NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

7. Intangible assets

	Goodwill R'000	Brands and intellectual property R'000	Computer software R'000	Internally developed computer software R'000	Customer relationships R'000	Total R'000
Opening carrying amount at 1 July 2017	**855 437**	**12 913**	**195 208**	**309 443**	**90 745**	**1 463 746**
Take on balance	**–**	**–**	**6**	**–**	**–**	**6**
Additions	**–**	**–**	**119 594**	**191 251**	**–**	**310 845**
Amortisation charge for the year	**–**	**(2 743)**	**(48 561)**	**(24 359)**	**(13 940)**	**(89 603)**
Business Acquisitions*	**28 051**	**–**	**–**	**–**	**28 180**	**56 231**
Reclassification	**–**	**–**	**(2 139)**	**–**	**–**	**(2 139)**
Carrying value at 30 June 2018	**883 488**	**10 170**	**264 108**	**476 335**	**104 985**	**1 739 086**
At 30 June 2018						
Cost	926 900	47 873	431 425	607 499	269 558	2 283 255
Accumulated amortisation, impairment and adjustments	(43 412)	(37 703)	(167 317)	(131 164)	(164 573)	(544 169)
Closing carrying amount	883 488	10 170	264 108	476 335	104 985	1 739 086
Opening carrying amount at 1 July 2016	872 077	15 656	185 202	215 021	100 859	1 388 815
Additions	–	–	49 630	128 418	–	178 048
Disposals	–	–	(27)	–	–	(27)
Amortisation charge for the year	–	(2 743)	(39 597)	(33 996)	(10 114)	(86 450)
Impairment	(16 640)	–	–	–	–	(16 640)
Carrying value at 30 June 2017	855 437	12 913	195 208	309 443	90 745	1 463 746
At 30 June 2017						
Cost	898 849	47 873	313 964	416 248	241 378	1 918 312
Accumulated amortisation, impairment and adjustments	(43 412)	(34 960)	(118 756)	(106 805)	(150 633)	(454 566)
Closing carrying amount	855 437	12 913	195 208	309 443	90 745	1 463 746

* *The recognition of goodwill (R28.1 million) and customer relationships (R28.2 million) is as a result of the business combinations in the current financial year (refer to note 4 for further details).*

7. Intangible assets (continued)

A summary per cash generating unit (CGU) of the goodwill allocation is presented below:

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Healthcare Administration SA CGU				
Medscheme – healthcare administration	**248 622**	248 622	**–**	–
Medscheme – health risk management	**89 298**	89 298	**–**	–
Aid for Aids Management Proprietary Limited – healthcare administration	**23 490**	23 490	**–**	–
Allegra Proprietary Limited – healthcare IT support	**1 268**	1 268	**–**	–
AfroCentric Distribution Services Proprietary Limited – healthcare marketing support	**835**	835	**–**	–
Klinikka Proprietary Limited – medical equipment supplier	**2 435**	2 435	**–**	–
Wellness Odyssey – healthcare wellness days	**14 857**	–	**–**	–
Tendahealth – healthcare insurance broker	**1 162**	–	**–**	–
Scriptpharm – Chronic scripts claim	**2 699**	–	**–**	–
Essential Group – healthcare insurance	**9 333**	–	**–**	–
Healthcare Africa CGU				
Medscheme Mauritius Limited – local administration	**4 969**	4 969	**–**	–
Medscheme Mauritius Limited – International administration	**10 566**	10 566	**–**	–
Healthcare Retail SA CGU				
Pharmacy Direct, Curasana and Glen Eden	**473 954**	473 954	**–**	–
	883 488	855 437	**–**	–

Management determines the recoverable amount of cash generating units as being the higher of fair value less costs to sell or value in use. In the absence of an active market, value in use is used to determine the recoverable amount. As there are no active market value in use is used. A traditional method of discounting management's best estimate of future cash flows attributable to the cash generating unit has been applied to determine the value in use. A growth rate has been applied to cash flow streams to take into account the effect of inflation as well as business specific expectations.

Assumptions used in the determination of the discount rate are as follows:

- The rate on government bonds (risk free rate) 8.12% as at 30 June 2018
- A market risk premium of 6.5% is justified as the overall risk is to the downside.

(Please note that the inputs above were adjusted for geographical and entity specific risk.)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

7. Intangible assets (continued)

The table below indicates the variables used in the determination of the discounted cash flows for the separate business units.

	Recoverable amount R'000	Risk adjustment factor	WACC	Forecast period[1]	Average growth rate[2]
Medscheme – healthcare administration and health risk management	5 973 902	1.0	13.97	4 years	6.00%
Aid for Aids Management Proprietary Limited – healthcare administration	139 559	1.0	13.97	4 years	7.00%
Allegra Proprietary Limited – healthcare IT support	158 879	1.15	16.07	4 years	6.00%
AfroCentric Distribution Services Proprietary Limited	78 529	1.10	15.37	4 years	6.00%
Klinikka Proprietary Limited – medical equipment supplier	21 286	1.20	16.76	4 years	6.00%
Medscheme Mauritius Limited – local and international administration	87 291	1.15	16.07	4 years	7.00%
Pharmacy Direct, Curasana and Glen Eden	1 280 086	1.0	13.97	4 years	7.00%
Scriptpharm – Chronic scripts claim	22 687	1.2	16.76	4 years	6.00%
Wellness Odyssey – healthcare wellness days	113 861	1.2	16.76	4 years	6.00%
Essential Group – healthcare insurance	93 620	1.2	16.76	4 years	8.00%

Note 1: Based on the average tenure of current contracts with our clients, a forecast period of 4 years is considered reasonable.
Note 2: Growth rates are based on current consumer price indicators and membership growth.
The net present value of forecasts support the carrying value of the goodwill indicated above.

The Medscheme – healthcare administration was impaired in the 2017 financial year by R16.6 million relating to IE Business and there has been no changes in any of the other CGUs.