

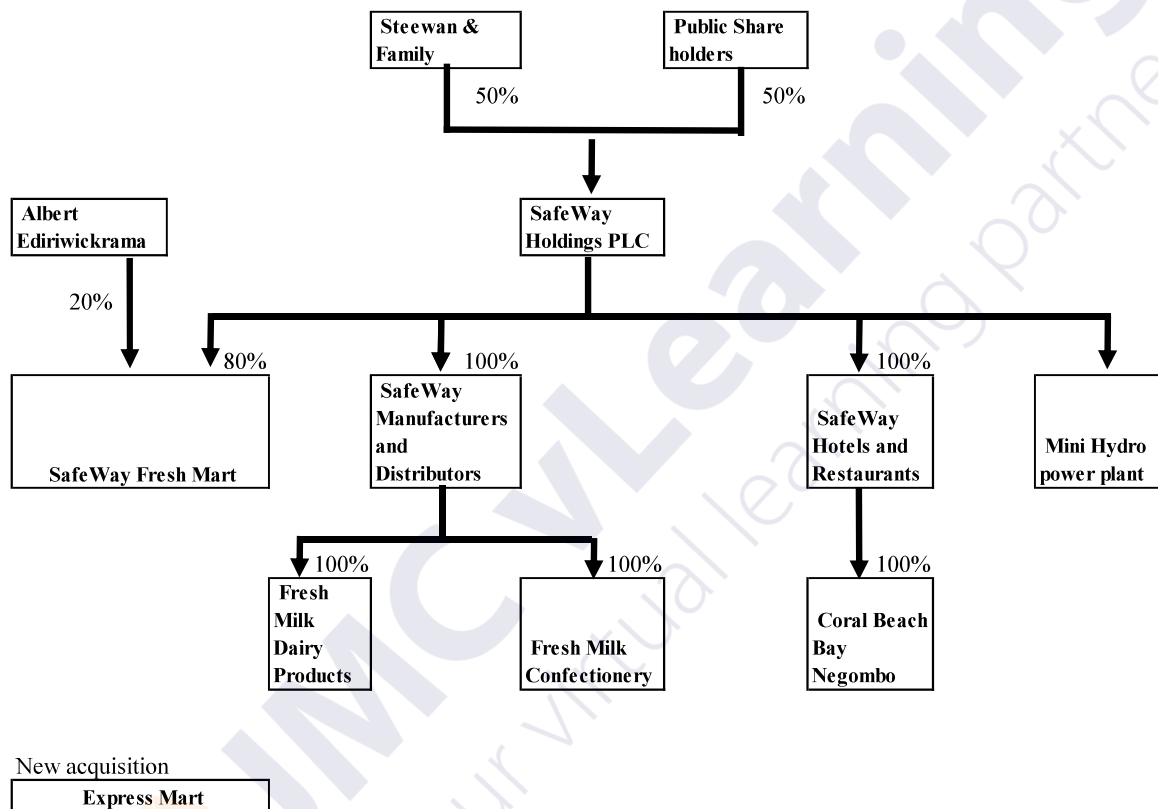
## **December 2022 – Pre Seen Case Study Analysis – for ABR**

### ***Key information***

- Steewan Fernandez incorporates his first company in 1985 as SafeWay Holdings Pvt Ltd (SWH)
- Started to sell branded consumer products in a retail shop in Cinnamon Gardens.
- In 1992 started a supermarket SafeWay Fresh Mart (Pvt) Ltd (SWFM)
  - Share ownership was 80% by SWH and 20% by a friend Albert Ediriwickrama
  - Albert appointed as the CEO of SWFM
  - Steewan was the chairman
- SWH was listed in the Colombo Stock Exchange in 1998
  - Raised Rs. 1,000mn for planned acquisitions through the IPO
- SWH PLC operates in retail shop in Cinnamon Gardens and earns rental income from its properties which are rented out to outsiders and subsidiaries
- Two companies incorporated in 1998 to acquire / merge with businesses that are already in operation
  - SafeWay Manufacturers and Distributors (Pvt) Ltd (SWMD) – to acquire a similar line of business
    - Fresh Milk Dairy Products (Pvt) Ltd (FMDP) situated in Kothmale, which had 50 acres of land was acquired by SWMD in 1998. It had a small factory to manufacture dairy products such as yogurt, fresh milk and ice cream
    - The second acquisition by SWMD was a chocolate manufacturing company, Fresh Milk Confectionery (Pvt) Ltd (FMC), situated in Seeduwa, and it was done in the same year.
    - Both companies were acquired through SWMD and managed by SWMD itself, which was headed by Albert acting as the CEO.
  - SafeWay Hotels and Restaurants (Pvt) Ltd (SWHR) – to acquire and manage loss making hotels and restaurants
    - Headed by Steewan's wife – Indira Fernandez
    - SWHR's first acquisition - Coral Beach Bay Negombo (Pvt) Ltd, in the beginning of 1999
- In 2017 invested in construction of a mini Hydro plant
  - 1.5 mega watts
  - Completed in 2019
  - Planned to use the generated power to a hotel to be constructed in Haputale
  - Signed an agreement with CEB to sell any excess power

