NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2022

1. GENERAL INFORMATION

On 24 January 2014, CIEL Investment Ltd was amalgamated with and into Deep River Investment Ltd (DRI). The surviving company has subsequently been renamed CIEL Limited.

CIEL Limited (the “Company”) is a public company incorporated and domiciled in Mauritius and listed on the Official Market of the Stock Exchange of Mauritius. Its registered office is situated at 5th Floor, Ebène Skies, Rue de L’Institut, Ebène, Republic of Mauritius.

Its main activity is to provide long term growth and dividend income for distribution to investors.

CIEL Limited invests in a diversified portfolio of equity and equity related investments in six strategic sectors namely textile, agro, property, hotels and resorts, finance and healthcare.

These financial statements will be submitted for consideration and approval at the forthcoming Annual Meeting of Shareholders of the Company.

2. BASIS OF ACCOUNTING

2.1 Basis of preparation

(a) Statement of compliance

The consolidated financial statements of CIEL Limited are prepared in compliance with the Mauritius Companies Act 2001 and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (‘IASB’). The financial statements are also prepared in line with interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and any other regulatory requirements.

(b) Historical cost convention

The financial statements are prepared on a going concern basis and include the consolidated financial statements of the parent company and its subsidiary companies (the Group) and the separate financial statements of the parent company (the Company). The financial statements are prepared under the historical cost convention except for:

Company - Investments in subsidiaries measured at fair value through other comprehensive income (‘FVOCI’)
Investments in associates measured at FVOCI
Investments in joint ventures measured at FVOCI
Investments in other financial assets measured at FVOCI

Group - Land and buildings at fair value
Investment properties at fair value
Derivative financial instruments at fair value through profit or loss (‘FVPL’)

Where necessary the comparative figures have been amended to conform with change in presentation of the current year.

(c) Going concern

The Board of Directors has made an assessment of the Group’s and the Company’s ability to continue as a going concern and is satisfied that the Group and the Company have the resources to continue in business for the foreseeable future. Furthermore, Directors are not aware of any material uncertainties that may cast significant doubt upon the Group’s and the Company’s ability to continue as a going concern. Accordingly, the financial statements have been prepared on the going concern basis.

The Company

The Company has made a profit of **MUR 341M** (2021: MUR130M) for the year ended 30 June 2022 and its total assets exceed its total liabilities by **MUR 21Bn** (2021: MUR 16Bn).

2. BASIS OF ACCOUNTING (CONT'D)

2.1 Basis of preparation (Cont'd)

(c) Going concern (Cont'd)

The Company (Cont'd)

Whilst its total current liability exceeds its current assets by **MUR 200M** (2021: Net current assets of MUR 64M), the Company has undrawn facilities and money market line amounting to MUR 330M to meet its liabilities in the foreseeable future, if required.

The Group

The Group has made a profit of **MUR 2Bn** (2021: MUR 0.4Bn) for the year ended 30 June 2022 and its total assets exceed its total liabilities by **MUR 26Bn** (2021: MUR 22Bn).

The total current liability exceeds the current assets by **MUR 13Bn** (2021: MUR 11Bn), arising principally from the normal operations of BNI Madagascar SA ('the Bank') in the banking segment of the Group, whereby the current liabilities exceed the current assets by **MUR 13Bn** (2021: MUR 9Bn).

The Bank has major deposits with customers which are demand and savings deposits and are therefore classified as current in the Group's financial statements. The Bank has been making profits and distributed dividends in the current year. The Bank had a capital adequacy ratio of **10%** as at 30 June 2022 (2021: 10.05%) which is well above the minimum capital requirement of 8% as required per the Central Bank of Madagascar.

As detailed in note 45(c), the Bank has in place an adequate liquidity risk management framework, which ensures that:

(a) Cash flow is managed to ensure a balanced inflow and outflow of funds on any one specific day and;

(b) The Bank maintains an adequate stock of liquid assets to ensure that it has sufficient store of value, which can be utilised in the event of an unexpected outflow of funds.

The Bank's current assets comprise mainly of loans and advances, which cannot exceed the deposits from customers – the ratio of loans and advances under current assets to deposits from customers under current liabilities stood at 40% which is relatively conservative.

Based on the above, the Board of Directors is satisfied that the Group has the resources required to meet its liabilities in the foreseeable future.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of CIEL Limited and its subsidiaries as at 30 June 2022.

Control is achieved when the Group is exposed or has rights to variable returns from its involvement with the investee and could affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure or rights to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

2. BASIS OF ACCOUNTING (CONT'D)

2.1 Basis of preparation (Cont'd)

(d) Basis of consolidation (Cont'd)

The Group re-assesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value, unless significant influence is maintained, in which case, the investment will be accounted for using the equity method of accounting.

