Notes to the financial statements continued

for the year ended 30 JUNE 2021

8. Intangible assets continued

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

				Growth rate Worst case R'000 Medscheme: 4% PD, CS, GE & Activo: 6%	Growth rate Base case R'000 Medscheme: 5% PD, CS, GE & Activo: 7%	Growth rate Best case R'000 Medscheme: 6% PD, CS, GE & Activo: 8%
Medscheme	Discount rate	Worst case	14.17%	3 776 026	4 190 091	4 705 489
		Base case	12.67%	4 430 384	5 010 916	5 765 509
		Best case	11.80%	4 927 599	5 656 064	6 635 900
Pharmacy Direct, Curasana and Glen Eden		Worst case	14.05%	870 337	995 689	1 162 501
		Base case	12.67%	1 050 255	1 237 827	1 505 721
		Best case	11.80%	1 208 985	1 463 909	1 853 148
Activo		Worst case	14.17%	1 052 689	1 170 616	1 325 470
		Base case	12.67%	1 295 781	1 488 160	1 761 238
		Best case	11.80%	1 499 380	1 769 765	2 180 565

(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:

- R6.1 million in respect of the Schema6 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.
- R35.5 million in respect of the IFM system due to a reduction in expected future cash flows. AfroCentric has been notified by FICO that the support on the IFM system will come to an end at the end of March 2022, resulting in the system not being available for continued use. As a result of this, it is expected that cash flows generated from the schemes for use of the Fraud Management Software (IFM system) will cease from January 2022.
- In the 2019 financial period, an impairment loss of R47 million was recognised as a result of the recoverable amount of the Gexus system being lower than the carrying value. This internally generated software is used to administer a portion of our managed care business and forms part of the Groups' IT segment assets. In the 2021 financial period, key managed care contracts were procured by AfroCentric resulting in the recoverable amount (calculated based on value in use) in excess of R195 million. An impairment reversal of R39 million has been recognised in the current financial period, to restore its carrying value to what it would have been, had there been no impairment raised in 2019, in line with IAS 36. The value in use has been calculated using a discount rate of 12.75% (12.59% in 2019).

9. Financial instruments

Financial instruments by category

Financial assets by category	Group At fair value through profit or loss R'000	Group At amortised cost R'000
Year ended 30 June 2021		
Financial assets (Note 14)	178 905	–
Trade and other receivables excluding prepayments (Note 9.2)	–	462 093
Cash and cash equivalents (Note 9.3)	–	198 940
	178 905	661 033
Year ended 30 June 2020		
Financial assets (Note 14)	3 711	–
Trade and other receivables excluding prepayments (Note 9.2)	–	464 436
Cash and cash equivalents (Note 9.3)	–	177 680
	3 711	642 116

Notes to the financial statements continued

for the year ended 30 JUNE 2021

9. Financial instruments continued

Financial assets by category	Company At amortised cost R'000
Year ended 30 June 2021	
Trade and other receivables excluding prepayments (Note 9.2)	**7**
Cash and cash equivalents (Note 9.3)	**3 266**
	3 273
Year ended 30 June 2020	
Trade and other receivables excluding prepayments (Note 9.2)	129
Cash and cash equivalents (Note 9.3)	1 934
	2 063

Financial liabilities by category	Group At amortised cost R'000
Year ended 30 June 2021	
Lease liability (Note 9.6)	**220 117**
Borrowings (Note 9.5)	**775 785**
Trade and other payables excluding non-financial liabilities (Note 9.4)	**416 728**
	1 412 630
Year ended 30 June 2020	
Lease liability (Note 9.6)	278 282
Borrowings (Note 9.5)	386 311
Trade and other payables excluding non-financial liabilities (Note 9.4)	361 486
	1 026 079

Financial liabilities by category	Company At amortised cost R'000
Year ended 30 June 2021	
Loan from group company (Note 9.7)	**14 327**
Trade and other payables excluding non-financial liabilities (Note 9.4)	**7 457**
	21 784
Year ended 30 June 2020	
Loan from group company (Note 9.7)	9 767
Trade and other payables excluding non-financial liabilities (Note 9.4)	6 766
	16 533

