



2019

ANNUAL REPORT

CUSTOMER FOCUSED ON DELIVERING COMMITMENTS & QUALITY



**There is nothing too small or big for us.
We're constantly improving the quality
of our service, because we don't take
our customers for granted.**

CPL Group is Papua New Guinea's largest retailer comprising of;

At the end of 2019, the CPL Group had a combined retail operation of 62 stores nationwide and employed over 3,000 staff, comprising mostly of Papua New Guinea citizens.

Our footprint spans health and beauty chain, supermarkets, hardware stores, coffee shops, a clothing stores, duty free shops, wholesale and an online business.

CITY PHARMACY
STOP & SHOP
HARDWARE HAUS
BON CAFÉ
JACK'S OF PNG
PROUDS PNG



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OUR VISION

HELPING THE PEOPLE OF
PAPUA NEW GUINEA LIVE
HEALTHIER AND BETTER LIVES



OUR MISSION

TO BE THE PREFERRED SHOPPING DESTINATION
BY DELIVERING OUTSTANDING VALUE,
EXCEPTIONAL CUSTOMER EXPERIENCE AND
MAXIMIZING SHAREHOLDER VALUE.

SECTOR and MARKET

Develop businesses to serve the sectors of Health, Food, Housing and Lifestyle needs of the people of Papua New Guinea. We call this CPL's Four Pillars. Develop as a well recognized household brand across PNG.

OUR PROMISE

BE CUSTOMER FOCUSED

The customer always comes first.

BE RESPONSIBLE

To our people, our community and our environment.

WIN TOGETHER

Working and winning as a team.

DELIVER ON COMMITMENTS

We do what we promise.

DELIVER QUALITY

We are committed to quality through continuous improvement.

The CPL GROUP BOARD

The CPL GROUP BOARD

Stan Joyce has over 30 years' experience in the Food, Beverage and Manufacturing Industry both in PNG and abroad. He has been the Managing Director for SP Brewery, a part of the Heineken Company since 2007.



Mr. Stanley Thomas Joyce, CSM
CHAIRMAN

Stan is actively involved in the PNG business and sports circle with directorships on the board of the 2015 Pacific Games Authority, PNG Business Council, PNG Manufacturer's Council, Mainland Holdings Limited, the Solomon Island Brewery Limited and the South Pacific Brewery Limited. Appointed the Honorary Consul, for The Kingdom of The Netherlands, September 2015. In 2011 he was awarded the PNG Independence Honors (Logohu), Award of the "Companion of the Order of the Star of Melanesia" (CSM). He has served as President of the PNG Chamber of Commerce and Industry and has been a member of various public and private sector boards.

Stan is a graduate member of the Australian Institute of Company Directors and a Fellow of the PNG Institute of Company Directors. Stan has travelled throughout PNG and the Pacific. During this time he has established an extensive network of business, professional, sporting and cultural connections. A major achievement has been the inclusion of the SP PNG Hunters in the Queensland Rugby League competition.

The CPL GROUP BOARD

Mahesh Patel is the co-founder of The CPL Group. He came to PNG in 1984 to work as a pharmacist. He set up the first City Pharmacy store in Port Moresby in 1987 with his wife, Usha Patel, and over time, transformed it into PNG's largest retailing group.



Mr. Mahesh Patel, OBE
MANAGING DIRECTOR

Mahesh has affiliations with the PNG and Australian Institutes of Directors. Past directorship include the Chairman of the Board for Telikom PNG (2013-2017), volunteered as a Director of the Games Organising Committee for the 2015 Pacific Games and the Deputy Chairman for PNG Dataco Ltd, a telecommunications infrastructure company.

He was awarded an Officer in the Order of the British Empire in 2012. He is also a Queen's Diamond Jubilee Awardee for his contribution to community service, healthcare and sports.

The CPL GROUP BOARD

Peter joined Washington H Soul Pattinson and Company Limited (WHSP) in 1978, and was appointed to the main board in 1984. WHSP is one of Australia's oldest public companies, with interests in pharmaceuticals, building supplies, telecommunications, coal and copper mining, agriculture, property and corporate advisory. He was appointed Managing Director in 1993 and retired from the company in April 2015.

He is Chairman of and TPI Enterprises Ltd (one of only eight global licensed manufacturers of licit drugs, which extracts and purifies narcotics for use in painkillers such a morphine and codeine), and former Chairman of Australian Pharmaceutical Industries Limited (one of Australia's largest pharmaceutical wholesalers and owner of the Priceline retail chain) and Clover Corporation Limited (a global leader in the delivery of stable Omega-3 and Omega-6 products into the infant nutrition and medical foods market).



Mr. Peter Robinson
INDEPENDENT DIRECTOR



Mr. John Dunlop
INDEPENDENT DIRECTOR

John first came to Papua New Guinea when he joined Steamships Trading Company Limited in 1983 after a successful Accounting career in New Zealand, Solomon Islands and Fiji. He worked for Steamships until 2013 in a variety of roles including Finance Director and Managing Director and continues his relationship as a Non Executive Director. Currently John also serves as a Director on the boards of Credit Corporation (PNG) and Mainland Holdings Limited.

The CPL GROUP BOARD

Mary was the first Papua New Guinean female appointed as General Manager in Steamships Trading Company Limited. And won the 2009 Westpac Women in Business Award for the private sector category. A qualified accountant with over 30 years of experience in PNG and abroad, she held various senior management positions mostly in the private sector in the area of retailing and human resource. She is an associate member of the Certified Practising Accountants of PNG. During her career years, she had previously served on the Board of Transparency International, Employers Federation and Committee member of PNG Business Council.



Ms. Mary Handen
INDEPENDENT DIRECTOR

Mary has actively been involved since 2017 as a Coach and Mentor in promotion of women SME start-ups and providing support to women entrepreneurs through the PNG Women Resource Centre. As a member of Toastmasters International, her free coaching services in public speaking has extended to candidates of Miss PNG Pageant, PNG Team to the World school debate championships and other private schools within NCD.



Ms. Mary Johns
INDEPENDENT DIRECTOR

Mary Johns is a lawyer by profession and has been in legal practice for 22 years in PNG. She worked in private practice for 5 years and then joined Bank South Pacific as a legal officer in 2002. She was appointed as Company Secretary in 2005 and currently holds that role to date. She has served on the Port Moresby Chamber of Commerce and was a Board member of the 2015 Pacific Games Organising Committee Ltd.

She was an independent committee member on the People & Nominations Committee of Oil Search Limited for 2 years and is now serving as an independent committee member on the Audit & Financial Risk Committee of Oil Search Limited. She is the Chair of Leadership PNG, Secretary of the Capital Rugby Union, a Board Member of the Men's National Soccer League and Treasurer of the PNG Women Lawyers Association. In 2015 as part of the 40th Independence awards, Mary was awarded the Member of the Order of Logohu ("ML") for services to banking and the community.

OUR STORY

as PNG's LEADING RETAILER

OUR HISTORY

1987

City Pharmacy founded by Mahesh Patel and Usha Patel at Garden City, Port Moresby with just four staff.

1992

City Pharmacy moves outside Port Moresby, opening five stores in regional PNG.

1994

City Pharmacy is the first business house to operate in Buka after the Bougainville Crisis.

2002

CPL Group lists on the Port Moresby Stock Exchange.

2003

City Pharmacy launches PNG's first customer loyalty program, Real Rewards.

2005

CPL Group acquires Stop & Shop supermarket chain from Steamships Trading Company.

2007

CPL Group partners with Post PNG to co-locate some City Pharmacy retail outlets.

CPL Group launches the first women's empowerment program in PNG, the Pride of PNG Awards for Women, honouring ordinary Papua New Guinean women doing extraordinary things.



OUR HISTORY

2008

CPL Group acquires Hardware Haus stores from Steamships Trading Company.

2010

Mahesh Patel named Director of the Year by the PNG Institute of Directors.

2011

CPL Group launches Bon Café coffee shops in Papua New Guinea.

2012

CPL Group named Private Sector Employer of the Year by the PNG Human Resources Institute.

CPL Group opens Paradise Cinema in Port Moresby, PNG's first multiplex cinema.