(e) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using Mauritian Rupees, the currency of the primary economic environment in which the entity operates ("functional currency") and rounded to the nearest thousand (MUR '000). The consolidated financial statements are presented in Mauritian Rupees, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash-flow hedges and qualifying net investment hedges.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from that of the presentation currency of the Company, are translated as follows:

(a) assets and liabilities are translated at the closing rate at the reporting date;

2. BASIS OF ACCOUNTING (CONT'D)

2.1 Basis of preparation (Cont'd)

(e) Foreign currencies (Cont'd)

(b) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) the resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. In the event of disposal of a foreign operation, exchange differences are recognised in the profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(f) Earnings before interest, tax, depreciation, amortisation, impairments and fair value gain on investment property

Earnings before interest, tax, depreciation, amortisation, impairments and fair value gain on investment property is stated after adding to earnings before interest, tax, depreciation and amortisation, the significant impairment charges incurred on the Group's assets, and fair value gain on investment property during the year. The Directors make use of this measure to monitor the operational performance of the Group as they deem that it shows the underlying performance of the Group more accurately.

(g) Earnings before interest, tax, impairments and fair value gain on investment property

Earnings before interest, tax, impairments and fair value gain on investment property stated after adding to earnings before interest and tax, the significant impairment charges incurred on the Group's assets and fair value gain on investment property during the year.

(h) Financial assets and liabilities

Measurement methods

The Group and the Company classify their financial assets as subsequently measured at either amortised cost or fair value depending on the Group's and the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flow; and
- the contractual terms of the financial asset represent contractual cash flow that are solely payments of principal and interest.

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

2. BASIS OF ACCOUNTING (CONT'D)

2.1 Basis of preparation (Cont'd)

(h) Financial assets and liabilities (Cont'd)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVPL);
- Amortised cost.

The classification requirements for debt and equity instruments are described below.

2. BASIS OF ACCOUNTING (CONT'D)

2.1 Basis of preparation (Cont'd)

(h) Financial assets and liabilities (Cont'd)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- All financial assets not classified as amortised cost or FVOCI as described above are classified as FVPL and held at fair value. This includes all derivative financial assets. On initial recognition, the Group may irrevocably elect to designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI as FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. This election is made on an individual instrument basis.
- These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss when the Group's and/or the Company's right to receive the return is established, unless such instrument is designated in a hedging relationship.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows; that is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g., financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

2. BASIS OF ACCOUNTING (CONT'D)

2.1 Basis of preparation (Cont'd)

(h) Financial assets and liabilities (Cont'd)

Debt instruments (Cont'd)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either:

(i) the Group transfers substantially all the risks and rewards of ownership, or

(ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of profit or loss.

2. BASIS OF ACCOUNTING (CONT'D)

2.1 Basis of preparation (Cont'd)

(h) Financial assets and liabilities (Cont'd)

Expected credit losses

The Group assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The credit risk note provides more detail of how the expected credit loss allowance is measured.

(i) Impairment of non-financial assets

The carrying amounts of assets are assessed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated, being the higher of the asset's net selling price and its value-in-use, to determine, the extent of the impairment loss, if any, and the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised as an expense immediately, unless the asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

(j) Borrowing costs

All borrowing costs are charged to the statement of profit and loss in the period in which they are incurred.

(k) Provisions

Provisions are recognised when the Group and/or the Company have a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated. Provisions are determined by discounting the expected future cash flows are a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(l) Government grants

Government grants are recognised if it is reasonably certain that the related conditions will be satisfied and the grants will actually be received. Grants for the purchase of non-current assets (asset-related grants) are deducted from the historical cost of the assets in question and reduce future depreciation. Grants in respect of wages obtained under the government wage assistance scheme are accounted for in the statement of profit or loss in the period to which the wages relate.

(m) COVID-19 Levy

The COVID-19 Levy is contingent on the entity earning chargeable income in the current year and is recognised in profit or loss when and if a chargeable income arises. It is calculated as the lower of the government grant received under the wage assistance scheme in 2020 and 2021 and 15% of the chargeable income of the current year, less any amount already refunded to the authorities in 2020 and 2021.