- Hotel construction postponed due to Covid 19
- As at 31.3.2022 completed the acquisition of Express Mart (Pvt) Ltd at a price of Rs.711mn.
  - Express Mart, a competitor to SWH's supermarkets had 20 outlets
  - They were facing difficulties in meeting their financial obligations

## Group Structure



## Financial Statements

### SafeWay Holdings PLC

#### Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March	Group		Company	
	2022	2021	2022	2021
	Unaudited		Unaudited	
	Rs. million			
Revenue	106,500	108,052	95	100
Cost of sales	(95,212)	(94,228)	(84)	(87)
<b>Gross profit</b>	<b>11,288</b>	<b>13,824</b>	<b>11</b>	<b>13</b>
Other income	1,964	1,753	1,854	1,631
Distribution expenses	(3,394)	(3,263)	(2)	(8)
Administrative expenses	(3,564)	(3,470)	(720)	(676)
Other expenses	(616)	(519)	(91)	(103)
<b>Profit from operating activities</b>	<b>5,678</b>	<b>8,325</b>	<b>1,052</b>	<b>857</b>
Finance income	285	279	75	106
Finance costs	(3,121)	(2,857)	(409)	(374)
Net finance cost	(2,836)	(2,578)	(334)	(268)
Changes in fair value of investment property	65	47	(19)	158
<b>Profit before tax</b>	<b>2,907</b>	<b>5,794</b>	<b>699</b>	<b>747</b>
Income tax expense	(1,044)	(1,738)	(22)	(86)
<b>Profit for the year</b>	<b>1,863</b>	<b>4,056</b>	<b>677</b>	<b>661</b>
<b>Other comprehensive income (OCI)</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Revaluation of land and buildings	2,875	-	952	-
Actuarial gain/(loss) on employee benefit liability	(84)	(59)	11	(14)
Net change in fair value of FVOCI financial assets	7	(3)	7	(3)
Tax on other comprehensive income	(325)	15	(42)	6
Other comprehensive income for the year, net of tax	2,473	(47)	928	(11)
<b>Total comprehensive income for the year</b>	<b>4,336</b>	<b>4,009</b>	<b>1,605</b>	<b>650</b>
<b>Profit attributable to:</b>				
Equity holders of the parent	1,693	3,515	677	661
Non-controlling interest (NCI)	170	541	-	-
	<b>1,863</b>	<b>4,056</b>	<b>677</b>	<b>661</b>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the parent	4,166	3,468	1,605	650
Non-controlling interest (NCI)	170	541	-	-
	<b>4,336</b>	<b>4,009</b>	<b>1,605</b>	<b>650</b>
<b>Earnings per share (EPS)</b>				
Basic earnings per share (Rs.)	2.47	5.13	0.99	0.96

