7. INTANGIBLE ASSETS

	Group						
	Brands and intellectual property R'000	Pharma-ceutical dossiers* R'000	Internally generated software R'000	Computer software R'000	Goodwill R'000	Customer relationships R'000	Total R'000
Reconciliation for the year ended 30 June 2020							
At 30 June 2019							
At cost	47 873	286 365	754 336	477 803	1 399 808	303 452	3 269 637
Accumulated amortisation and impairment	(39 934)	–	(213 416)	(224 457)	(48 674)	(187 144)	(713 625)
Closing carrying amount 30 June 2019	7 939	286 365	540 920	253 346	1 351 134	116 308	2 556 012
Movements for the year ended 30 June 2020							
Additions**	–	–	203 318	80 713	22 216	–	306 247
Amortisation	(841)	(14 454)	(68 854)	(41 927)	–	(38 077)	(164 153)
Impairment loss recognised in profit or loss	–	–	–	(2 919)	–	–	(2 919)
Carrying value at 30 June 2020	7 098	271 911	675 384	289 213	1 373 350	78 231	2 695 187
At 30 June 2020							
At cost	47 873	286 365	957 654	535 312	1 422 024	303 452	3 552 680
Accumulated amortisation and impairment	(40 775)	(14 454)	(282 270)	(246 099)	(48 674)	(225 221)	(857 493)
Closing carrying amount	7 098	271 911	675 384	289 213	1 373 350	78 231	2 695 187

* *Pharmaceutical dossiers relate to a set of documents that contains all the technical data (administrative, quality, non-clinical and clinical) of a pharmaceutical product in order to promote, market, sell, import and distribute the product in a specific territory.*

** *In relation to the acquisition of Activo Health (Pty) Ltd in March 2019, in terms of the sale of shares agreement, a preacquisition dividend was declared and payment effected in December 2019. In terms of IFRS 3 Business Combination, the provisional accounting applied to the acquisition of Activo Health (Pty) Ltd was finalised in December 2019 (which is within the measurement period), resulting in an increase in Goodwill.*

7. INTANGIBLE ASSETS (CONTINUED)

	Group						
	Brands and intellectual property R'000	Pharma-ceutical dossiers** R'000	Internally generated software R'000	Computer software R'000	Goodwill R'000	Customer relationships R'000	Total R'000
Reconciliation for the year ended 30 June 2019							
At 30 June 2018							
At cost	47 873	–	607 499	431 425	926 900	269 558	2 283 255
Accumulated amortisation and impairment	(37 703)	–	(131 164)	(167 317)	(43 412)	(164 573)	(544 169)
Closing carrying amount 30 June 2018	10 170	–	476 335	264 108	883 488	104 985	1 739 086
Movements for the year ended 30 June 2019							
Take on balance	–	–	–	29 177	–	–	29 177
Business acquisitions*	–	–	–	–	472 908	282 600	755 508
Additions	–	–	186 837	54 860	–	–	241 697
Amortisation	(2 231)	–	(35 252)	(50 887)	–	(22 571)	(110 941)
Scrapping of intangible assets	–	–	(47 000)	(6 253)	(5 262)	–	(58 515)
Reclassification***	–	286 365	–	(37 659)	–	(248 706)	–
Derecognition	–	–	(40 000)	–	–	–	(40 000)
Carrying value at 30 June 2019	7 939	286 365	540 920	253 346	1 351 134	116 308	2 556 012
At 30 June 2019							
At cost	47 873	286 365	754 336	477 803	1 399 808	303 452	3 269 637
Accumulated amortisation and impairment	(39 934)	–	(213 416)	(224 457)	(48 674)	(187 144)	(713 625)
Closing carrying amount 30 June 2019	7 939	286 365	540 920	253 346	1 351 134	116 308	2 556 012

* *The recognition of goodwill (R472 million) and customer relationships (R283 million) is as a result of the business combinations in the prior financial year.*

** *Pharmaceutical dossiers relate to a set of documents that contains all the technical data (administrative, quality, non-clinical and clinical) of a pharmaceutical product in order to promote, market, sell, import and distribute the product in a specific territory.*

*** *Pharmaceutical dossiers that were previously recognised in computer software and customer relationships were reclassified to a separate category, Pharmaceutical dossiers.*

The reclassification has no impact on the depreciation as the Pharmaceutical dossiers continued to be amortised at the same useful life as when they were classified in computer software and customer relationships.

7. INTANGIBLE ASSETS (CONTINUED)

A summary per CGU of the goodwill allocation is presented below:

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Healthcare administration SA CGU				
Medscheme – healthcare administration	274 972	274 972	–	–
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	14 857	–	–
Tendahealth – healthcare insurance broker	1 162	1 162	–	–
Scriptpharm – chronic scripts claim	2 699	2 699	–	–
Essential Group – healthcare insurance	9 333	9 333	–	–
AfroCentric Integrated Corporate Solutions Group – healthcare administration	38 096	38 096	–	–
Workcare – healthcare administration	771	771	–	–
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 (PD, CS and GE)	473 954	473 954	–	–
Activo*	424 645	402 429	–	–
Total	1 373 350	1 351 134	–	–

