519
New business annualised premium income[(2)]	**276**	**276**	245	13	470
Annualised profit margin[(3)](%)	**13,3**	**13,6**	14,3		13,5
Destiny Health					
Gross profit from new business at point of sale	**15**	**15**	17		36
Cost of capital[(4)]	**(1)**	**(1)**	(0)		(1)
Net profit from new business at point of sale[(5)]	**14**	**14**	17	(18)	35
New business annualised premium income[(1)]	**246**	**246**	250	(2)	603
New business annualised premium income (US$ million)	**38**	**38**	41	(7)	97

(1) *Health and Destiny Health new business annualised premium income is the gross contribution. For embedded value purposes, Health and Destiny Health new business is defined as individuals and 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 2005.

The total Health and Vitality new business annualised premium income written over the period was R1 262 million (December 2004: R1 211 million). For Destiny Health, the total new business annualised premium income written over the period was R383 million (December 2004: R411 million).

(2) *Life new business annualised premium income of R276 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 R49 million and servicing increases of R67 million was R392 million. Single premium business is included at 10% of the value of the single premium.*

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

(4) *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 deducted from gross profit in the new business calculation.*

(5) *The Destiny Health value of new business allows for the actual new business expenses incurred over the six-month period. Actual new business expenses include infrastructure development costs related to developing new business capacity. No allowance has been made for acquisition cost efficiencies which are expected to occur in the future.*

Table 8: Embedded value assumptions

%	**31 December 2005**	31 December 2004	30 June 2005
Risk discount rate			
– Health and Vitality	**10,25**	11,00	11,00
– Life	**10,25**	11,00	11,00
– Destiny Health	**10,00**	10,00	10,00
Medial inflation			
South Africa	**6,75**	7,00	7,00
United States	**Current levels reducing to 12,50% over the projection period**	Current levels reducing to 12,50% over the projection period	Current levels reducing to 12,50% over the projection period
Expense inflation			
South Africa	**3,75**	4,00	4,00
United States	**3,00**	3,00	3,00
Pre-tax investment return			
South Africa – Cash	**5,75**	6,50	6,50
– Bonds	**7,25**	8,00	8,00
– Equity	**9,25**	10,00	10,00
United States – Bonds	**3,00**	2,00	3,00
Rand/US$ exchange rate	**6,3370**	5,6250	6,6755
Income tax rate			
– South Africa	**29,00**	30,00	29,00
– 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. Renewal expense assumptions were based on the results of the latest expense investigation.

The investment return assumption was determined with reference to the cashflow-weighted average zero coupon yield curve. Other economic assumptions were set relative to this yield. The risk discount rate has been set relative to the risk-free rate, increased by a risk premium. It is assumed that no tax will be payable on interest earned in the Life Fund over the projection period.

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 current policy of Discovery is not to declare dividends and therefore no allowance has been made in the embedded value calculation for secondary tax on companies (STC). The effect of allowing for STC of 12,5%, and assuming a 20% dividend payout ratio, is to reduce the embedded value at 31 December 2005 by 1,8% from R10 080 million to R9 894 million on the SVM basis and by 1,6% from R10 045 million to R9 880 million on the FSV basis.

Transition to International Financial Reporting Standards

Restatement of financial information for the year ended 30 June 2005 and the six months ended 31 December 2004 under International Financial Reporting Standards (IFRS)

Introduction

For periods ending on or before 30 June 2005, Discovery Holdings Limited prepared its consolidated financial statements in accordance with South African Statements of Generally Accepted Accounting Practice. In line with the Listing Requirements of the JSE Limited, the Discovery Holdings Group ("Discovery") is adopting IFRS with effect from 1 July 2005. As Discovery publishes comparative information for one year in its financial statements, the date for transition to IFRS is effectively 1 July 2004, which represents the start of the earliest period of comparative information presented. The transition report ("the report") therefore sets out the financial results of Discovery prepared in accordance with IFRS from 1 July 2004. The report is prepared in accordance with the transitional provisions set out in IFRS 1, *First-time Adoption of International Financial Reporting Standards,* and other relevant standards and is based on the final application of IFRS expected to apply as at 30 June 2006.