2013

CPL named Innovative Company of the Year by the PNG Institute of Directors. CPL Group acquires Sydney, Australia-based pharmaceutical wholesaler Cost Save Pty Ltd.

2014

CPL opens new concept shopping complex, Waigani Central, in Port Moresby, featuring a do-it-yourself hardware concept store, our largest ever Stop N Shop supermarket and our second Paradise Cinema complex.



2015

CPL opens two Prouds Duty Free stores and an IGA Airport Express outlet at Jacksons International Airport.

CPL moves into fashion retailing, with the opening of two Jack's of PNG stores in Port Moresby.

CPL opens its third City Pharmacy store in Mt Hagen—the 32nd City Pharmacy store overall.

A fire destroys flagship Stop N Shop store in Waigani Central.

2016

In its 30th year, CPL opens two new flagship Stop N Shop supermarkets in Port Moresby, at Koki and Harbour City.

2017

The company bounces back with the support of suppliers and the community after a major fire destroys its head office and main warehouse in Gerehu, Port Moresby.

A new rights issue raises K48 million, confirming continued market support for CPL.

2018

Mr. Mahesh Patel returns to the position of Managing Director and spearheaded a Business Transformation Programme.

2019

CPL opens new Prouds situated inside Stop & Shop Waigani Central and Jack's of PNG in Lae.



CPL Group is promoting equal employment opportunity for people with special needs.

OUR RETAIL BRANDS

OUR RETAIL BRANDS

CITY PHARMACY

City Pharmacy was founded by Mahesh Patel and Usha Patel in 1987 at Garden City, Port Moresby, with just four staff. The success of the first pharmacy store led to its expansion to Anderson Foodland in Koki and the Burns Philp Shopping Centre in downtown Port Moresby. From this humble beginning, the pharmacy business has grown from strength to strength and now includes 32 outlets across the country.

The key to City Pharmacy's success as a retail business has been a store layout and merchandising concept never before tried in Papua New Guinea. City Pharmacy combined a central focus on healthcare, with additional health, beauty and convenience products in an exciting merchandise mix. With its attractive interior layout, one-stop convenience & customer focused culture, City Pharmacy is now firmly entrenched in the daily lives of Papua New Guineans.

Over more than 30 years, City Pharmacy has been responsible for many innovations and achievements. In the 1990s, it was the first business to go to the island of Bougainville after the civil war and the ensuing crisis, opening a branch in Buka to cater for the much-needed basic healthcare needs of the people of Bougainville. It was also the first business house to declare its premises as MERI SEIF PLES (Safe Place for Women) to protect women against domestic violence. It has also initiated a local PNG paper production using kunai grass, an eco-friendly local grass. This was used by Paradise Foods as packaging for their niche chocolates.

Another recent innovation is the introduction of trained nurses in some of our larger outlets, who are able to provide advice and run health checks.



STOP & SHOP

CPL acquired Stop N Shop supermarket business from Steamships Trading Company in 2005. The acquisition strengthened the retail network of CPL Group in Papua New Guinea immensely. CPL acquired Stop & Shop with a clear plan. It sought to add to its retail offering and achieving synergies across both businesses by introducing City Pharmacy outlets to the supermarket environment.

Stop & Shop is positioned as an affordable retail outlet for Papua New Guineans.

With its eight supermarkets, Stop & Shop has the largest footprint of any organized retailer in Port Moresby. It provides convenient locations and a merchandising mix that provides a large variety to its customers. This includes the ever growing range of private labels, and locally sourced fruits and vegetables.



Hardware Haus

Housing needs in Papua New Guinea, especially for people working in urban centres, are truly critical.

In 2008, CPL saw a window of opportunity to acquire Steamships Hardware from Steamships Trading Company.

With this venture, CPL Group strengthened its position as PNG's biggest retailing network. Hardware Haus currently has 10 outlets nationwide serving customers with much needed building and home improvement materials.



BON CAFÉ

Papua New Guinea is known world-wide for its quality, organically grown coffee but, ironically, there was almost nowhere inside the country where Papua New Guinean consumers could savour its renowned flavour for themselves.

CPL Group sought to address this unsatisfied demand by providing outlets where Port Moresby residents in particular could savour PNG coffee prepared barista-style.



In 2011, CPL introduced the Bon Café coffee outlets and launched the brand at its Stop N Shop outlet in Port Moresby. CPL Group has so far employed around 40 young women, who have been especially trained by Bon Café trainer in the art of coffee making.

JACK'S OF PNG

Jack's of PNG is CPL's retail business in fashion retailing, which started in Port Moresby in April 2015 at the Waigani Central shopping complex. A second, smaller outlet was opened in December the same year at Vision City shopping mall. Successful outstation expansions were made in Madang, Hagen and Lae.



Jack's of PNG, a partnership with Jack's of Fiji, has raised the bar in this retail category, offering quality, well-designed clothing and accessories at affordable prices in an attractive, modern retail setting. Private label brands are presented in-store alongside leading consumer brands such as Rip Curl using a variety of the latest merchandising and display techniques.

PROUDS PNG

In July 2015, CPL Group launched another retail business in a category new to PNG, Prouds Duty Free. Prouds is a further example of CPL's drive to bring the best retail experiences to Papua New Guineans.

In partnership with Fiji's Motibhai Group of Companies, which has been running duty free shops in Fiji for more than 40 years, CPL Group won the bidding to operate duty-free shops within the departure and arrival areas of the upgraded international terminal at Port Moresby's Jacksons International Airport.



There are currently two Prouds Duty Free stores – a 332-square metre store in the Departure lounge and a smaller, 90-square metre outlet in the Arrivals area. Prouds Duty Free brings an international-standard duty-free shopping experience to PNG, providing a wide range of high fashion and liquor brands in a spacious, interactive shopping environment. The goal is to make the shopping experience as pleasurable as possible.

Prouds opened its first domestic duty paid store on 1st March 2019 inside Stop & Shop Waigani Central. The 380-square meter store is part of Prouds foray into the PNG domestic market, and before the year ends, Prouds will open another store at the Vision City Mall.

Pharmacy Wholesalers Limited, Australia

The creation of PWL is part of an expansion strategy that encompasses not only Papua New Guinea, but the Pacific region as a whole.

In 2013, CPL Group acquired Sydney based pharmaceutical and wholesale distribution company Cost Save Pty Limited. Cost Save services Australian pharmacists, doctors and industrial institutions. At the same time, CPL established Pharmacy Wholesalers Limited (PWL) to cater to similar customers across the Pacific region.

This move not only gives CPL valuable exposure in a developed market, it also allows it to further strengthen its portfolio of private label products at its City Pharmacy outlets.



OUR RETAIL STORES



Alotau
 Boroko
 Buka
 Goroka
 Kavieng
 Kimbe
 Kokopo
 Lae 2nd Street Top Town
 Lae Aircorps Road
 Lihir
 Madang Modilon Road
 Madang Beckslea Plaza
 Manus
 Maprik
 Mt. Hagen Central
 Mt. Hagen Dobel
 Mt. Hagen Paraka Street
 Mt. Hagen Tininga
 Popondetta
 Port Moresby General Hospital
 Stop & Shop Badili
 Stop & Shop Express Airways
 Stop & Shop Harbour City
 Stop & Shop Koki
 Stop & Shop North Waigani
 Stop & Shop Rainbow
 Stop & Shop Waigani Central
 Town Plaza
 Vanimo
 Vision City Mall
 Waigani Drive
 Wewak



Badili
 Boroko
 Gerehu - Rainbow
 Harbour City
 Koki
 North Waigani
 Waigani Central
 Town



Airways
 Erima



Stop & Shop Boroko
 City Pharmacy Waigani Drive
 Madang Hardware Haus
 Stop & Shop Harbour City
 Stop & Shop Koki
 Stop & Shop Town
 Stop & Shop Waigani Central
 Vision City Mall



Goroka
 Kavieng
 Kimbe
 Kokopo
 Lae
 Madang
 Mt. Hagen
 Mt. Hagen (Mitre Hardware)
 Express Stop & Shop North Waigani
 Popondetta
 Waigani Central
 Wewak



Madang
 Mt. Hagen
 Waigani Central
 Vision City Mall
 Lae



Jackson's Airport
 Departure Area
 & Arrival Area
 Stop & Shop Waigani Central
 Vision City Mall

CPL FOUNDATION

INTRODUCTION

2019 saw the continued strengthening of a number of partnerships for the Foundation. Apart from responding to direct requests from various Community groups, focus was placed with supporting our approved Partners in delivering and increasing services in their respective areas.