Notes to the financial statements continued

for the year ended 30 JUNE 2021

9. Financial instruments continued

9.1 Trade receivables

Ageing of trade and other receivables	Group Current R'000	30 days R'000	60 days R'000	90+ days R'000	Total R'000
June 2021					
Net trade debtors	272 131	75 615	12 105	27 248	387 099
Gross trade debtors	272 971	78 484	15 859	38 603	405 917
Expected credit losses	(840)	(2 869)	(3 754)	(11 355)	(18 818)
Other receivables	7 053	2 187	1 186	5 674	16 100
Net sundry debtors	21 846	2 330	1 790	25 238	51 204
Gross sundry debtors	21 846	2 330	1 790	44 332	70 298
Expected credit losses	–	–	–	(19 094)	(19 094)
Deposits	–	–	–	7 690	7 690
Past due trade receivables*	–	–	12 105	27 248	39 353
June 2020					
Net trade debtors	283 386	70 376	14 939	44 911	413 612
Gross trade debtors	285 942	70 606	15 436	76 890	448 874
Expected credit losses	(2 556)	(230)	(497)	(31 979)	(35 262)
Other receivables	2 837	3 278	–	–	6 115
Sundry debtors	36 872	743	–	–	37 615
Deposits	–	–	–	7 094	7 094
Past due trade receivables*	–	–	14 939	44 911	59 850

* *This balance is included within Net trade debtors and reflects balances identified by AfroCentric that are past due.*

Disclosure of trade debtors	Group 2021 R'000	Group 2020 R'000	Company 2021 R'000	Company 2020 R'000
Gross trade debtors	405 917	448 874	7	–
Loss allowance for trade receivables as below	(18 818)	(35 262)	–	–
Net trade debtors	387 099	413 612	7	–

Movement in the loss allowance for trade and other receivables are as follows:	Group 2021 R'000	Group 2020 R'000	Company 2021 R'000	Company 2020 R'000
At the beginning of the year	35 262	30 041	–	–
Increase in loss allowance recognised in profit or loss during the year	2 009	5 221	–	–
Written off during the year	(18 453)	–	–	–
At the end of the year	18 818	35 262	–	–

The Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all the trade receivables.

To measure the ECL, trade receivables have been grouped based on the shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2021 and the corresponding historical credit losses experienced within this period. The historical loss rate has been adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the annual gross domestic product (GDP) rate and average prime lending rate to be the most relevant factors and accordingly, adjusts the historical loss rates based on expected changes in these factors.

The Group has assessed the impact of COVID-19 on expected further payments and deemed the impact to be immaterial for the following reason:

» The Group's debtors have been historically good payers with minimal provisions and write-offs experienced.
» The Group entities largest customers are medical aid schemes and payment is made within agreed payment period.
» The Group entities have continued operating under the respective lockdown regulation, contracts with customers have not been affected and contractual conditions have been met with no impact.

Notes to the financial statements continued

for the year ended 30 JUNE 2021

9. Financial instruments continued

9.2 Trade and other receivables

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Trade debtors	**387 099**	413 612	**7**	–
Sundry debtors	**51 204**	37 615	**–**	129
Prepayments*	**41 177**	39 899	**84**	80
Deposits	**7 690**	7 094	**–**	–
Other receivables	**16 100**	6 115	**–**	–
Total trade and other receivables	**503 270**	504 335	**91**	209

* *Prepayments are not financial instruments but are included in trade and other receivables.*

All receivables are current. The carrying amounts of all trade and other receivables approximate fair value due to the short-term nature of the receivables, hence the impact of discounting is immaterial.

9.3 Cash and cash equivalents

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Cash at bank and short-term deposits				
Ba2 – FNB Limited**	**7 270**	16 330	**–**	–
AA – Bank Windhoek Limited	**22 681**	18 691	**–**	–
Ba2 – Nedbank Limited**	**164 361**	138 624	**3 266**	1 934
Ba2 – Standard Bank Limited**	**2 248**	1 800	**–**	–
BBB+ – Sasfin Limited*	**–**	93	**–**	–
zaA+ – Sanlam Limited*	**–**	2 142	**–**	–
Ba2 - Absa Bank Limited**	**1 362**	–	**–**	–
A3 - CitiBank Limited**	**1 018**	–	**–**	–
Total cash at bank and short-term bank deposits	**198 940**	177 680	**3 266**	1 934

* *The ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.*

** *Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 3 indicates a ranking in the lower end of that generic rating category.*

The ratings for Nedbank Limited, FNB Limited, Standard Bank Limited, Absa Bank Limited and CitiBank Limited were obtained from Moody's.