2. BASIS OF ACCOUNTING (CONT'D)

2.1 Basis of preparation (Cont'd)

(n) Convertible bonds

During the financial year ended 30 June 2021, the hotel and resorts segment of the Group contracted with the Mauritius Investment Corporation Ltd ("MIC"), a wholly owned subsidiary of the Bank of Mauritius, the issue of redeemable convertible bonds. The Group has accounted for the convertible bonds as equity on initial recognition on the following basis:

- The issuer has the unconditional right to avoid paying cash, and if the principal of the bonds is converted to ordinary shares, these will be converted by exchanging a fixed notional for a fixed number of shares, and any potential variability would serve to maintain the relative economic rights of the shareholders and the subscriber, resulting in no violation of the 'fixed for fixed' requirement. Hence, the Group deems that the principal component can be classified under equity.
- The bonds bear a fixed interest rate (the contractual interest and penalty-interest rates are both fixed) and can be considered to be predetermined because it only varies over time. As a result, the Group determines that such an instrument meets the 'fixed for fixed' condition whereby each unit of the convertible bond converts into a fixed number of shares and hence the instrument can be treated as equity.

The bonds are initially measured based on the subscription proceeds received net of transaction costs, without subsequent remeasurement.

(o) Cost of sales and operating expenses

Cost of sales comprises direct material and labour costs but also indirect costs that can be directly attributed to generating revenue. These are included in profit or loss.

Operating expenses relate to indirect costs of operations accounted on the accruals basis.

(p) Earnings per share (EPS)

(i) Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Group and Company;
- by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.2 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcome that requires a material adjustment to the carrying amount of assets and liabilities affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur.

2. BASIS OF ACCOUNTING (CONT'D)

2.2 Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

(i) Impairment of goodwill and non-current assets

Management has assessed the recoverable amounts, as at 30 June 2022 and 2021, of cash generating units (CGUs) to which goodwill has been allocated and CGUs that have indicators for impairment. Note 11 sets out the CGUs to which goodwill has been allocated for impairment testing purposes.

The recoverable amount of CGUs is determined based on their value-in-use or their fair value less costs to disposal, if any. The value-in-use has been determined via future net cash flows based on the budget for the next 12 months as a starting point. Cash flow projections of 3 to 10 years have been considered and discounted at an appropriate discount rate and added to the estimated discounted terminal value. The determination of the cash flow projections, discount rates and terminal values entails significant assumptions made by management of the effects of uncertain future events on those assets at the reporting date. Refer to Note 9 and Note 11 for impairment assessment of PPE and impairment of goodwill respectively.

(ii) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of treasury bills that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Refer to note 31 for further details.

(iii) Convertible bonds

During the year ended 30 June 2022, SUN Group received additional funding from the Mauritius Investment Corporation ("MIC"), as per the terms and conditions disclosed in note 27(b) to the financial statements.

Significant accounting judgement has been applied by the Directors in the determination of the appropriate accounting policy, and legal representation has been obtained by the Directors with regards to certain clauses within the contract, which are disclosed in note 27(b).

(iv) Revaluation of property, plant and equipment and investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the profit or loss. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive income. The fair value is determined based on independent valuation by valuers who make use of valuation methods, depending on the type of asset being revalued. Such methods depend on a variety of assumptions which are further disclosed in notes 9 and 10.

During the financial year ended 30 June 2022, a revaluation gain of MUR 2.2Bn, of which MUR 1.8Bn is attributable to the Hotel and Resort segment, was recognised. The Directors of the Group deemed the depreciated replacement cost approach to be the most suitable valuation technique for the leasehold land improvements, buildings and site improvements of the Hotel segment as compared to other techniques such as the income approach and the market comparable approach. The most significant input into this method of valuation is the replacement cost per square metre.

2. BASIS OF ACCOUNTING (CONT'D)

2.2 Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

(iv) Revaluation of property, plant and equipment and investment properties (Cont'd)

A revaluation gain of MUR 185M has been recognised on investment properties during the financial year ended 30 June 2022. Most of the revaluation gain, being MUR 170M, has been recognised on the land owned by a subsidiary of the Property segment. Hence, the Directors of the Group deemed the residual method of valuation to be the most suitable valuation technique. The most significant input into this method of valuation is the estimated possible revenue of the developable land and the net of all the costs of developing the entire Smart City, mostly being the cost of construction of the buildings and services.

(v) Fair value of securities not quoted in an active market

The fair value of securities not quoted in an active market may be determined by the Group and the Company using valuation techniques including third party transactions values, earnings, net asset value or discounted cash flows, whichever is appropriate. The Group would exercise judgement and estimates on the quantity and quality of pricing sources used.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to notes 12, 13, 14 and 15 for further details.

Determination of fair value

The fair value of publicly traded securities in an active market is based on:

- Their market value which is calculated by reference to the Stock Exchange - quoted prices at the close of business at the end of reporting period;
- Quoted prices plus premium; or
- Recent transaction price.