Sponsorships of our two major partners - Buk Blong Pikinini and Ginigoada Foundation continued. Reporting structure for BPP is done from Jan-June and July-December annually. Whilst Ginigoada reports are done on quarterly basis.

Apart from our partnership programs, we also supported young entrepreneur couples in the SME, Kevin & Sophia Soli from SOLI PNG with the Coding and Droning after school program and Kila & Marie Kilaverave from CROSSFIT PNG and Ratoos Art Ltd. Basically, with the provision of space and empowering them in the early stages of their business development.

Pride of PNG Awards for Women was inceptioned in 2007 and continued annually for 10 years up to 2016. In 2017, it was then agreed that the program would be a bi-annual event and the 12th Awards will be held in 2020.

I. PARTNERED PROJECTS

GINIGOADA FOUNDATION - FINANCIAL LITERACY TRAINING

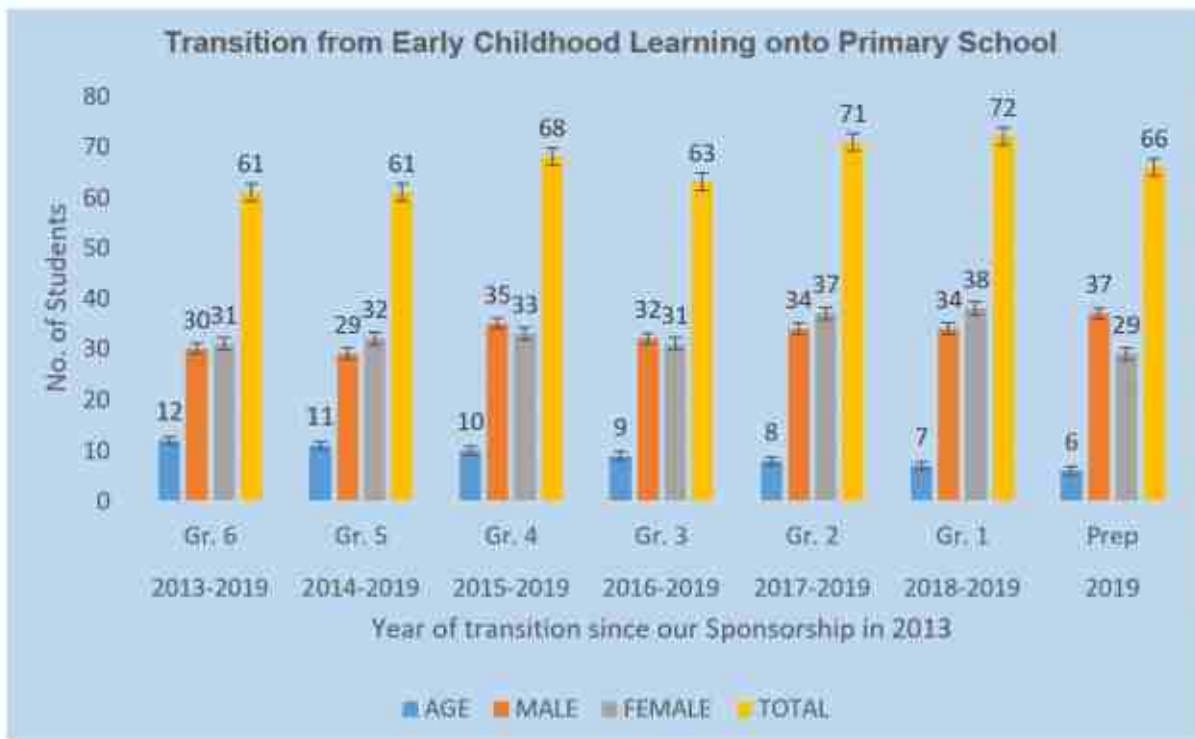
The Financial Literacy Skills (Bus 4) Program continued its Programs in Port Moresby and Lae. Between the 2 cities, 5,800 people enrolled and attended at least some of the Training in 2019 of which, 2954 of the participants graduated.

Since the inception of the program a total of 27,149 participants graduated.

- POM from 2103 - 2019 (13,177)
- LAE from 2014 - 2019 (13,972)

The main topics the Training covers include: Basic Business Awareness, Cash Books, Income and Budgeting, Costing and Pricing, Business Plan Development, Health and Hygiene, First Aid, Conflict Resolution and Planning, Set Up and Operating a Community Enterprise Group (CEG).

As expected, there are some powerful testimonies from graduates that have gone on to start or grow small businesses and these stories continue to have an impact and empower others to participate in the program.



As expected, there are some powerful testimonials from Graduates that have gone on to start or grow small businesses and these stories continue to have an impact and empower others to participate in the program.

SUCCESS STORIES



Priscilla Judas, a young woman who did not complete her studies found herself helping her parents to sew and sell. Since, she was talented sewing became her hobby. Judas displays the bags she sews and sell daily at the local market. Judas having learnt about BUS 4 Financial Literacy skills training attended the two weeks program 4 Mile suburb Ward 4 in Lae Urban LLG. Priscilla thanked Ginigoada and CPL for the program, which will assist her with her budget and cash flow.

Rosa Orawi, 43 years of age from Hela province, resides at Gerehu. She attended Bus 4 at Koki Barracks. Rosa owns PMV Buses and trade store at home, but she didn't know how to budget her money and manage her cash book. After attending the Bus 4 program, Rosa practiced how to budget her money wisely and do cash book. She thanked CPL Foundation and Ginigoada Foundation for the skill straining program, which has helped and supported a lot of people to be financially independent.



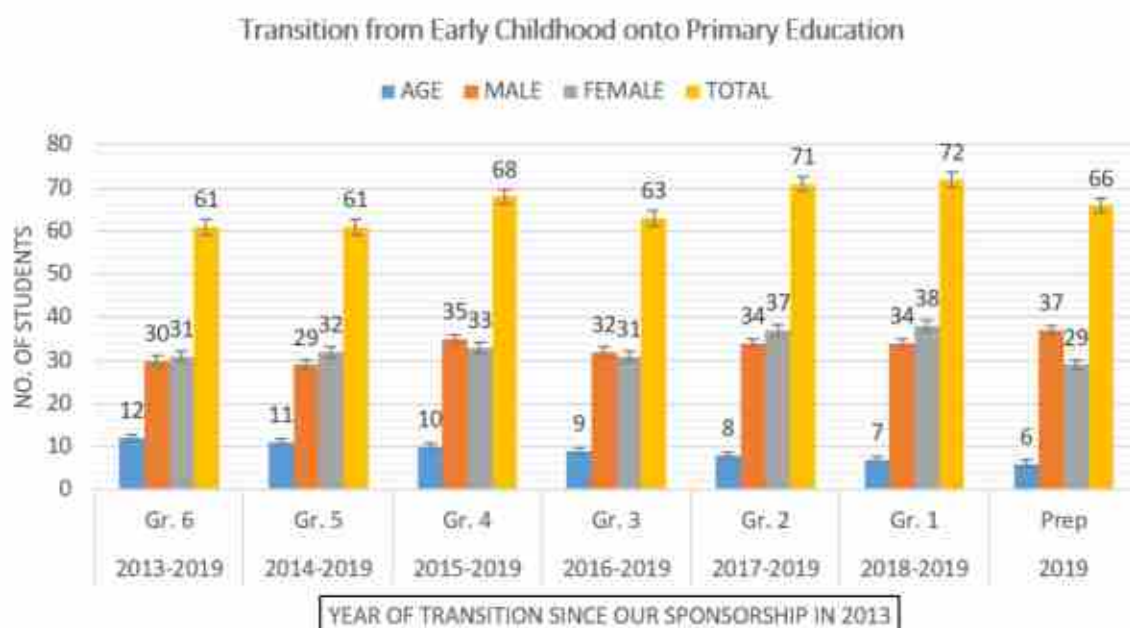
BUK BILONG PIKININI: Tatana Library & Early Childhood Learning

Financial sponsorship for the Tatana Buk Bilong Pikinini (BBK) Library and Early Childhood Learning program continued on this year.