IFRS comprise International Financial Reporting Standards, International Accounting Standards and Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB).

Basis of preparation

Discovery has prepared the consolidated preliminary balance sheet at 30 June 2005 and the consolidated preliminary income statement for the year then ended, in accordance with IFRS ("the preliminary information") to establish the financial position and results of operations of Discovery necessary to provide the comparative information expected to be included in Discovery's first set of IFRS financial statements for the year ending 30 June 2006.

The board acknowledges its responsibility for the preparation of the preliminary financial information which has been prepared in accordance with IFRS and policies expected to be adopted when the board prepares Discovery's first set of IFRS financial statements for the year ending 30 June 2006. The board has approved the preliminary financial information.

Transitional arrangements

Discovery's transition to IFRS has been performed in accordance with IFRS 1 and other relevant standards as expected to be applicable at 30 June 2006.

The following dates are applicable for the transition to IFRS:

- 1 July 2004 – date of transition to IFRS, being the start of the earliest period of comparative information;
- 31 December 2004 – six-month comparative period to 31 December 2005;
- 30 June 2005 – twelve-month comparative period to 30 June 2006.

Voluntary exemptions

In line with the requirements of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, Discovery applied the following exemptions as detailed below:

- **Property and equipment:** A first-time adopter may elect to use the fair value of individual property and equipment at transition date as the deemed cost. Discovery is not making use of this transitional exemption and elects to measure individual items of property and equipment at depreciated cost determined in accordance with IFRS.
- **Cumulative foreign currency translation adjustment:** The cumulative foreign currency translation reserve existing on transition to IFRS has been retained and the option to reset the reserve to zero is not elected.
- **Share-based payment transactions**: Discovery has elected to apply the provisions of IFRS 2, *Share-based payments*, to all share-based instruments or payments, such as share options, granted on or after 7 November 2002, which have not vested on 1 July 2005.

Comparatives

Discovery has taken advantage of the exemption that allows comparative information presented in the first year of adoption not to comply with IFRS 4, *Insurance contracts*. The effective date of transition for this standard is 1 July 2005.

Further developments in IFRS reporting

IFRS is continuing to evolve through the issue and/or endorsement of new Standards and Interpretations and developments in the application of recently issued Standards. This may impact on future reported results and disclosure.

Notes on adjustments as a consequence of IFRS implementation

The basis of material adjustments, net of the associated tax impact, as shown in the accompanying restatement reconciliations are noted below:

IFRS adjustments

Note 1: IFRS 2, *Share-based Payments*

Discovery grants share options to employees under employee share incentive schemes. Other than costs incurred in administering the schemes, which were expensed as incurred, the schemes did not previously result in any expense in the income statement, but rather a dilution in earnings per share when the shares were issued. In accordance with the requirements of IFRS 2, Discovery now recognises an expense in the income statement, with a corresponding credit to equity, representing the value of employee share options granted, recognised on a straight-line basis over the vesting periods of the options.

Other adjustments

The process of using IFRS implies not only the use of such standards, but also uniformity in the way in which the standards are applied. Increased global usage of international standards focuses attention on the way in which standards should be applied, which in some cases may differ from South African practice.

Note 2: Leases

In adopting IFRS, Discovery reassessed its lease contracts and disclosures and made the following adjustments:

Operating leases

In the past, a common interpretation of IAS 17 (AC 105) in South Africa allowed companies to recognise lease payments on a cash basis as this was considered the most appropriate representation of the time pattern of the entity's benefit obtained from the leased asset. In aligning itself with IFRS, The South African Institute of Chartered Accountants (SAICA) has revised its interpretation of IAS 17 (AC 105). As a result, operating lease expenses are now recognised on a straight-line basis over the lease term, and not as cash is paid. This adjustment has been accounted for in terms of IAS 8 (AC 103) with restatement of prior year figures where necessary.