**SafeWay Holdings PLC**  
**Statement of Financial Position**

As at 31 March	Group		Company	
	2022	2021	2022	2021
	Unaudited		Unaudited	
	Rs. million			
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	37,167	31,794	7,194	5,885
Right-of-use of assets	13,234	11,171	268	260
Investment property	2,812	1,757	4,160	3,929
Intangible assets	1,239	1,313	2	2
Investments in subsidiaries	-	-	3,804	3,093
Other financial assets	19	11	18	10
Deferred tax assets	17	19	-	-
<b>Total non-current assets</b>	<b>54,488</b>	<b>46,065</b>	<b>15,446</b>	<b>13,179</b>
<b>Current assets</b>				
Inventories	13,878	10,437	11	22
Trade and other receivables	8,628	6,945	465	472
Amounts due from related parties	2,152	1,895	1,564	1,426
Other financial assets	1,025	981	-	-
Cash and cash equivalents	3,105	2,534	247	11
<b>Total current assets</b>	<b>28,788</b>	<b>22,792</b>	<b>2,287</b>	<b>1,931</b>
<b>Total assets</b>	<b>83,276</b>	<b>68,857</b>	<b>17,733</b>	<b>15,110</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Stated capital	6,850	6,850	6,850	6,850
Reserves	7,659	5,102	1,142	225
Retained earnings	11,259	9,650	5,708	5,020
Total equity attributable to equity holders of the parent	25,768	21,602	13,700	12,095
Non-controlling interest (NCI)	2,738	2,568	-	-
<b>Total equity</b>	<b>28,506</b>	<b>24,170</b>	<b>13,700</b>	<b>12,095</b>
<b>Non-current liabilities</b>				
Interest bearing loans and borrowings	2,945	250	618	151
Lease liability	12,886	10,858	37	51
Deferred tax liabilities	1,100	1,358	243	233
Capital grants	28	40	-	-
Employee benefit liability	1,629	1,332	570	507
<b>Total non-current liabilities</b>	<b>18,588</b>	<b>13,838</b>	<b>1,468</b>	<b>942</b>
<b>Current liabilities</b>				
Trade and other payables	14,039	10,567	1,106	477
Current tax liabilities	2,617	3,075	183	134
Amounts due to related parties	9	16	13	55
Interest bearing loans and borrowings	18,542	16,251	1,249	1,395
Lease liability	975	940	14	12
<b>Total current liabilities</b>	<b>36,182</b>	<b>30,849</b>	<b>2,565</b>	<b>2,073</b>
<b>Total liabilities</b>	<b>54,770</b>	<b>44,687</b>	<b>4,033</b>	<b>3,015</b>
<b>Total equity and liabilities</b>	<b>83,276</b>	<b>68,857</b>	<b>17,733</b>	<b>15,110</b>

Annexure 02  
SafeWay Holdings PLC  
Segmental Information

	Retail		Manufacturing and Distribution		Restaurant/Hotels		Power		Other	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	Unaudited		Unaudited		Unaudited		Unaudited		Unaudited	
<b>Rs. million</b>										
<b>Revenue</b>	84,148	85,705	25,911	26,027	4,411	4,597	96	100	72	85
Intra-segment revenue	-	-	(136)	(142)	-	-	-	-	-	-
Inter-segment revenue	(86)	(299)	(7,820)	(7,921)	-	-	(96)	(100)	-	-
	<b>84,062</b>	<b>85,406</b>	<b>17,955</b>	<b>17,964</b>	<b>4,411</b>	<b>4,597</b>	-	-	<b>72</b>	<b>85</b>
Cost of sales	(75,153)	(74,480)	(16,052)	(15,666)	(3,942)	(4,006)	-	-	(65)	(76)
<b>Segment operating gross profit</b>	<b>8,909</b>	<b>10,926</b>	<b>1,903</b>	<b>2,298</b>	<b>469</b>	<b>591</b>	-	-	<b>7</b>	<b>9</b>
Net other income over expenses	(4,650)	(4,471)	(989)	(982)	(248)	(256)	(492)	(440)	769	650
<b>Segment operating profit/(loss)</b>	<b>4,259</b>	<b>6,455</b>	<b>914</b>	<b>1,316</b>	<b>221</b>	<b>335</b>	<b>(492)</b>	<b>(440)</b>	<b>776</b>	<b>659</b>
Net finance cost	(1,903)	(1,609)	(417)	(502)	(160)	(107)	(281)	(278)	(75)	(82)
Change in fair value of investment property	73	(96)	11	(15)	-	-	-	-	(19)	158
<b>Profit/(loss) before tax</b>	<b>2,429</b>	<b>4,750</b>	<b>508</b>	<b>799</b>	<b>61</b>	<b>228</b>	<b>(773)</b>	<b>(718)</b>	<b>682</b>	<b>735</b>
Income tax expense	(912)	(1,383)	(148)	(225)	(35)	(72)	69	22	(18)	(80)
<b>Profit/(loss) for the year</b>	<b>1,517</b>	<b>3,367</b>	<b>360</b>	<b>574</b>	<b>26</b>	<b>156</b>	<b>(704)</b>	<b>(696)</b>	<b>664</b>	<b>655</b>