During the year, the program enrolled 80 children aged 5-6. At the end of the year, 66 children graduated to continue onto Elementary class at Tatana Primary School. Majority of the children are from Tatana village and the rest from Hanuabada, Baruni and Konedobu communities.

Other than the children enrolled in the Literacy Program, the Library received over 500 visitors for the year. Most used the Library to read, borrow books or to do assignments with the environment conducive for learning. Children in the ECL also attend special programs like Literacy Week, Book Week, International Day of the Girl/Child, World Teachers Day etc.

Below statistics of the enrolment and graduation figures from 2013 - 2019.



Children celebrated the National Literacy week with CPL Staff members by making robots and other crafts with the 'Theme' creating a brighter future for the Children of PNG'.

II. CPL INITIATIVES

Apart from the Partnered Programs, the Foundation managed several of its own Programs during the year.

1. Pride of Papua New Guinea Awards for Women

Pride of PNG Awards for Women is a bi-annual event, with 12th Awards to be held in 2020. Pride of PNG was first incepted in 2007 and continued on to 2016 as an annual event. Due to the after-mat of the fire, a decision was made to have the program as a bi-annual event. The 2018 Awards increased the number of winners to 64. CPL Foundation pledge is to continue support and empower past winners yearly with their community projects, as well as their educational needs.

Launch of the 2020 Pride of PNG Awards will be held in June and the Awards Presentation in October 2020.

2. Request from Past Winners

Requests were received from the past winners as per the table below

Date	Requested by:	Detail
11-Jan-19	Yolarnie Amepou (PoPNG 2015)	Piku Project - Kikori Environment Awareness
4-Feb-19	Bronwyn Kili (POPNG 2014)	Airline ticket - Graduation in Australia
16-Feb-19	Bronwyn Kili (POPNG 2014)	Graduation expense
8-Mar-19	Delisha Koime (PoPNG 2015)	Women & Girls Hygiene Items
8-Mar-19	Mary Pakore Tore (POPNG 2016)	Refreshments for Cheshire Home Residents BBQ
13-Mar-19	Joanna Oala (POPNG 2013)	Refreshments for UN program
24-May-19	Waira Berua (POPNG 2011)	Koki Wanigela Pre School Anniversary
27-Jun-19	Tessie Soi (POPNG 2009)	Household items
27-Jun-19	Deborah Mumia (POPNG 2018)	New Laptop from City Pharmacy Buka
18-Sep-19	Waira Berua (POPNG 2011)	Refreshments for Koki Wanigela Elementry Sch
10-Dec-19	Waira Berua (POPNG 2011)	End of School Year Refreshments - KWPS

3. One-off Requests

We supported 40 groups on the one-off request for donations. Support was provided based on the objectives of the Foundation.

4. Farmer Assistance

CPL Foundation continue to support the farmers in providing advice on fresh produce and also with the opening of new bank accounts. Through our public relations office we assist the farmer's in getting their stories/information to air on TV or newspapers to showcase the work of the farmers.

5. Community Outreach Health Programmes

Our community outreach health programs was an impact in the community led by City Pharmacy Nurse Manager, Mrs. Sandra Cunningham including the nursing staff members in conducting adult health checks in various communities in the city.. On hearing about this initiative, as many people expressed their gratitude to CPL Group in bringing health services to the community level and right at their door step, free of charge. The goal for City Pharmacy was focused on education on major health concerns:

- High Blood Pressure
- Diabetes
- Tuberculosis
- Hand Hygiene
- Dental Care
- Worm Infestation
- Infant Health

The suggested plan for 2020 is to not only do adult health checks but to include the children as well. This will give a more complete health view for the community and the families within.

6. Ratoos Art Program

Ratoos Haoapa Gary is a respected veteran artist and teacher from Elema, Gulf Province. Ratoos has travelled extensively in PNG and Australia, where he spent years working with Australian Aboriginal artists and theatre groups. CPL Foundation at the forefront in supporting local SME programs, extended its support to Ratoos with the provision of a space to set-up his outdoor art gallery at Waigani Central. During this time, Ratoos painted as much as he did and even sold some basically to raise funds to attend an overseas arts festival in 2020. A lot of people admired the murals and it was a remarkable experience for the younger generation to learn off from an experienced artist like Ratoos.

COMMUNITY SERVICE PROJECT SUPPORT 2019



K68,517.00
Buk Bilong Pikinini



K135,390.00
Ginigoada POM & LAE BUS 4



K64,848.00
Community Projects



K10,735.00
Pride of PNG Winners Support



K18,000.00
CP Rebels Net Club



K220,000.00
CP PNG Lewas Cricket



K14,294.00
Ratoos Art Limited



K531,784.00
Total

Our Mission Statement

The mission of the CPL Foundation is to help create positive change to improve the lives of the people in our community. In recognition of the important role women play in the family, community and the Papua New Guinean nation we will achieve our mission by focusing on women's health, and on rural livelihoods with a strong focus on income generation for women.

We value community based approaches that reflect strong leadership, consensus and ownership of ideas, respect, good governance and a commitment to seeing tangible and sustainable results that will directly and positively affect the lives of individuals.

The Foundation draws on the strengths of the City Pharmacy Limited Group, which include delivering pharmaceuticals, hardware and groceries through effective logistical expertise and strong links to the PNG business community.

Our staff have a shared passion for PNG's culture, physical beauty, and people and seek to individually and as a team to contribute to a prosperous future.

FINANCIAL REPORT

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019

City Pharmacy Limited is a registered company under the Papua New Guinea Companies Act 1997 and is incorporated and domiciled in Papua New Guinea.

Registered Office	Allotment 33, Section 38 Waigani Drive National Capital District Papua New Guinea Telephone: +675 312 0000
Directors	Stanley Thomas Joyce, Chairman Mahesh Patel, OBE, Managing Director Graham John Dunlop Peter Robinson (resigned 11 March 2020) Mary Handen Mary Ellen Johns
Secretary	Raman Kumar
Auditors	Ernst & Young Level 4, Credit House Cuthbertson St. PO Box 1380, Port Moresby 121 NCD, Papua New Guinea
Bankers	Westpac Bank PNG Limited Bank of South Pacific Limited ANZ Banking Group Limited
Stock Exchange	PNGX Markets Limited (listing code: CPL)
Brokers	BSP Capital Kina Securities
Share Register	PNG Registries Limited



Chairman's Report

On behalf of the Directors of City Pharmacy Limited (CPL) I am pleased to advise the Shareholders that the Company delivered a Profit Before Tax (PBT) of K5.6m for 2019.

Allowing for the ongoing issues in the PNG Economy and the unlevel playing field on which the retail business operates, the Directors consider the result acceptable. Furthermore, we maintain every confidence that the strategy behind key business drivers is sound and combined with Management controls over costs the business will generate sustainable profits into the future. The Directors have taken steps to support the cost control initiatives by reducing Directors' Fees and Group Managing Director's Remuneration ranging from 20% to 30%.

2019 was the second year of the AZURIUM recovery plan from the disastrous fire of 2017. All major milestones of that plan have been met and, in some cases, exceeded. We are now entering a new phase where most of the significant legacy issues of that period have been dealt with.

The Pharmacy business proved yet again to be a steady performer with excellent growth opportunities. Our Health outreach programs continue, and we are again considering a number of new locations to expand our footprint. We are a long-term partner with the Government of PNG for the delivery of critical medication to the people of PNG. Growth potential in this area is however severely constrained by Government Cash Flow.

Stop and Shop businesses grew above market averages in 2019 which is a strong result considering the competition we face from unregulated operators. Intervention in this market by Government is indeed justified and long overdue. We have successfully upgraded the food services department within the Stop and Shop division which will enable us to cater to changing trends, particularly amongst younger urban consumers.

From a precarious position in 2017, Hardware Haus has achieved a return to profitability and growth in an increasingly competitive market. This result was achieved through better buying practices and cost control measures across the supply chain. A new Express Store format has been introduced to provide more exposure to retail customers and to drive revenue in other locations.

