NOTES TO THE ACCOUNTS
CONTINUED

14. Goodwill

	£000
Cost	
At 1 May 2014	15,800
Acquisition of a subsidiary (see note 28)	106,672
Effects of exchange rate changes	(4,749)
At 30 April 2015 (* Restated)	117,723
Effects of exchange rate changes	4,911
At 30 April 2016	**122,634**

* Restated (see note 28)

The carrying value of goodwill is made up of balances arising on acquisition of The Medical House and Aesica.

Goodwill acquired through business combinations is allocated to The Medical House and Aesica CGUs (cash-generating units) for impairment testing. Goodwill is not amortised but is tested for impairment annually. Value in use calculations are utilised to calculate the recoverable amounts. Value in use is calculated as the net present value of the projected, risk-adjusted, pre-tax cash flows of the cash-generating unit in which the goodwill is contained.

The discount rate applied comprises the Group's post-tax weighted average cost of capital which is adjusted to reflect the impact of the time value of money, tax effects and risks associated with the CGUs. This was calculated at 7.5% (2015: 9.5%) in respect of The Medical House and 7.5% (2015: 7.5%) in respect of Aesica. This approximates to applying a pre-tax discount to pre-tax cash flows. The movement in the discount rate applied to The Medical House reflects the impact of changes in the year to the risks relevant to that CGU. The value in use calculations for each CGU were based on the Group's strategic plan incorporating three years from FY2017 to FY2019, which was approved by the Board and takes into account both past performance and expectations for future market development. Cash flows beyond this period were extrapolated using an annual growth rate of approximately 2% (FY2015: 2%), which was selected as prudently below the Group's estimate of the long-term average growth rate in the UK and does not exceed the long-term average growth rate for the sectors in which the CGUs operate.

In respect of The Medical House, the key assumptions include product sales from existing customers in FY2017, product launches and revenues from as yet unidentified customers from 2018. In respect of Aesica, the key assumptions include product sales from existing customers and contingencies to reflect risks in the cash flows.

The directors believe that no reasonably foreseeable changes to other key assumptions would result in an impairment of goodwill and are confident that the amount of goodwill carried for The Medical House and Aesica as well as the assumptions used in estimating their fair values are appropriate.

Critical judgements around goodwill impairment are disclosed in note 1.