

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2022 (CONT'D)

43. CASH FLOW HEDGE

ACCOUNTING POLICIES

Textile Segment

The Textile segment is involved in the production and sale of textile apparel, most of which is done through exports to foreign countries. The Textile Group is made up of Knitwear Cluster, Fine knits Cluster and Woven Cluster and is exposed to foreign exchange risk on the sale of textile products denominated in foreign currency. The Textile segment exports almost all of its production (South African Rand 'ZAR', United States Dollars 'USD', Great Britain Pound 'GBP' and Euro 'EUR').

The Textile segment is mainly faced to the following foreign exchange exposures:

Pre-transaction foreign currency risk

This arises before the transaction ('sale') becomes contractual while a quote is given to the client in foreign currency. Even though the transaction is not confirmed, movement in exchange rate to the disfavour of the Textile segment signifies a potential risk. If a customer later accepts the quote received, there is a risk that the foreign currency price then converted to MUR will not bring the desired margin.

Transaction foreign currency risk

Transactional foreign currency risk arises as soon as there is a contractual obligation between the Textile segment and the foreign customers. If nothing is done, there is a certain risk that the foreign exchange rate may weaken and if it so happens, the Group may only lose the intended margin on the transaction and may even incur losses if the exchange rate variations are drastically in disfavour of the segment.

The Textile segment adopted the following strategy:

The Treasury Committee and Chief Executive of the segment are responsible for the decision making, with the intention to take cover, through forward exchange contracts with a view to cover for sale transactions that are judged as being highly probable. The intention is to cover for transactional exposures as they are unveiled. Prerogative is given to the Treasury Committee and Chief Executive of the segment to decide if they would keep part of this position uncovered with the view of benefiting from potential currency appreciation against the MUR.

The Textile segment enters into forward covers to manage its foreign exchange risk on foreign denominated sales. Forward exchange covers are taken for orders received and which are highly probable, and this is designated as a cash flow hedge. Forward covers are used as a mechanism to fix the amount of foreign currency denominated sales which are used to modify cash flow between financial instrument and sales receipts upon realisation.

Financial instruments taken to hedge the Textile segment's sales are fair valued and recognised in the statement of financial position as financial assets/liability. For those sales on which a forward has been taken and which has materialised, the resulting fair value gain/loss on re-measurement is accounted for in profit or loss while for those transactions for which the underlying sale has not yet materialised, the fair value gain/loss is recorded in other comprehensive income. The latter is then recycled to profit or loss as soon as the sale materialises, and the goods are shipped.

43. CASH FLOW HEDGE (CONT'D)

ACCOUNTING POLICIES (CONT'D)

Textile Segment (Cont'd)

The Textile segment enters into forward contracts (hedge instrument) to buy or sell foreign currencies at a specified future time at a price agreed upon the contract date. The price is locked until delivery of sales order which normally will not exceed 9 months. Hedge instruments, in this case forward exchange contracts, are expected to be highly effective to mitigate the foreign currency risk exposure on sales (hedged item). By selling forward, the Textile segment expects to mitigate long term currency exchange risk and will revalue in the opposite direction to the underlying transaction.

The objective of the Textile segment is to cover identified exposures (i.e. confirmed orders or highly probable sales orders) to the minimum of 75% and a maximum of 125%. However, this benchmark is determined on a case to case basis by the CEO and treasury committees of the respective business clusters while taking into consideration the specific transaction requirements.

For all sales not yet shipped and for which a forward exchange contract cover has been taken, the Textile segment performs a revaluation of outstanding forward contracts relating to cash flow hedges which is then recorded in the statement of comprehensive income.

Revaluation of outstanding forward contracts relating to transaction for which an asset has already crystallised in the statement of financial position (sales already shipped, and debtors raised) will be recorded in profit or loss.

Subsequently, the cash flow hedge recognised in other comprehensive income will be reversed in profit or loss in the following year, as an underlying asset would already have crystallised upon the orders being shipped (Sales not shipped last year would have been shipped this year).

Hedge instruments in the form of forward foreign exchange contracts is expected to be highly effective as the unshipped sales, which represents the hedged item, has a direct economic relationship to the forward foreign exchange contract entered into to mitigate the foreign exchange exposure on the Textile segment's unshipped and confirmed sales orders at year end.

Although effectiveness is certain to be 100% as long as plain vanilla forward contracts are used, a 10% error margin in the hedge effectiveness is considered as acceptable. To determine effectiveness of the hedge, the list of hedge instruments (forward contracts) are matched with list of sales not yet shipped/highly probable sales (hedged items).

The Textile segment has a single risk category which is the foreign exchange risk on foreign denominated sales.