We are making steady progress in the new distribution centre which, when operational, will have a transformational impact on costs reduction for the whole business.

We are making steady progress in the new distribution centre which, when operational, will have a transformational impact on costs reduction for the whole business.

In the Corporate Social Responsibility area we continue with the Pride in PNG sponsorship which recognises the efforts of outstanding people in PNG from all walks of life who give their time and effort to improving the lives of others. CPL strives to provide opportunities for local farmers to sell their produce through our stores. We believe these programs are essential for the long-term viability of the local community from which our business draws its support. However, such programs can only be funded through a profitable business model which becomes increasingly difficult in such an unregulated market where rogue operators trade without respect to compliance.

People are at the heart of any business success and CPL remains committed to the training and development of our staff to ensure customers are presented with a unique and value for money proposition when they visit our stores. Our strong graduate program is essential to ensuring these programs are sustainable.

Given the diverse geographical coverage of our business and the multiple segments in which we operate, optimal IT services are essential. We have completed a substantial upgrade to our PRONTO system and continue to refine processes to manage costs whilst ensuring we have best practice stock availability in all locations.

At our Board Meeting in March 2020 the Directors gave consideration to the payment of a dividend. We noted that at this particular time the Company was not in a position to declare a dividend as the cash is required for capital investments. We remain committed to addressing this issue as soon as is practically possible.

The short-term outlook for the business is modest given the current uncertainty in the business environment which has been further destabilised with the Global outbreak of the Coronavirus Pandemic. We remain confident of the medium to long term prospects of the market in which we have operated for 33 years.

I would like to thank my fellow Directors for their continued input to the Board's deliberations. To the Management and Staff, I note your enormous contribution to the business over many years which has seen the Company survive so many challenges. A note of thanks also to our suppliers with whom we seek to work with in a spirit of partnership.

In conclusion, a special vote of thanks to our Shareholders for your continued confidence in the business and our many customers throughout PNG for your continued patronage of CPL. The Board will continue to strive to ensure we are the preferred shopping destination by delivering outstanding value, exceptional customer experience and maximising Shareholder Value.



Stanley Joyce CSM

Chairman

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

This report given by the Directors is in respect of the City Pharmacy Limited and Subsidiary Companies (the "Group") consisting of City Pharmacy Limited (the "Company") and the entities it controlled at the end of, or during the financial year ended 31 December 2019.

The Directors

The persons who have been Directors of the Company at any time during or since the year end of the financial period and up to the date of this report are:

Stanley Thomas Joyce	Chairman
Mahesh Patel	Managing Director
Graham John Dunlop	Non-executive Director
Peter Robinson (resigned 11 March 2020)	Non-executive Director
Mary Handen	Non-executive Director
Mary Ellen Johns	Non-executive Director
Peter John Aitsi (<i>resigned 15 May 2019</i>)	Non-executive Director

Company secretary

Raman Kumar

Principal activities

City Pharmacy Limited operates primarily in Papua New Guinea with 57 stores and approximately 2,550 employees at year end. The principal activities of the Group during the year were:

- Wholesale and retail of supermarket goods, bakery and pharmaceutical products; and
- Wholesale and retail of hardware products.

The Group also participates in Joint Ventures whose principal activities comprise of:

- Retail clothing;
- Duty free products.

Results and review of operations

The net amount of consolidated profit for the financial period after income tax expense attributable to members of the Company and its controlled entities was K12.24M (2018: K6.63M). For the Parent Company, net profit after income tax was K9.52M (2018: K8.32M).

A review of the operations of the Group during the financial period and the results of those operations are set out in the Chairman's Report on page 1.

Dividends

The Directors have decided that no dividend will be paid for the year ended 31 December 2019 (2018: K Nil).

Significant changes in state of affairs

During the financial period there was no significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

Directors' interest in shares

Particulars of the Directors' relevant interests in shares in the Group as at 31 December 2019 are disclosed in Note 17.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

Meetings of directors

The table below sets out the number of Board meetings held during the financial period ended 31 December 2019 and the number of meetings attended by each Director.

There were five meetings held during the year ended 31 December 2019.

Directors	Board Meetings attended
Stanley Thomas Joyce	5
Mahesh Patel	5
Graham John Dunlop	5
Peter Robinson	4
Mary Handen	5
Mary Ellen Johns	4
Peter John Aitsi (<i>resigned 15 May 2019</i>)	2

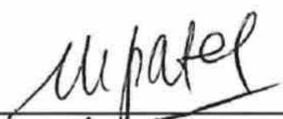
Directors' remuneration


Disclosure has been made in Note 17.

Remuneration above K100,000 per annum

Disclosure has been made in Note 17.

For and on behalf of the board of directors

Director: 
Date: 13/03/20

Director: 
Date: 13/03/20

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 31 DECEMBER 2019**

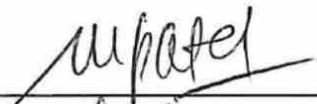
DIRECTORS' DECLARATION

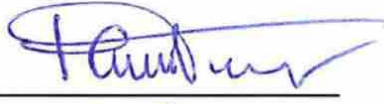
The Directors' declare that:

- a) In the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
- b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Papua New Guinea Companies Act 1997, including compliance with International Financial Reporting Standards and giving a true and fair view of the financial position, performance and cash flows of the Group.

Signed in accordance with the resolution of the directors

For and on behalf of the board of directors

Director: 
Date: 13/03/20

Director: 
Date: 13/03/20

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Consolidated		Parent Company	
		2019 K'000	2018 K'000	2019 K'000	2018 K'000
Revenue from Contract with Customers	4	561,081	516,839	435,403	398,969
Cost of sales		(385,331)	(353,680)	(295,596)	(267,527)
Gross profit		175,750	163,159	139,807	131,442
Distribution expenses	5(a)	(3,638)	(8,978)	(3,638)	(5,002)
Marketing expenses	5(b)	(4,495)	(5,059)	(3,539)	(3,788)
Administration expenses		(129,853)	(153,708)	(105,783)	(125,021)
Finance expense		(16,931)	(2,567)	(13,338)	(1,816)
Finance income		3,510	-	2,317	-
Other income/(expenses)		(19,580)	14,546	(15,538)	14,013
Total Expenses		(170,987)	(155,766)	(139,519)	(121,614)
Share of profit from associates	11	797	1,444	797	1,444
Profit before income tax expense		5,560	8,837	1,085	11,272
Income tax (expense) / benefit	6(a)	6,681	(2,204)	8,432	(2,948)
Profit for the period after income tax		12,241	6,633	9,517	8,324
Other comprehensive income for the period that may be reclassified to profit and loss in subsequent period (net of tax):					
Exchange differences on translating foreign operation		(127)	(341)	-	-
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):					
Gain on revaluation of Land and Building, net of deferred tax		2,400	2,450	-	2,450
Total comprehensive income for the period		14,514	8,742	9,517	10,774
Profit for the period is attributed to:					
Owners of the parent		12,154	6,516	9,517	8,324
Non-controlling interest		87	117	-	-
		12,241	6,633	9,517	8,324
Total Comprehensive Income for the period is attributed to:					
Owners of the parent		14,427	8,625	9,517	10,774
Non-controlling interest		87	117	-	-
		14,514	8,742	9,517	10,774
Earnings per share - basic and diluted (toea per share)		6.12	3.32		

This statement is to be read in conjunction with the notes to and forming part of the Consolidated Financial Statements set out on pages 41 to 78.

CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2019

	Notes	Consolidated		Parent Company	
		2019 K'000	2018 K'000	2019 K'000	2018 K'000
ASSETS					
Cash and cash equivalents	7	16,221	32,667	12,048	26,942
Trade and other receivables	8	23,848	29,170	17,231	21,818
Lease receivable	3.1(e)	2,919	-	1,103	-
Income tax receivable		2,594	-	1,330	-
Inventories	9	91,234	84,235	58,522	50,695
Prepayments		3,460	5,914	2,342	5,003
Total Current Asset		140,276	151,986	92,576	104,458
Other receivables	8	-	7,000	-	7,000
Related party receivables		3,526	87	30,293	28,872
Lease receivable	3.1(e)	35,827	-	14,171	-
Property, plant and equipment	10	87,722	69,030	72,774	56,900
Right of use asset	3.1(d)	158,579	-	137,352	-
Investment in Subsidiaries	11(a)	-	-	17,901	17,901
Investment in Joint Ventures	11(b)	5,282	4,788	5,282	4,788
Deferred tax assets, net	6(b)	5,020	-	4,393	-
Goodwill	12	4,825	4,825	3,431	3,431
Total Non-Current Asset		300,781	85,730	285,597	118,892
TOTAL ASSETS		441,057	237,716	378,173	223,350
LIABILITIES					
Borrowings	13	-	4,123	-	4,123
Bank overdraft	13	7,836	3,505	7,836	3,505
Trade and other payables	14	82,718	83,400	62,893	59,142
Lease Liabilities	3.1(e)	17,397	-	11,204	-
Income tax liability		-	924	-	3,513
Employee provisions	15	3,557	4,570	2,683	3,982
Total Current Liabilities		111,508	96,522	84,616	74,265
Related party payables		155	221	-	-
Other payables	14	119	666	119	107
Lease liabilities	3.1(e)	175,380	-	140,789	-
Deferred tax liabilities, net	6(b)	-	1,788	-	2,786
Employee provisions	15	5,609	5,469	4,604	4,701
Total Non-Current Liabilities		181,263	8,144	145,512	7,594
TOTAL LIABILITIES		292,771	104,666	230,128	81,859
NET ASSETS		148,286	133,050	148,045	141,491
SHAREHOLDERS' EQUITY					
Issued capital	16	70,867	70,867	70,867	70,867
Reserves	16	11,213	8,813	8,813	8,813
Other reserve	16	427	554	-	-
Retained earnings	16	64,383	51,507	68,365	61,811
Equity attributable to owners of the Parent		146,890	131,741	148,045	141,491
Non – controlling interest		1,396	1,309	-	-
TOTAL SHAREHOLDERS' EQUITY		148,286	133,050	148,045	141,491

This statement is to be read in conjunction with the notes to and forming part of the Consolidated Financial Statements set out on pages 41 to 78.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

Group	Share Capital K'000	Retained Earnings (Note 16) K'000	Revaluation Reserve (Note 16) K'000	Translation Reserve (Note 16) K'000	Attributable to owners of the parent K'000	Non- Controlling Interest K'000	Total K'000
Balance at 01 January 2018	33,871	27,429	23,925	895	86,120	1,192	87,312
Asset revaluation reserve	-	17,562	(17,562)	-	-	-	-
Reversal of deferred tax liabilities	-	-	2,450	-	2,450	-	2,450
Profit for the period	-	6,516	-	-	6,516	117	6,633
Other comprehensive income	-	-	-	(341)	(341)	-	(341)
Total comprehensive income for the year	-	51,507	8,813	554	94,745	1,309	96,054
Issuance of shares	36,996	-	-	-	36,996	-	36,996
Balance at 31 December 2018	70,867	51,507	8,813	554	131,741	1,309	133,050
Profit for the period	-	12,154	-	-	12,154	87	12,241
Other comprehensive incomes:	-	-	-	-	-	-	-
Translation differences	-	-	-	(127)	(127)	-	(127)
Asset revaluation	-	-	2,400	-	2,400	-	2,400
Total comprehensive income for the year	-	12,154	2,400	(127)	14,427	87	14,514
Issuance of shares	-	-	-	-	-	-	-
Impact on adoption of IFRS 16 (Note 3)	-	722	-	-	722	-	722
Balance at 31 December 2019	70,867	64,383	11,213	427	146,890	1,396	148,286

This statement is to be read in conjunction with the notes to and forming part of the Consolidated Financial Statements set out on pages 41 to 78.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share Capital K'000	Retained Earnings (Note 16) K'000	Revaluation Reserve (Note 16) K'000	Total K'000
Parent Company				
Balance at 01 January 2018	33,871	35,925	23,925	93,721
Asset revaluation reserve	-	17,562	(17,562)	-
Reversal of deferred tax liabilities	-	-	2,450	2,450
Profit for the period	-	8,324	-	8,324
Total comprehensive income for the year	-	25,886	(15,112)	10,774
Issuance of shares	36,996	-	-	36,996
Balance at 31 December 2018	70,867	61,811	8,813	141,491
Profit for the period	-	9,517	-	9,517
Total comprehensive income for the year	-	9,517	-	9,517
Issuance of share	-	-	-	-
Impact on adoption of IFRS 16 (Note 3)	-	(2,963)	-	(2,963)
Balance at 31 December 2019	70,867	68,365	8,813	148,045

This statement is to be read in conjunction with the notes to and forming part of Consolidated Financial Statements set out on pages 41 to 78.

CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Consolidated		Parent Company	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Operating Activities				
Cash receipts from customers	570,780	545,727	439,990	420,136
Cash paid to suppliers and employees	(518,664)	(549,596)	(398,509)	(413,510)
Cash receipts from lessees	2,360	-	1,023	-
Cash payments from low value and short-term leases	(7,917)	-	(5,875)	-
Cash generated from (used in) operations	46,559	(3,869)	36,629	6,626
Other income received	-	-	-	-
Interest paid from borrowings	(2,072)	(2,567)	(1,103)	(1,528)
Interest paid from lease liabilities	(15,503)	-	(12,235)	-
Interest received	3,066	146	1,227	-
Insurance claim received	3,347	61,920	3,347	61,125
Income tax paid	(3,645)	-	(3,589)	-
Cash generated by operating activities	31,752	55,830	24,276	66,223
Investing Activities				
Proceeds from sale of equipment	489	22,533	489	21,064
Purchase of plant and equipment	(28,652)	(20,904)	(27,275)	(18,865)
Cash utilised by investing activities	(28,163)	1,629	(26,786)	2,199
Financing Activities				
Receipts/(Repayment) of borrowings	208	(56,559)	208	(50,933)
Repayment of lease liabilities	(19,108)	-	(13,258)	-
Receipt/(Payment) of rental bonds	13	(1,564)	13	(433)
Share issuance-Right Issue	-	36,996	-	36,996
(Repayment)/Receipts from related parties	(1,148)	740	653	(29,111)
Cash utilised by financing activities	(20,035)	(20,387)	(12,384)	(43,481)
Net decrease in Cash and cash equivalents	(16,446)	36,872	(14,894)	24,941
Cash and cash equivalents at beginning of the period	32,667	(4,205)	26,942	2,001
Cash and cash equivalents at end of the period	16,221	32,667	12,048	26,942

This statement is to be read in conjunction with the notes to and forming part of the Consolidated Financial Statements set out on pages 41 to 78.

1 GENERAL INFORMATION

The Group is Papua New Guinea's largest retailing network. It has now established within the group and through joint ventures, six strong retail brands namely City Pharmacy, Stop N Shop, Boncafe, Hardware Haus, Jacks Retail and Prouds. The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report.

The principal activities of the Company and its subsidiaries (the Group) are described in Note 19.

As at 31 December 2019, the Group has a combined retail operation of 69 stores nationwide and employs over 2,931 employees of which 95 percent are Papua New Guinean citizens.

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 13 March 2020

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for land and buildings that have been measured at fair value, as explained in the accounting policies. The consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements are presented in Papua New Guinea Kina ("PGK") and all values are rounded to the nearest thousand (K'000), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to 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
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

2.2 Basis of consolidation *continued*

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 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 subsidiaries to bring their accounting policies in 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 the ownership interest of a subsidiary, without a 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.

2.3 Summary of Significant accounting policies

a) Leases (refer to 3.1 IFRS 16 Leases)

b) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

Expected to be realised or intended to be sold or consumed in the normal operating cycle

Held primarily for the purpose of trading

Expected to be realised within twelve months after the reporting period

Or

Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

It is expected to be settled in the normal operating cycle

It is held primarily for the purpose of trading

It is due to be settled within twelve months after the reporting period or

There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3 Summary of Significant accounting policies *continued*

c) Foreign Currency

The Group's consolidated financial statements are presented in Papua New Guinea Kina ("PGK"), which is also the Company's functional and presentation currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into PGK at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.3 Summary of Significant accounting policies *continued*

d) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the procurement services below, because it typically controls the goods or services before transferring them to the customer.