Finance leases

In implementing IFRS, Discovery reassessed its lease contracts and has subsequently reclassified one lease as a finance lease. This adjustment has been accounted for in terms of IAS 8 (AC 103) with restatement of prior year figures.

Note 3: Cash equivalents and investments

In implementing IFRS, Discovery reassessed its disclosure of cash equivalents. Cash equivalents which are held in investment portfolios have been reclassified to investments. In line with IAS 7, cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes.

Audit report

The restatement of financial information for the preliminary opening IFRS balance sheet as at 1 July 2004, the preliminary IFRS balance sheet and income statement as at and for the year ended 30 June 2005 have been audited by the Group's auditors PricewaterhouseCoopers Inc in terms of ISA 800 the Auditor's Report on Special Purpose Audit Engagements. Their unqualified report, dated 22 February 2006, is available for inspection at the Group's registered offices.

Their report includes the following emphases of matters:

- Amendments to the interpretive guidance issued by the IASB, between the date of this announcement and the finalisation of the financial statements for the year ending 30 June 2006, may result in changes to the restatements published; and
- Under IFRS, only a complete set of financial statements comprising balance sheet, income statement, statement of changes in equity, and cash flow statement, together with comparative information and explanatory notes, can provide a fair presentation of the Group's financial position, results of operations, and cash flows in accordance with IFRS.

In addition, their report includes a scope restriction indicating that the 31 December balance sheet, 31 December income statements and 31 December associated IFRS reconciliations were not audited and is therefore not covered in their opinion.

Prospects

All of Discovery's businesses are well positioned for strong growth going forward withut requiring recourse to additional capital.

By order of the board

LL Dippenaar
Chairman
22 February 2006

A Gore
Chief Executive Officer

Directors
LL Dippenaar *(Chairman)*, A Gore (Chief Executive Officer), JM Robertson*, Dr BA Brink, JP Burger, Dr NJ Dlamini, SB Epstein (USA), MI Hilkowitz (Israel), NS Koopowitz*, Dr TV Maphai**, HP Mayers*, S Sebotsa**, B Swartzberg*, SV Zilwa, SD Whyte*

*Executive **Appointed 8 December 2005

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Discovery Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 1999/007789/06)
JSE share code: DSY ISIN code: ZAE000022331

Income statement
Prepared in accordance with IFRS

R million	Year ended 30 June 2005 Audited	Six months ended 31 December 2004 Unaudited
Premium income	**1 820**	824
Other income	**2 209**	1 016
Gross income of Group	**4 029**	1 840
Outward reinsurance premiums	**(378)**	(145)
Investment income	**124**	85
Realised and unrealised gains and losses	**157**	82
Net income	**3 932**	1 862
Policyholder benefits	**(841)**	(370)
Recoveries from reinsurers	**262**	99
Net policyholder benefits	**(579)**	(271)
Acquisition costs	**(714)**	(363)
Operating and administration expenses	**(2 166)**	(1 034)
Transfer from assets/liabilities under insurance contracts	**574**	296
Fair value adjustment to liabilities under investment contracts	**(122)**	(91)
Profit from operations	**925**	399
Local operations	**1 154**	517
Foreign operations	**(229)**	(118)
Financing costs	**(64)**	(28)
Foreign exchange loss – unrealised	**(8)**	(33)
Profit before taxation	**853**	338
Taxation	**(305)**	(143)
Profit after taxation	**548**	195
Attributable to:		
Ordinary shareholders	**557**	195
Minority shareholders	**(9)**	—
	548	195
Basic earnings per share (cents)		
– undiluted	**107,3**	37,7
– diluted	**103,0**	36,7
Weighted number of shares in issue (000's)	**519 188**	518 793
Diluted weighted number of shares (000's)	**553 227**	549 271

Reconciliation of income statement
Net profit attributable to ordinary shareholders