The Textile segment does not have any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2022 (CONT'D)

43. CASH FLOW HEDGE (CONT'D)

ACCOUNTING POLICIES (CONT'D)

Textile Cluster

The following table details the forward foreign currency (FC) contracts outstanding at the end of the reporting period:

Outstanding contracts	2022	2021	2022	2021		2022	2021	2022	2021	2022	2021	
	Average exchange rate		Sell FC'000	Buy FC'000	Sell FC'000	Buy FC'000	Fair value Rs '000	Rs '000	Contract value Rs '000	Rs '000	Gain/(Loss) Rs '000	Rs '000
Sell currency EUR and buy currency USD	1.08	1.13	2,923	3,167	2,885	3,256	(105,109)	(92,081)	(98,775)	(90,586)	6,334	1,495
Sell currency EUR and buy currency MUR	-	48.72	-	-	536	26,113	-	(26,113)	-	(26,689)	-	(576)
Sell currency GBP and buy currency USD	1.36	1.34	5,417	7,360	4,665	6,252	(321,623)	(262,895)	(285,852)	(270,073)	35,771	(7,178)
Sell currency GBP and buy currency MUR	58.65	57.70	2,129	124,873	1,312	75,700	(124,873)	(75,700)	(111,892)	(76,105)	12,981	(405)
Sell currency ZAR and buy currency USD	0.06	0.07	183,933	11,569	137,227	9,526	363,685	220,720	393,553	236,621	29,868	15,901
Sell currency ZAR and buy currency MUR	2.78	2.50	371,399	1,031,225	194,233	486,195	489,549	(35,118)	565,194	(50,090)	75,645	(14,972)
Sell currency USD and buy currency MUR	44.27	41.41	21,065	932,504	25,941	1,074,090	932,504	863,643	948,166	845,654	15,662	(17,989)
Sell currency USD and buy currency ZAR	15.84	-	1,800	28,506	1,500	17,074	83,651	17,963	80,573	18,731	(3,078)	768
Sell currency USD and buy currency INR	77.41	75.40	18,755	1,451,817	7,350	554,206	813,017	321,439	797,582	322,958	(15,435)	1,519
Sell currency GBP and buy currency INR	104.75	104.25	1,327	138,999	1,150	119,886	77,840	69,534	80,862	69,655	3,022	121
Sell currency EUR and buy currency INR	86.29	91.36	3,594	310,143	2,600	237,527	173,680	137,766	176,388	140,500	2,708	2,734
Total							2,382,321	1,139,158	2,545,799	1,120,576	163,478	(18,582)

THE GROUP

Recognised as follows:	2022	2021
	MUR' 000	MUR' 000
On statement of financial position		
Fair value asset on forward contracts	173,183	8,973
Fair value liability on forward contracts	(9,705)	(27,555)
	163,478	(18,582)
In statement of profit or loss		
Gain/(Loss) on financial derivatives	188,186	(29,396)
In statement of other comprehensive income		
Gain on financial derivatives	-	10,814
	188,186	(18,582)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2022 (CONT'D)

Hotels & Resorts segment

The segment is exposed to foreign currency risk, most significantly to the Euro, Pound Sterling and US Dollar, on the segment's sales denominated in these currencies. The segment hedges these exposures by entering into foreign currency loans ("hedging instruments") with future principal payments that will match the future sales ("hedged item") in these currencies. All exchange differences arising on the conversion of foreign currency loans are deferred in equity, under the cash flow hedge reserve to the extent that the hedge is effective. On recognition of the hedged sales, the foreign currency gain/loss is netted off by releasing a portion of the cash flow hedge reserve.

The Hotels and Resorts segment has reviewed the hedging portfolio to confirm whether the underlying transactions remain "highly probable".

At the time of reporting, management has identified:

- (i) A portion of foreign currency sales which are no longer deemed to be "highly probable" but are still expected to occur. Hence, the corresponding cumulative gain or loss deferred in equity whilst the hedge was effective remains in equity until the forecasted transaction occurs.
- (ii) A portion of foreign currency sales which are no longer deemed to the "highly probable" and are not expected to occur. Hence the corresponding cumulative gain or loss deferred in equity whilst the hedge was effective are immediately removed from equity and are recognised in the statement of profit or loss.

43. CASH FLOW HEDGE (CONT'D)

ACCOUNTING POLICIES (CONT'D)

Hotels & Resorts segment (Cont'd)

Below is a schedule indicating as at 30 June 2022, the periods when the hedge cash flows are expected to occur and when they are expected to affect profit or loss.

THE GROUP	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
2022				
Cash inflows	803,083	1,333,405	1,347,851	922,465
Cash outflows	(803,083)	(1,333,405)	(1,347,851)	(922,465)
Net cash outflows	-	-	-	-
2021				
Cash inflows	-	2,497,211	1,416,828	740,943
Cash outflows	(229,403)	(2,863,642)	(1,416,828)	(740,943)
Net cash outflows	(229,403)	(366,431)	-	-

43. CASH FLOW HEDGE (CONT'D)

ACCOUNTING POLICIES (CONT'D)

Financial services segment

The Financial services segment had the following forward foreign exchange contracts outstanding at the end of the reporting period.

	Notional amount		Carrying amount	
	Sell MUR' 000	Buy MUR' 000	Assets MUR' 000	Liabilities MUR' 000
2022				
EUR to MUR	1,481	27,516	119	433
EUR to USD	38,832	10,348	933	898
GBP to MUR	51,550	47,130	6,411	6,411
GBP to USD	6,817	6,128	714	714
USD to MUR	1,129,823	950,329	22,209	15,388
ZAR to MUR	727,419	734,950	30,537	31,964
ZAR to USD	37,749	22,890	2,534	1,097
2021				
EUR to MUR	74,512	78,564	3,034	3,456
EUR to USD	14,699	-	-	307
GBP to MUR	32,455	34,602	1,001	1,062
GBP to USD	1,168,121	1,060,284	43,578	42,361
USD to MUR	280,296	280,296	21,180	21,180