The ratings for Sasfin Limited and Bank Windhoek Limited were obtained from Global Credit Rating Company.

The rating for Sanlam Limited was obtained from Standard & Poor's.

The rating scores are based on the following broad investment grade definitions:

AA Very high credit quality relative to other issuers or obligations in the same country. Protection factors are very strong. Adverse changes in business, economic or financial conditions would increase investment risk although not significantly.

A Obligations rated A are considered upper-medium grade and are subject to low credit risk.

BBB Adequate protection factors relative to other issuers or obligators in the same country. However, there is considerable variability in risk during economic cycles.

Ba2 Obligations rated Ba2 are judged to have speculative elements and are subject to substantial credit risk.

Notes to the financial statements continued

for the year ended 30 JUNE 2021

9. Financial instruments continued

9.3 Cash and cash equivalents continued

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Cash	155 597	127 944	3 266	1 934
Short term deposits*	43 343	49 736	–	–
	198 940	177 680	3 266	1 934

* *Short-term deposits relate to cash at the year-end deposited into specific bank accounts.*

9.4 Trade and other payables

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Trade payables*	259 290	234 237	–	69
Payroll creditors	48 174	19 726	–	–
Accruals	60 423	57 322	169	27
Shareholders for dividends	6 902	6 153	4 846	4 089
Other payables*	41 939	44 048	2 442	2 581
Provisions	11 269	8 376	840	911
IBNR Provision**	19 792	–	–	–
Total trade and other payables	447 789	369 862	8 297	7 677

* *All trade and other payables are current and are expected to be settled within the next 12 months. The carrying values at the year-end approximate their fair values due to the short-term nature of the payables, hence the impact of discounting is immaterial.*

** *The IBNR provision originated as a result of the acquisition of Denis Group, which carries a provision for dental claims incurred but not received.*

9.5 Borrowings

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Nedbank facility (1 year +)	655 785	266 311	–	–
Nedbank facility (0 – 1 year)	120 000	120 000	–	–
	775 785	386 311	–	–

Movement in borrowings are as follows:

	Group	
	June 2021 R'000	June 2020 R'000
At the beginning of the period	386 311	491 566
Borrowings acquired during the period	470 998	50 000
Interest accrued	30 699	41 319
Interest repaid	(30 699)	(41 319)
Capital repaid	(81 524)	(155 255)
Balance at the end of the year	775 785	386 311

The Nedbank facility's interest rate is linked to JIBAR. The full capital repayment is due at the end of the 5-year term. The R120 million current liability is based on management's expectation of the quarterly interest obligation and voluntary capital repayment.

Notes to the financial statements continued

for the year ended 30 JUNE 2021

9. Financial instruments continued

9.5 Borrowings continued

Compliance with loan covenants

During the prior period, Nedbank issued a revolving loan facility to the extent of R900 million (of which R776 million has been utilised) to the Group of which amounts shall be applied to funding the working capital and general corporate requirements of the Group. The rate of interest on the loan for each interest period is the percentage rate per annum which is the aggregate of the applicable Margin and JIBAR.

The financial condition to the Nedbank facility is for the Group to ensure that net debt to EBITDA in respect of any relevant period shall not exceed 2.5:1 times and interest cover in respect of any relevant period shall not be less than 4:1 (refer to Note 3 (v)).

9.6 Lease liability

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Non-current liabilities	156 353	181 427	–	–
Current liabilities	63 764	96 855	–	–
	220 117	278 282	–	–

Movement in lease liability are as follows:

	Group	
	June 2021 R'000	June 2020 R'000
At the beginning of the period	278 282	322 655
Lease liability recognised per IFRS 16	–	13 870
Acquired through business combinations	17 707	–
Modifications	(4 987)	–
Interest accrued	21 292	27 886
Rental payments made	(92 177)	(86 129)
Balance at the end of the year	220 117	278 282

9.7 Loans from group company

Loans from group company comprise the following balances:

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
AfroCentric Health (RF) Proprietary Limited	–	–	(14 327)	(9 767)
Current liabilities	–	–	–	(9 767)
Non-current liabilities	–	–	(14 327)	–

The loan is unsecured, bears interest and is repayable after 5 years.