

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

4.1 Critical accounting estimates and assumptions (continued)

(b) Expected credit losses of trade receivables

The Group and the Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's and the Company's historical observed default rates. The Group and the Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's and the Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. ECL for the year amounts to MUR 148.558m (2021: MUR 128.518m) for the Group and MUR 75.304m (2021: MUR 66.985m) for the Company.

(c) Retirement benefit obligations

The present value of the pension obligations depend 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, future salary increases, mortality rates and future pension increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group and the Company 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 and the Company considers the interest rates of high-quality corporate bonds 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 liability. Refer to Note 17 for more details.

(d) Revaluation of land and buildings

Land and buildings are measured at revalued amounts with changes in fair value being recognised in other comprehensive income. The Group and the Company engage an independent valuer to determine the fair value on a regular basis. These estimates have been based on recent transactions for similar properties. The actual amount of the land and buildings could therefore defer significantly from the estimates in the future. Refer to Note 5 for more details.

(e) Provision for slow-moving stock

A provision for slowing moving stock is determined using a combination of factors (quality and ageing of stock) to ensure that inventory is not overstated at year end. Refer to Note 11 for more details.

(f) Depreciation and amortisation rates

The Group and the Company depreciates or amortises its assets to their residual values over their estimated useful lives. The estimation of useful lives is based on historical performance and expectation about future use and requires significant degree of judgement. The residual value of an asset is the estimated net amount that the Group and the Company would currently obtain from disposal of the asset if the asset were already of the age and in condition expected at the end of its useful life. Refer to Note 5 for more details.

The directors therefore make estimates based on historical experience and use best judgement to assess the useful lives of assets and to forecast the expected residual values of the assets at the end of their expected useful lives.

(g) Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statements of financial position cannot be measured based on quoted prices in active markets their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible but where this is not feasible a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. Refer to Note 3.1 for more details.

(h) Useful life of trademarks

As there is no foreseeable limit to the period over which the trademarks are expected to generate net cash inflows for the Group and the Company, trademarks have been assessed as having an indefinite useful life. Refer to Note 6 for more details.

(i) Estimating variable consideration for returns and volume rebates

The Group and the Company estimates variable considerations to be included in the transaction price for the sale of goods with rights of return and volume rebates.

The Group and the Company has contracts with certain supermarkets and point of sales whereby if certain target turnover is achieved, an end of year rebate is earned by them. Some of those contracts are coterminous with the financial year and some are based on calendar year. For the coterminous contracts, the annual rebate is straight-away and based on actual sales. However, for those contracts based on the calendar year, the estimated rebate is based on actual six-months sales till June plus estimated sales till December based on historical data and current trend.

The Group and the Company applied a statistical model for estimating expected rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebates entitlement of customers to determine the expected rebate. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate estimated by the Group and the Company.

The Group and the Company updates its assessment of expected sales rebates half-yearly and the refund liabilities are adjusted accordingly. Estimates of expected rebates are sensitive to changes in circumstances and the Group's and the Company's past experience regarding sales and rebate entitlements may not be representative of customers' actual sales and rebate entitlements in the future.

As at 30 June 2022, the amount recognised as end of year discount for the expected sales and turnover rebates was MUR 207.6m (2021: MUR 161.4) for the Group and MUR 81.6m (2021: MUR 54.0m) for the Company. Refer to Note 18 for more details.