	Retail		Manufacturing and Distribution		Restaurant/Hotels		Power		Other	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	Unaudited		Unaudited		Unaudited		Unaudited		Unaudited	
<b>Rs. million</b>										
<b>SEGMENT ASSETS</b>										
<b>Non-current assets</b>										
Property, plant and equipment	15,101	14,541	8,027	6,070	1,053	686	6,736	5,652	6,250	4,845
Right-of-use assets	10,787	9,101	797	298	1,236	1,413	164	179	250	180
Investment property	1,564	2,311	216	139	-	-	-	-	2,596	1,618
Intangible assets	480	539	646	636	111	136	-	-	2	2
Other financial assets	1	-	1	1	-	-	-	-	17	10
Deferred tax assets	8	5	-	7	4	5	5	2	-	-
<b>Total non-current assets</b>	<b>27,941</b>	<b>26,497</b>	<b>9,687</b>	<b>7,151</b>	<b>2,404</b>	<b>2,240</b>	<b>6,905</b>	<b>5,833</b>	<b>9,115</b>	<b>6,655</b>
<b>Current assets</b>										
Inventories	10,694	7,523	3,103	2,760	79	128	1	22	1	4
Trade and other receivables	4,786	2,962	2,658	2,780	204	163	580	688	400	352
Amounts due from related parties	160	38	112	7	-	-	476	462	1,404	1,388
Other financial assets	927	870	89	101	-	-	9	10	-	-
Cash and cash equivalents	713	1,188	1,650	1,138	469	176	221	6	52	26
<b>Total current assets</b>	<b>17,280</b>	<b>12,581</b>	<b>7,612</b>	<b>6,786</b>	<b>752</b>	<b>467</b>	<b>1,287</b>	<b>1,188</b>	<b>1,857</b>	<b>1,770</b>
<b>Total segment assets</b>	<b>45,221</b>	<b>39,078</b>	<b>17,299</b>	<b>13,937</b>	<b>3,156</b>	<b>2,707</b>	<b>8,192</b>	<b>7,021</b>	<b>10,972</b>	<b>8,425</b>

	Retail		Manufacturing and Distribution		Restaurant/Hotels		Power		Other	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	Unaudited		Unaudited		Unaudited		Unaudited		Unaudited	

Rs. million

SEGMENT										
<b>LIABILITIES</b>										
<b>Non-current liabilities</b>										
Interest bearing loans and borrowings	1,930	175	4	-	3	-	496	-	512	75
Lease liability	10,958	9,639	818	32	1,047	1,103	31	43	32	41
Deferred tax liabilities	130	221	326	435	(1)	30	410	444	235	228
Capital grants	-	-	28	40	-	-	-	-	-	-
Employee benefit liability	929	721	120	94	-	-	255	207	325	310
<b>Total non-current liabilities</b>	<b>13,947</b>	<b>10,756</b>	<b>1,296</b>	<b>601</b>	<b>1,049</b>	<b>1,133</b>	<b>1,192</b>	<b>694</b>	<b>1,104</b>	<b>654</b>
<b>Current liabilities</b>										
Trade and other payables	9,236	6,987	2,571	2,173	535	700	597	357	1,100	350
Current tax liabilities	520	605	1,335	1,887	413	310	199	142	150	131
Amounts due to related parties	3	10	5	6	-	-	4	1	10	45
Interest bearing loans and borrowings	8,525	6,398	4,497	5,090	88	107	4,283	3,543	1,149	1,113
Lease liability	752	676	53	9	146	238	15	10	9	7
<b>Total current liabilities</b>	<b>19,036</b>	<b>14,676</b>	<b>8,461</b>	<b>9,165</b>	<b>1,182</b>	<b>1,355</b>	<b>5,098</b>	<b>4,053</b>	<b>2,418</b>	<b>1,646</b>
<b>Total segment liabilities</b>	<b>32,983</b>	<b>25,432</b>	<b>9,757</b>	<b>9,766</b>	<b>2,231</b>	<b>2,488</b>	<b>6,290</b>	<b>4,747</b>	<b>3,522</b>	<b>2,300</b>

## Scenarios

### 1.) Acquisition of Express Mart Pvt Limited.

Safeway Holdings PLC (SWH) invested Rs.711mn to acquire full ownership of Express Mart (EM) on 31.3.2022. The consideration was paid as follows.

- Rs.411mn to acquire all of the shares from the existing owners
- Rs.300mn to capitalize EM by purchasing new shares issued by the company

SWH decided to invest in new shares in EM to provide liquidity to EM and the proceeds raised from the capital infusion will be used to pay off the high interest bearing liabilities. The new share issue has not yet been accounted for by EM.

The Statement of Financial Position of EM as at 31.3.2022 is as follows.