In assessing the fair value of unquoted investments or quoted securities in an inactive market, the Group uses a combination of discounted cash flow, price to book, earnings multiple, net asset base, dividend yield basis and volume weighted average price method. The valuation policy is summarised below:

- 50% stake or more in investee companies – Net asset value, price earnings multiple or discounted cash flow and volume weighted average price method.
- Less than 50% stake in investee companies - earnings multiple
- Property investee companies - net asset basis whereby properties are revalued on a regular basis on their open market value
- Investments in new ventures are valued at cost for the first year less any impairment loss recognised to reflect irrecoverable amounts except if there has been significant change till year end
- Investment entities - net asset basis
- Banking sector - mix of price to book and price earnings ratios or dividend discounting model as appropriate
- Recent transaction price, where applicable

(vi) Asset lives and residual values

Property, plant and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets.

2. BASIS OF ACCOUNTING (CONT'D)

2.2 Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

(vii) Leases

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination, including: whether there are significant penalties to terminate (or not extend); whether any leasehold improvements are expected to have a significant remaining value; historical lease durations; the importance of the underlying asset to the operations; and the costs and business disruption required to replace the leased asset. The lease term is reassessed if a significant event or a significant change in circumstances occurs which affects the assessment of reasonable certainty. During the financial years ended 30 June 2022 and 30 June 2021, no option has been exercised and hence, no reassessment has been performed.

(viii) Determining whether forecast sales are highly probable

The Group is exposed to foreign currency risk, most significantly to the Euro, Pound Sterling and US Dollar, as the Group's sales are denominated in these currencies. The Group 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.

To apply hedge accounting, a condition is that the forecast transaction must be "highly probable". The Group has applied judgement in assessing whether the forecasted foreign currency revenue remain "highly probable", still expected to occur or is no longer expected to occur, particularly in light of the decline in expected bookings patterns resulting from the Covid-19 pandemic and the related suspension of the operations of the Group. In making this assessment, the Group has considered the most recent budgets and plans, including the Covid-19 scenario.

(ix) Recoverability of deferred income tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The outcome of their actual utilisation may be different.

(x) Measurement of the expected credit loss allowance

The IFRS 9 impairment requirements are based on an expected credit loss model. Madagascar's (Banking Subsidiary of CIEL Finance Limited referred to as 'The Bank') accounting policy for impairment of financial assets is listed below.

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on debt instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

(i) Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

2. BASIS OF ACCOUNTING (CONT'D)

2.2 Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

(x) Measurement of the expected credit loss allowance (Cont'd)

(iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since the initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset.

The Bank assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

The Bank considers its historical loss experience and adjusts this for current observable data. In addition, the Bank uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. In the case of debt instruments measured at FVOCI, the measurement of ECL is based on the three-stage approach as applied to financial assets at amortised cost. The Bank recognises the provision charge in profit and loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the statement of financial position. Further details have been disclosed in note 45.

(xi) Provision for slow-moving inventories

The Directors are required to exercise significant judgement in estimating the provision for slow-moving inventories. The following are considered to provide for inventories write-off:

- Apply appropriate procedures to identify slow-moving and obsolete stocks;
- Make reasonable and prudent estimates of the prices obtainable in the market in which the goods are expected to be sold at the time at which they will be available for sale; and
- Take into account projected time to completion and sale (for example, repair costs for damaged stocks and sales commission).

2. BASIS OF ACCOUNTING (CONT'D)

2.3 Application of new and revised International Financial Reporting Standards.

New and amended standards adopted by the Group

Amendment to IFRS 16, 'Leases' – Covid-19 - Related rent concessions extension of the practical expedient (effective for periods beginning on or after 1 April 2021) extends the date of the practical expedient under IFRS 16 in relation to Covid-19 - Related rent concessions from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications.

'Interest Rate Benchmark Reform – Phase 2 (effective for periods beginning on or after 1 January 2021) introduces a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the interbank offered rate (IBOR) reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition. The amendment did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 30 June 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. SEGMENT INFORMATION

The reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different strategies. The Group has six reportable segments:

- Textile derives income mainly from the sale of knitwear, woven and fine knits products.
- Agro earns income mainly from sugar production.
- Property derives income mainly land and property development.
- Hotels and Resorts derives income through the ownership and management of portfolio of hotels.
- Financial services derive income mainly from banking, fiduciary products and portfolio management.
- Healthcare derives income through the running of healthcare facilities.
- CIEL - Holding Company derives income through dividend return from its investments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Group evaluates performance on basis of Profit & Loss from operations.