16. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

ACCOUNTING POLICIES

Initial Recognition

Leases are recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since the third party financing was received and makes adjustments specific to the lease, e.g. term, country, currency and security. The incremental borrowing rates range from 5% to 17.24%.

Subsequent measurement

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.

ACCOUNTING POLICIES (CONT'D)

Subsequent measurement (Cont'd)

- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

Lease term

The lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. In instances where lease agreements contain lease and non-lease components, they are generally accounted for separately. For certain instances where it is impractical to separate the lease from the non-lease component, the Group will account for them as a single lease component. In determining the lease term, management considers all the facts and circumstances that can create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods with termination options) are only included in the lease term if the lease term is reasonably certain to be extended (or terminated).

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options across the segment are only included in the lease term if the lease is reasonably certain to be extended. These are used to maximise operational flexibility in terms of managing the assets used in the segment's operations. The factors influencing the decision to exercise these options include the location of the assets, some being on prime locations along the coast of the island, and the costs that would be incurred to set up a whole new building to operate in the event of termination.

Lease and non-lease component

Contracts may contain both lease and non-lease components. The segment allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the segment is a lessee, it has elected not to separate lease and non-lease components and instead account for these as a single lease component.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Textile

The textile segment leases various offices, warehouses and factories. Rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options. The facts and circumstances would include whether renewing the lease of the asset would have commercial value: how the asset could be used by the entity for its operations and to generate income.

The weighted average incremental borrowing rate stands at **7.35%-8%** (2021: 7.35%).

16. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONT'D)

Textile (Cont'd)

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Healthcare

The Healthcare Segment leases various buildings and motor vehicles. The contract duration ranges from 6 months to 50 years. Until year 2018, the leases were treated as operating lease and as from July 2019, the leases are recognised as right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. The discount rate used is **5.35%** (2021: 5.35%) for C-Care for the main lease being the land & building at Wellkin.

In November 2020, the healthcare segment signed an agreement for 20 years with Mont Choisy Smart City for Ltd for the rental of premises for the operation of a new clinic. The building to be used for the clinic is still under construction. As per the terms of the contract, rental payment should start 3 months after practical completion date following which lease will be accounted as right of use assets.

Hotels and Resorts

Lease liabilities relate to:

- The right-of-use of property, plant and equipment with an average duration varying between 4 and 5 years and for which the Group has the option to purchase the asset for a nominal amount at the expiry of the lease arrangements; and
- Leases of rooms under the Invest Hotel Scheme which run for a period between 52 and 59 years.
- Other leasehold land and buildings which run for a period between 25 to 60 years.

The segment's leases are secured by the lessors' title to the leased assets.

The incremental borrowing rate on lease liabilities ranged from **2.20% to 7.05%** (2021: 5.00% to 7.05%).

Effective 1 July 2021, the Government amended the State Lands Act to change the timing of payment of annual rental for hospitality operators from 1 July of each year (payable in advance) to 30 June of each year (payable in arrear). This amendment resulted in a decrease in the present value of future cashflows recognised under lease liabilities (IFRS 16). Lease liabilities were subsequently adjusted and the impact of the re-assessment was credited to profit or loss as a gain under other income.

The short term leases under this segment comprises the lease of motor vehicles.

Financial Services

The segment has leases for buildings and motor vehicles. Leases have remaining lease terms between 1 and 7 years, some of which may include options to extend the leases for up to 3 years, and some of which may include options to terminate the leases within 1 year.

The incremental borrowing rate on lease liabilities ranged from **6.25%** to **8.5%** (2021: 6.25% to 8.5%) for the segment.

The short term leases relate to the lease of certain bank branches across Madagascar.

16. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONT'D)

THE GROUP

(a)	Land and Buildings	Motor Vehicles	Others	Total
	MUR '000	MUR '000	MUR '000	MUR '000
Balance as at 1 July 2021	2,762,789	33,448	15,004	2,811,241
Additions	338,961	16,990	-	355,951
Amortisation	(192,177)	(14,386)	(5,728)	(212,291)
Disposals	(14,347)	(311)	-	(14,658)
Lease modification	170,211	-	-	170,211
Asset written off	(3,421)	(1,571)	-	(4,992)
Translation adjustments	(6,842)	-	-	(6,842)
Right-of-use assets, 30 June 2022	3,055,174	34,170	9,276	3,098,620
Balance as at 1 July 2020	2,992,960	28,950	16,185	3,038,095
Additions	258,856	19,403	3,412	281,671
Amortisation	(158,980)	(13,240)	(4,593)	(176,813)
Disposals	(359,060)	(1,665)	-	(360,725)
Translation adjustments	29,013	-	-	29,013
Right-of-use assets, 30 June 2021	2,762,789	33,448	15,004	2,811,241

	2022	2021
	MUR '000	MUR '000
Lease liabilities:		
Current	258,047	250,659
Non-current	3,206,216	3,014,504
	3,464,263	3,265,163

16. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONT'D)

THE GROUP

	2022	2021
	MUR' 000	MUR' 000
(b) The statement of profit or loss shows the following amounts relating to leases:		
Amortisation of right-of-use assets	**212,291**	176,813
Interest on lease liabilities	**219,634**	220,249
Expenses relating to leases of low-value assets and short-term leases (Note 5)	**310,709**	76,821
Lease concessions	**-**	(99,053)
Total lease cost	**742,634**	374,830
The total cash outflow for leases was as follows:		
Repayment of principal element of leases	**239,241**	204,389
Other information:		
Weighted Average Remaining Lease Term	**17.00**	4.58

17. OTHER RECEIVABLES

ACCOUNTING POLICIES

Other receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

	THE GROUP	
	2022	2021
	MUR' 000	MUR' 000
Receivable from sale of land		-
Long-term deposits	**54,224**	32,338
Loans under Executive Share Scheme (Note (a))	**16,920**	16,920
Others	**10,536**	-
	81,680	49,258

(a) Loans under Executive Share Scheme were granted to key executives where cash was advanced to certain individuals to acquire shares in the Company at market value at grant date. The terms of the scheme were such that when the shares are disposed, the proceed is to be used to settle the loan advanced. The loan carries interest of 3% which is payable half yearly in December and June. The interest for the year has been waived by the Board. The scheme has now been discontinued and replaced by the Phantom Share Option Scheme which does not significantly impact the financial statements.