2. Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Impairment of Sapling Trade and Invest (Proprietary) Limited

As part of the purchase price allocation of the Sapling Trade and Invest (Proprietary) Limited transaction in September 2012, the Group identified the following intangible assets:

- Contractual customer relationships
- Goodwill

However, during the course of the year the sole income generating contract with the primary client was prematurely terminated resulting in no foreseeable future income.

This has resulted in the full impairment of the contractual customer relationship intangible asset (R17.52 million) and goodwill (R23.1 million).

The incorporation of Klinikka (Proprietary) Limited and the related business combination of DBC SA (Proprietary) Limited

During the year AHL incorporated Klinikka (Proprietary) Limited ("Klinnika") to commence a new business operation of selling specialised medical equipment. The formation of Klinikka resulted in the business acquisition of assets of DBC SA (Proprietary) Limited.

As part of the purchase price allocation of the transaction in November 2013, the Group recognised goodwill and a master licence agreement giving AHL the sole right to sell the specialised equipment in South Africa and other parts of the world.

Acquisition of Bonitas Marketing Company (Proprietary) Limited

As part of the purchase price allocation of the Bonitas Marketing Company (Proprietary) Limited transaction in September 2012, the Group identified the following intangible assets:

Contractual customer relationships

The existing customer contracts with external parties will result in an inflow of economic benefits to the Group and as a result considered to be an intangible asset.

The discounted cash flow technique was used to value the customer contracts at the date of acquisition. Operating profits before tax based on five year income and expenditure forecasts derived from management's strategic planning forecasts were used as cash flows. A discount rate of 10.65% was used, which was considered to be appropriate for the industry in which Bonitas Marketing Company (Proprietary) Limited operated at the date of acquisition. The useful life of this intangible asset has been estimated to be five years.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events as disclosed in note 38.1.

Impairment of goodwill

The carrying amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash-generating units ("CGU") has been determined based on value-in-use calculation, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of that CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 8 in these annual financial statements.

2. Critical accounting estimates and assumptions (continued)

Carrying value of tangible and intangible assets

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

The carrying amount of tangible and intangible assets at 30 June 2014 was R115.1 million (June 2013: R105.3 million) and R603 million (June 2013: R628 million) respectively.

3. Financial risk management

General

Risk management is a priority issue because it affects every part of the business. It is a pre-emptive process that allows the Group to assess and analyse risk in an integrated fashion, identifying potential areas in advance and then to proactively create processes and measures for compliance.

Fundamentally, the Board's responsibility in managing risk is to protect the Group's employees, its policyholders, and the Group in every facet. It fully accepts overall responsibility for risk management and internal control and in so doing the Board has deployed effective control mechanisms to prevent and mitigate the impact of risk.

Primary responsibility for risk management at an operational level rests with the Executive Committee. Management and various specialist committees are tasked with integrating the management of risk into the day-to-day activities of the Group. Refer to the corporate governance statement for more detail regarding the committees involved in risk management.

The Healthcare and Administration business activities are exposed to a variety of financial risks:

- Market risk;
- Credit risk;
- Liquidity risk;
- Litigation and legal risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Market risk

Currency risk

Currency risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Group is not exposed to any currency risk in relation to its foreign operations in Namibia and Swaziland as the currencies of these countries are fixed to the South African rand.

Cash flows from other foreign investments (Botswana, Mauritius, International and Zimbabwe) bear currency risk. The most significant exposure is to the euro, Mauritian rupee, the Botswana pula and the Zimbabwean dollar. The impact of currency risk on profit and loss amounted to a gain of R0.394 million (June 2013: R0.383 million loss).