R million	Notes	Year ended 30 June 2005	Six months ended 31 December 2004
As previously reported		**585**	206
Adjustments for:			
IFRS 2: Share-based payments	1	**(20)**	(7)
Leases	2	**(8)**	(4)
As reported under IFRS		**557**	195

Balance sheet
Prepared in accordance with IFRS

R million	30 June 2005 Audited	31 December 2004 Unaudited	1 July 2004 Audited
ASSETS			
Cash and cash equivalents	**916**	1 029	845
Money market			
– available-for-sale	**53**	60	56
– at fair value through profit and loss	**106**	97	97
Government and public authority stocks			
– available-for-sale	**146**	135	130
– at fair value through profit and loss	**40**	51	52
Equity investments			
– available-for-sale	**922**	801	602
– at fair value through profit and loss	**337**	322	251
Investment in associate	**4**	3	2
Investment assets	**2 524**	2 498	2 035
Loans and receivables	**557**	438	430
Taxation	**—**	17	—
Deferred taxation	**35**	30	29
Assets arising from insurance contracts	**1 881**	1 615	1 318
Intangible assets	**45**	42	38
Property and equipment	**219**	207	224
Total assets	**5 261**	4 847	4 074
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Trade and other payables	**951**	790	624
Provisions	**30**	23	22
Taxation	**17**	—	43
Deferred taxation	**323**	262	128
Financial liabilities	**619**	891	756
– Investment contracts at fair value through profit and loss	**483**	470	400
– Borrowings at amortised cost	**136**	421	356
Liabilities arising from insurance contracts	**—**	7	6
Liabilities arising from reinsurance contracts	**31**	34	36
Total liabilities	**1 971**	2 007	1 615
Shareholders' funds			
Share capital and share premium	**1 336**	1 293	1 276
Reserves	**1 887**	1 480	1 116
	3 223	2 773	2 392
Minority interest	**67**	67	67
Total shareholders' funds	**3 290**	2 840	2 459
Total liabilities and shareholders' funds	**5 261**	4 847	4 074

Reconciliation of assets, liabilities and equity

R million	Notes	Assets 30 June 2005	Assets 31 December 2004	Assets 1 July 2004	Liabilities 30 June 2005	Liabilities 31 December 2004	Liabilities 1 July 2004	Equity 30 June 2005	Equity 31 December 2004	Equity 1 July 2004
As previously reported		5 216	4 803	4 032	1 874	1 915	1 529	3 342	2 888	2 503
Adjustments for:										
IFRS 2: Share-based payments	1	—	—	—	—	—	—	—	—	—
Leases	2	45	44	42	97	92	86	(52)	(48)	(44)
As reported under IFRS		5 261	4 847	4 074	1 971	2 007	1 615	3 290	2 840	2 459

Reconciliation of changes in equity

R million	Notes	Attributable to ordinary shareholders: Share capital and share premium	Share-based payment reserve	Investment reserve	Translation reserve	Hedging reserve	Retained earnings	Minority interest	Total
As at 1 July 2004									
As previously reported		1 276	—	51	69	(6)	1 046	67	2 503
Income statement movements									
Share-based payments	1	—	—	—	—	—	—	—	—
Leases	2	—	—	—	—	—	(44)	—	(44)
As reported under IFRS		1 276	—	51	69	(6)	1 002	67	2 459
As at 31 December 2004									
As previously reported		1 293	—	199	78	—	1 251	67	2 888
Income statement movements									
Share-based payments	1	—	7	—	—	—	(7)	—	—
Leases	2	—	—	—	—	—	(48)	—	(48)
As reported under IFRS		1 293	7	199	78	—	1 196	67	2 840
As at 30 June 2005									
As previously reported		1 336	—	209	98	3	1 629	67	3 342
Income statement movements									
Share-based payments	1	—	20	—	—	—	(20)	—	—
Leases	2	—	—	—	—	—	(52)	—	(52)
As reported under IFRS		1 336	20	209	98	3	1 557	67	3 290