Tender and Wholesale

Revenue from tender and wholesale is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment at the customer's location. The normal credit term is 30 to 90 days upon delivery.

Retail Sales

Revenue from the sale of goods to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transactions price need to be allocated (e.g. customer loyalty points). In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the customer (if any).

i) Non-cash consideration

The fair value of such non-cash consideration received from the customer is included in the transaction price and measured when the Group obtains control of goods. The Group estimates the fair value of the non-cash consideration by reference to its market price. If the fair value cannot be reasonably estimated, the non-cash consideration is measured indirectly by reference to the stand-alone selling price of the goods.

Loyalty points programme

The Group operates a loyalty points programme, *Real Rewards*, which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can be redeemed for free products, subject to a minimum number of points being obtained. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer.

Consideration received is allocated between the products sold and the points issued, with the consideration allocated to the points based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer based on a proportionate basis.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance is charged against revenue.

2.3 Summary of Significant accounting policies *continued*

A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer). Amount recognised is included under "Trade and other payable" line item in balance sheet.

e) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

g) Trade and other receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Trade and other receivables are non-interest bearing and are generally on credit terms of 30 to 90 days.

h) Inventories

Inventory for resale and consumable materials are valued at the lower of purchase cost, which is based on invoice prices and includes expenditure incurred in acquiring the goods and bringing them to their existing condition, and net realisable value. Costs of inventories are determined on a weighted average basis.

i) Property, Plant and Equipment

Plant and equipment are measured at cost, net of accumulated depreciation and accumulated impairment losses, if any, except for land and buildings. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

2.3 Summary of Significant accounting policies *continued*

Depreciation is calculated on a diminishing balance basis over the estimated useful lives of the assets as follows:

Buildings	50 years
Office equipment	5 – 12 years
Motor Vehicles	3 – 8 years
Fixtures, fittings and equipment	5 – 10 years

Property is revalued on a regular basis to ensure that the carrying amount of the asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss.

A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. However, this could be reversed if there has been a change in the estimates used to determine the recoverable amount. This reversal is only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no revaluation deficit had been recognised.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

j) Taxes

Income tax in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period presented comprises current and deferred tax.

Current tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the rates that are expected to apply in the period in which the liability is settled or asset realised, based on tax rates enacted at the reporting date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.3 Summary of Significant accounting policies *continued*

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on net basis.

Good and Services Tax (GST)

Revenue, expenses and assets are recognised net of GST, except where the GST incurred is not recoverable from the taxation authority, in which case the GST is recognised as part of the expense or cost of the asset.

Receivables and payables are stated with the amount of GST included. The net amounts of GST recoverable from or payable to the taxation authorities are included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to taxation authorities are classified as operating cash flows.

k) Goodwill

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

An impairment loss in respect of goodwill is not reversed.

l) Employee Provision

A Provision is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and leave fares when it is probable that settlement will be required, and they are capable of being measured reliably. Provisions recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

2.3 Summary of Significant accounting policies *continued*

m) Financial Instruments

Classification

Financial instruments include financial assets and liabilities. Financial assets that are classified as loans and receivables include cash held with banks and trade and other receivables. Financial liabilities that are not at fair value through profit or loss include related party receivables, accounts payables and accrued expenses.

The classification of financial assets at initial recognition depends on the financial asset's contract cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction cost. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Recognition and Measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial assets at amortised costs (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets at amortised cost includes trade receivables and related party receivables.

Impairment

Financial assets

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

2.3 Summary of Significant accounting policies *continued*

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the impairment for that financial instrument at an amount equal to 12 month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified, at initial recognition, as either financial liabilities 'at FVTPL' or 'other financial liabilities'. Subsequently, all financial liabilities are classified as either FVTPL or financial

The Group's financial liabilities are trade and other payables, related party payables, bank overdraft and borrowings.

n) Investment in associates and joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment is recognised immediately in profit or loss in the period in which the investment is acquired.

2.3 Summary of Significant accounting policies *continued*

o) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

The asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal ("FVLCTD") and its value in use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets of continuing operations excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

p) Leases (Applicable to 2018)

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

2.3 Summary of Significant accounting policies *continued*

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.4 Accounting, judgments, estimate and assumptions

a) Estimation of useful life of assets

Estimates of remaining useful lives require significant management judgement and are reviewed at least annually. Where useful lives are changed, the net written-down value of the asset is depreciated or amortised from the date of the change in accordance with the revised useful life. Depreciation recognised in prior financial years is not changed. Reasonably possible changes in estimated useful lives are unlikely to have a material impact as the change is assessed for specific assets.

b) Stock obsolescence

Due to the nature of the business environment and operations, a provision for stock shrinkage has been made based on past experience.

c) Estimated credit losses

The Group uses a provision matrix to calculate ECLs for trade receivables, lease receivables and contract assets. 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 historical observed default rates. The Group 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 historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

2.4 Accounting, judgments, estimate and assumptions *continued*

d) *Impairment of non-financial assets*

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

In particular, significant judgements and estimates are made in relation to the following:

Forecast future cash flows

These are based on the Group's latest Board approved internal five-year forecasts and reflect management's best estimate of income, expenses, capital expenditure and cash flows for each asset or CGU. Changes in selling prices and direct costs are based on past experience and management's expectation of future changes in the markets in which the Group operates.

Discount rates

Estimated future cash flows are discounted to their present value using discount rates that reflect the Group's weighted average cost of capital, adjusted for risks specific to the asset or CGU.

Expected long-term growth rates

Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates. The growth rates are based on historical performance as well as expected long-term market operating conditions specific to each.

The judgements and estimates used in assessing impairment are best estimates based on current and forecast market conditions and are subject to change in the event of shifting economic and operational conditions. Actual cash flows may therefore differ from forecasts and could result in changes to impairment recognised in future years.

3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The accounting policies adopted are consistent with those of the previous financial year, except in the current year, the Group adopted all new and revised IFRS, amendments to existing International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretation that are effective for annual periods beginning on or after 1 January 2019.

Description	Effective for annual periods beginning on or after
IFRS 16 Leases (Note 3.1)	1 January 2019
Amendments to IFRS 9, Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRIC Interpretation 23, Uncertainty over Income Tax Treatments (Note 3.2)	1 January 2019
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements 2015-2017 Cycle (IFRS 3 Business Combination, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs)	1 January 2019

The Group applied for the first time IFRS 16 Leases, resulting in changes in accounting policies and adjustments to the amounts previously recognised in the Group's annual consolidated financial statements. The Group, however, did not restate comparative figures as the Group opted to apply the modified retrospective approach as allowed by the transition provisions of IFRS16. Under the modified retrospective method of adoption, comparative figures are not restated and the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Group's Consolidated Financial Statements.

3.1 IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. IFRS 16 will have an impact for leases where the Group is a sub-lessor or intermediate lessor for its sub-leases to third party sub-lessees.