* *In relation to the acquisition of Activo Health (Pty) Ltd in March 2019, in terms of the sale of shares agreement, a preacquisition dividend to was declared and payment effected in December 2019. In terms of IFRS 3 Business Combination, the provisional accounting applied to the acquisition of Activo Health (Pty) Ltd was finalised in December 2019 (which is within the measurement period), resulting in an increase in Goodwill.*

Management determines the recoverable amount of Cash Generating Units (CGUs) 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. A traditional method of discounting management's best estimate of future cash flows attributable to the CGU 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 estimated revenues to be earned from the use of the assets;
- The forecast period over which those revenues are projected;
- An average growth rate;
- The weighted average cost of capital (WACC) which is the discount rate that takes into account the yield on government bonds, Beta and a market risk premium;
- Risk adjustment factors used in deriving an appropriate discount rate applied to future estimated cash flows;
- The rate on government bonds (risk-free rate) of 7.32% as at 30 June 2020 (30 June 2019: 8.12%);
- A market risk premium of 7.7% (2019: 6.5%) is justified as the overall risk is to the downside; and
- The Beta (ß) is 0.92 as at 30 June 2020 (30 June 2019: 0.9).

The inputs above were adjusted for geographical and entity specific risk.

7. INTANGIBLE ASSETS (CONTINUED)

The following table sets out the key assumptions for those CGUs that management considers the most significant to the Group.

	Recoverable amount R'000	WACC	Forecast period	Average growth rate
2020				
Medscheme – admin and managed care	4 746 798	13.16	5 years	6%
Activo	941 072	13.16	5 years	7%
Pharmacy Direct, Curasana and Glen Eden	1 243 246	13.16	5 years	7%
2019				
Medscheme – admin and managed care	4 033 937	12.59	5 years	6%
Activo	858 574	12.59	5 years	6%
Pharmacy Direct, Curasana and Glen Eden	433 504	12.59	5 years	6%

Management has determined the values assigned to each of the above key assumptions as follows:

<table>
<tr><th>Assumption</th><th>Approach used in determining values</th></tr>
<tr><td>Average growth rate (%)</td><td>Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development specifically taking into account the impact that the COVID-19 pandemic is expected to have on future earnings noted below:

Medscheme – admin and managed care:

» Average revenue increases in the forecast period have been muted with 4% growth expected in revenue.
» Management has embarked on effective cost savings initiatives through early investment in systems development. This increased IT capacity has now been applied to greater scale and through improved procedural efficiencies.
» The group will continue with system renewals and upgrades to explore better and more cost efficient ways in servicing and engaging its customers/members.
» These programmes are expected to enable the group to achieve 6% growth.

Activo, Pharmacy Direct, Curasana and Glen Eden:

The pharmaceutical related component yielded significant growth during the year, particularly during the stressful time under COVID-19. This included the increasing volume of activity in Pharmacy Direct.

» The more heedful attention paid by patients reliant on chronic medication during lockdown, not least an obvious desire to stay healthy in general, the convenience of group deliveries during lockdown, at work or home, proved extremely valuable to those dependent on their chronic medications and other requirements.
» The trends experienced are expected to continue in the forecast period. This, together with the cost efficiency embarked on, resulted in a growth rate of 7% being applied.</td></tr>
<tr><td>WACC (%)</td><td>Rate the Company is expected to pay on average to all its security holders to finance its assets which reflects specific risks to the relevant segment.</td></tr>
</table>

7. INTANGIBLE ASSETS (CONTINUED)

Sensitivity analysis: impact of possible changes in key assumptions (growth rate, terminal growth rate and WACC) on the recoverable amount

				Growth rate Worst case R'000 Medscheme: 4.5% PD, CS, GE & Activo: 6%	Growth rate Base case R'000 Medscheme: 5.5% PD, CS, GE & Activo: 7%	Growth rate Best case R'000 Medscheme: 6.5% PD, CS, GE & Activo: 8%
Medscheme	WACC	Worst case	14.68%	3 569 114	3 960 039	4 446 512
		Base case	13.16%	4 196 305	4 746 798	5 462 565
		Best case	13.29%	4 667 372	4 134 079	5 357 702
Pharmacy Direct, Curasana and Glen Eden		Worst case	14.68%	666 139	754 390	869 052
		Base case	13.16%	807 955	941 072	1 125 768
		Best case	13.29%	793 489	921 544	1 097 996
Activo		Worst case	14.68%	901 073	993 833	1 113 273
		Base case	13.16%	1 095 792	1 243 246	1 446 444
		Best case	13.29%	1 075 709	1 216 888	1 410 066

(i) Impairment assessment

During the period under review, management embarked on a process of assessing the internally generated intangible assets for potential impairment. Following from this process, an impairment loss was recognised for the following system:

» R2.9 million in respect of the Solatium system – an impairment has been recognised as there are no expected cash flows from the system, resulting in the recoverable amount not being able to be substantiated.

8. FINANCIAL INSTRUMENTS

Financial instruments by category

Financial assets by category	Group At amortised cost R'000
Year ended 30 June 2020	
Unlisted investments (Note 13)	**3 711**
Trade and other receivables excluding prepayments (Note 8.2)	**464 436**
Cash and cash equivalents (Note 8.3)	**177 680**
	645 827
Year ended 30 June 2019	
Trade and other receivables excluding prepayments (Note 8.2)	400 348
Cash and cash equivalents (Note 8.3)	265 296
	665 644