<b>As at 31 March</b>	<b>2022 in Rs'mn</b>
<b>Non-current assets</b>	
Property, plant and equipment	470
Right of Use	60
Financial assets at FVTOCI	100
	<b>630</b>
<b>Current assets</b>	
Inventory	120
Trade and other receivables	200
Cash and cash equivalents	10
	<b>330</b>
<b>Total assets</b>	<b>960</b>
<b>Capital and reserves</b>	
Share capital	300
FV reserve	30
Retained earnings	80
	<b>410</b>
<b>Non-current liabilities</b>	
Interest bearing borrowings	250
Deferred tax	70
Lease liabilities	40
	<b>360</b>
<b>Current liabilities</b>	
Bank overdrafts	40
Trade payables	150
	<b>190</b>
<b>Total equity and liabilities</b>	<b>960</b>

**Additional information.**

- A.) The PPE comprised of 20 supermarket outlets. However, certain infrastructure on the outlets has to be impaired and this has not been accounted for. SWH estimated that an impairment of Rs.30mn will be required to accommodate this.
- B.) Some of the outlets were on leased premises and since these were long term leases entered several years back. These are reflected under the right of use of assets.
- Compared to the current market value of the properties the lease rental payable under the contracts are significantly low. The PV of rentals at the current market rates would be Rs. 80mn.

- C.) The financial assets that were carried at FVTOCI reflects the FV as at 31.12.2021. During the quarter ended 31.3.2022 the FV had dropped significantly and the FV of such financial assets was Rs.60mn.
- D.) The inventories of the company are carried at cost which is well below the current market prices. As a result inflation and the depreciation of the LKR, the market value of the inventories had risen significantly. The total FV of the inventories were estimated at Rs.155mn.
- E.) There were cases filed against EM and had claims exceeding Rs.10mn. The legal team was of the view that Rs.7mn will need to be incurred to settle the claims.
- F.) The agreement with the current CEO of EM states that in case of a takeover by another company he is entitled to a compensation of Rs.5mn if his services are terminated as a result of the takeover. SWH intends to appoint its own CEO and hence this amount will be payable immediately.
- G.) The interest bearing borrowings amount represents loans obtained at a rate of 7%-10% and due to the increase in the interest rates in the market, the fair value of such loans as at 31.3.2022 was Rs.230mn.
- H.) All of the above are liable / deductible for tax purposes. The corporate income tax rate for the year ended 31.3.2022 was 24%. The financial assets are shares of a private company and any disposal gain will attract a capital gain tax of 10%. This is the only item on the statement of financial position that is liable for 10% capital gain tax.

The government enacted a new law on the 27<sup>th</sup> of March 2022 increasing the tax rate to 30% with effect from the year ending 31.3.2023. The company has calculated the existing deferred tax liability at the rate of 24% and 10% on FA at FVTOCI in its financial statements.

- a. The break up of the existing Deferred tax liability is as follows

On FA at FVTOCI at 10%	Rs. 3
On others at 24%	Rs.67
Total	Rs.70

## 2.) Acquisition of 20% from Albert

Albert owned 20% of SafeWay Fresh Mart (SWFM) which he owned since inception. Albert is now considering disposing his full or part of his ownership and has offered the shares to SWH as it is the major shareholder. Albert is willing to sell 10% or the entire 20% he owns.

The NCI value reflected in the Group statement of financial position represents the net assets attributable to this 20%. Albert is expecting a premium of 30% on the attributable net assets value to sell his ownership.

SWH believes that it would be better for it to acquire the stake of Albert rather than a third party acquiring it.



The Directors wishes to know the financial statement implications arising as a result of the acquisition of either 10% or 20% stake owned by Albert in SWFM. Steewan is particularly interested in knowing whether the premium that will be paid to Albert can be recognized as goodwill.

### **3.) Disposal of Coral Beach / Capital raise at Coral Beach**

Considering the liquidity crunch the group is experiencing, the directors are considering either selling part of total shareholding in Coral Beach. The financial information relating Coral Beach is reflected segment information under the heading restaurant / hotels.

Following are the options considered by the Directors.

- a.) Sale of 100% of the company at a value of Rs.1,200
- b.) Sale of 75% of the company at a value of Rs. 900 and the remaining stake to be valued at the same value proportion
- c.) Sale of 40% of the company at a value of Rs.400mn and the remaining stake to be valued at the same value proportion
- d.) Coral beach to raise capital of Rs.300mn by issuing 2.5mn new shares from a third party investor via a private placement. The company has 10mn shares in issue which is entirely owned by SafeWay Hotels and Restaurants.

The directors wish to know the financial reporting implications on each of the above options.

