3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.2 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, when the relevant contracts are entered into. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year-end.

	2016 R'000	2015 R'000
Non-interest-bearing borrowings	**16 087**	16 087
Less: Amounts included in current portion of borrowings	**(16 087)**	(16 087)
	—	—

The Group did not default on any loans or breach any terms of the underlying agreements during the period. Borrowings are unsecured and are repayable on demand. Included in borrowings is R4.7 million (2015: R4.7 million) owing to related parties, which is interest-free (refer to note 8).

Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions. The Group is not exposed to significant levels of price risk.

Cash flow and fair value interest rate risk

The Group's cash flow interest rate risk arises from loans receivable, cash and cash equivalents, and borrowings carrying interest at variable rates. The Group is not exposed to fair value interest rate risk as the Group does not have any fixed interest-bearing instruments carried at fair value.

As part of the process of managing the Group's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk

The Group is exposed to foreign currency risk from transactions and translation. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency. Translation exposure arises where affiliated companies have a functional currency other than the rand.

The Group manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments may be used in certain instances to reduce risks arising from foreign currency fluctuations.

IFRS 7 – Sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to the income statement of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand against all other currencies, from the rates applicable at 31 May 2016, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value; and
- Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2016 would increase or decrease profit before tax by R5.9 million (2015: R8.5 million).

For the year ended 31 May 2016

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.2 Borrowings continued

Foreign currency sensitivity

Financial instruments by currency

	ZAR R'000	USD R'000	NgN R'000	GBP R'000	GHS R'000	EUR R'000	LSL R'000	Total R'000
2016								
Financial assets								
Cash and cash equivalents	**588 717**	**310**	**—**	**—**	**—**	**—**	**—**	**589 027**
Trade and other receivables*	**2 525 960**	**318**	**—**	**15 959**	**—**	**3 223**	**—**	**2 545 460**
Loans receivable	**104 126**	**—**	**—**	**—**	**—**	**—**	**—**	**104 126**
Loans to associates and joint ventures	**8 945**	**273 251**	**—**	**—**	**—**	**—**	**—**	**282 196**
	3 227 748	**273 879**	**—**	**15 959**	**—**	**3 223**	**—**	**3 520 809**
Financial liabilities								
Non-interest-bearing borrowings	**16 087**	**—**	**—**	**—**	**—**	**—**	**—**	**16 087**
Trade and other payables*	**2 646 837**	**214**	**—**	**—**	**119**	**2 368**	**42**	**2 649 580**
	2 662 924	**214**	**—**	**—**	**119**	**2 368**	**42**	**2 665 667**
Net financial position	**564 824**	**273 665**	**—**	**15 959**	**(119)**	**855**	**(42)**	**855 142**
2015								
Financial assets								
Cash and cash equivalents	787 365	1 045	1	—	—	—	—	788 411
Trade and other receivables*	2 723 842	97	—	18 071	—	—	—	2 742 010
Loans receivable	74 302	—	—	—	—	—	—	74 302
Loans to associates and joint ventures	7 900	193 186	—	—	—	—	—	201 086
	3 593 409	194 328	1	18 071	—	—	—	3 805 809
Financial liabilities								
Non-interest-bearing borrowings	16 087	—	—	—	—	—	—	16 087
Trade and other payables*	3 013 412	171	638	—	—	—	—	3 014 221
	3 029 499	171	638	—	—	—	—	3 030 308
Net financial position	563 910	194 157	(637)	18 071	—	—	—	775 501

**Trade and other receivables and trade and other payables exclude non-financial instruments.*

With a 10% strengthening or weakening in the rand against the US dollar, profit before tax would have decreased or increased by R27.4 million. In the prior year, with a 10% strengthening or weakening in the rand against the US dollar, profit before tax would have decreased or increased by R19.4 million. The effects of movements in other currencies are insignificant.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt. The Group defines capital as capital and reserves and non-current borrowings. The Group is not subject to externally imposed capital requirements.

There were no changes to the Group's approach to capital management during the year.