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3.1 IFRS 16 Leases *continued*

The Group adopted IFRS 16 using the modified retrospective method by recognising a right of use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17 and chose to measure the right of use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). The effect of adoption IFRS 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

	Consolidated K'000	Parent K'000
Assets		
Right-of-use assets	181,053	152,276
Lease receivable	38,429	16,296
Trade and other receivables	(9,400)	(9,400)
Prepayments	(3,810)	(3,216)
Total assets	206,272	155,956
Liabilities		
Lease liabilities	207,227	160,596
Trade and other payables	(1,677)	(1,677)
Equity		
Retained earnings	722	(2,963)
Total liabilities and equity	206,272	155,956

Impact on the statement of profit or loss for the year ended 31 December 2019:

	Consolidated K'000	Parent K'000
Amortisation of right-of-use asset (Note 3(d))	(24,586)	(19,580)
Interest expense on lease liability (Note 3(d))	(15,623)	(12,235)
Rent expense (included in Administration expense)	37,130	27,893
Interest income on lease receivable (Note 3(c))	3,059	1,227
Rent income (included in Other income and expenses)	(5,419)	(2,250)
Loss on sublease of right-of-use asset (Note 3(c))	133	-
Decrease in Profit or loss before tax for the year	(5,306)	(4,945)

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3.1 IFRS 16 Leases *continued*

Impact on the new standards on Earnings before interest, taxes, depreciation and amortisation (EBITDA) at the consolidated level for the year ended 31 December 2019 against the old standard (IAS 17 – Leases):

	"Reported" under new lease standard (IFRS 16 - Leases)	"Like-for- like" under old lease standard (IAS 17 - Leases)	Increase/ (Decrease)
	K'000	K'000	K'000
Gross profit	175,750	175,750	-
Distribution expense	(3,638)	(3,638)	-
Marketing expense	(4,495)	(4,495)	-
Administration expense (including rent expense)	(129,854)	(166,984)	37,130
Other income/(expense)	17,196	22,482	(5,286)
Profit from joint ventures	797	797	-
EBITDA	55,756	23,912	31,844
Depreciation	(36,776)	(12,190)	(24,586)
Interests, net	(13,420)	(856)	(12,564)
Profit before tax	5,560	10,866	(5,306)

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, plant and equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised, and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

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3.1 IFRS 16 Leases *continued*

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	K'000
Operating lease commitments as at 31 December 2018	292,923
Weighted average incremental borrowing rate as at 1 January 2019	7.75%
Operating lease commitments discounted at 1 January 2019	211,856
Commitments relating to short term leases	(5,118)
Commitments relating to low-value assets	(45)
Adjustments as a result of a different treatment of lease options	1,276
Lease liabilities as at 1 January 2019	207,969

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

3.1 IFRS 16 Leases *continued*

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs. Accordingly, the lease liability calculations do not take into account any future increments in rental payments unless the increments are contractually fixed.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Sub-leases

The Group reassessed the classification of sub-lease contracts previously classified as operating lease under IAS 17. The Group concluded that the sub-leases are finance lease under IFRS 16 and accounted for as new finance leases entered at the date of initial application.

The Group as the original lessee derecognises the right-of-use asset on the head lease at the date of initial application and continues to account for the original lease liability in accordance with the lessee accounting model. The Group, as the sublessor, recognises a net investment (or Lease Receivable) in the sublease. At date of initial application, the difference between the right-of-use asset derecognised and net investment in the sublease is recognised in retained earnings. After the date of initial application, the difference is included in the profit or loss for the period.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below K17,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(c) Significant judgements in the application of the new standard

Determining the lease term of contracts with renewal options

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.

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3.1 IFRS 16 Leases *continued*

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of property, plant and equipment due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on operations if a replacement is not readily available.

Determining the incremental borrowing rate (IBR)

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates. The Group has used an IBR based on its current debt facility with the banks and market rates in Papua New Guinea.

(d) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

Consolidated	<u>Right-of-use</u>	<u>Lease</u>	<u>Lease</u>
	<u>assets - Buildings</u>	<u>liabilities</u>	<u>receivable</u>
	K'000	K'000	K'000
As at 1 January 2019	181,053	207,227	38,429
Additions	3,915	3,915	-
Sub-lease	(2,544)	-	2,677
Depreciation	(24,586)	-	-
Lease payment adjustments	741	741	-
Interest expense	-	15,625	-
Interest income	-	-	3,059
Payment of lessee/sublessee	-	(34,731)	(5,419)
As at 31 December 2019	158,579	192,777	38,746

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3.1 IFRS 16 Leases *continued*

Parent	<u>Right-of-use</u>	<u>Lease</u>	<u>Lease</u>
	<u>assets - Buildings</u>	<u>liabilities</u>	<u>receivable</u>
	K'000	K'000	K'000
As at 1 January 2019	152,276	160,596	16,296
Additions	3,915	3,915	-
Sub-lease	-	-	-
Depreciation	(19,580)	-	-
Lease payment adjustments	741	741	-
Interest expense	-	12,235	-
Interest income	-	-	1,227
Payment of lessee/sublessee	-	(25,493)	(2,249)
As at 31 December 2019	137,352	151,994	15,274

The following are amounts recognised in profit or loss for low value and short-term leases:

	Consolidated K'000	Parent K'000
Expense relating to short-term leases	85	85
Expense relating to leases of low-value assets	7,917	5,875
Total amount recognised in profit or loss	8,002	5,960

(e) Classification of lease receivable and liability

	K'000	K'000
Lease receivables		
Current	2,919	1,103
Non-current	35,827	14,171
Total lease receivables	38,746	15,274
Lease liabilities		
Current	17,397	11,204
Non-current	175,380	140,790
Total lease liabilities	192,777	151,994

3.2 IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The Group applies significant judgement in identifying uncertainties over income tax treatments. The interpretation did not have an impact on the consolidated financial statements of the Group.

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3.3 Standards issued but not yet effective

The Group will adopt, where applicable, the following standards, amendments to existing standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new standards and interpretations to have a significant impact on its financial statements:

Description	Effective for annual periods beginning on or after
Amendment to IFRS 3, Definition of a Business	1 January 2020
Amendment to IFRS 9, IAS 39, and IFRS 7, Interest rate benchmark reform	1 January 2020
Amendment to IAS 1 and IAS 8, Definition of Material	1 January 2020
The Conceptual Framework for Financial Report	1 January 2020
IFRS 17, Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred Activity

The Group continues to assess the impact of the foregoing new and amended accounting standards and interpretations effective subsequent to 2019 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the Group's financial statements when these amendments are adopted.

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

	Consolidated		Parent Company	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Contract with Customers	561,081	516,839	435,403	398,969

5 OTHER OPERATING EXPENSES

a) Distribution expenses

	Consolidated		Parent Company	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Freight and handling	3,638	8,978	3,638	5,002

b) Marketing expenses

	Consolidated		Parent Company	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Advertising and promotions	1,788	1,595	1,096	649
Decorations and display materials	86	10	86	10
Other marketing expenses	2,621	3,454	2,357	3,129
Total	4,495	5,059	3,539	3,788

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6 INCOME TAX EXPENSE

	Consolidated		Parent Company	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
(a) Income tax expense/(benefit)				
Current tax	(5,021)	(107)	(7,274)	1,867
Deferred tax	(1,660)	2,311	(1,158)	1,081
Income tax expense / (benefit)	(6,681)	2,204	(8,432)	2,948

The prima facie for the period is reconciled to the tax expense as follows:

Accounting profit before tax	5,560	8,837	1,085	11,272
Tax for the period at 30%	1,668	2,651	326	3,381
Share of profit from associates	(239)	(575)	(239)	(575)
Investment write-off		142		142
Adjustments in respect of current income tax of previous years	(4,856)	-	(7,156)	-
Unrecognised deferred tax on Carry Forward Losses	(3,430)	-	(1,513)	-
Non-deductible expenses	176	(14)	150	-
Income tax expense/ (benefit)	(6,681)	2,204	(8,432)	2,948

(b) Deferred taxes

Deferred tax assets

Expected credit loss	501	325	38	33
Provision for inventory losses	1,612	2,047	740	1,076
Provision for employee benefits	2,585	3,047	2,071	2,638
Others	550	(2,951)	487	(2,989)
Fixed assets	1,112	(421)	1,167	(421)
	6,360	2,047	4,503	337

Deferred tax liabilities

Prepaid expenses	(223)	(2,743)	(168)	(2,031)
Lease liability	(1,117)	(1,377)	58	(1,377)
Unrealised foreign exchange gain	-	55	-	55
Revaluation gain	-	230	-	230
	(1,340)	(3,835)	(110)	(3,123)

Net Deferred tax assets / (liabilities)

	5,020	(1,788)	4,393	(2,786)
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Carry forward losses

Year	Losses K'000	Utilised in		Expiry
		2019 K'000	Unutilised K'000	
2014	8,778	(6,138)	2,640	2034
2015	10,006	(146)	9,860	2035
2016	4,525	(103)	4,422	2036
2017	29,822	(5,045)	24,777	2037
2018	4,084	-	4,084	2038
	57,215	(11,432)	45,783	

The management has not recognised deferred tax assets arising from carry forward losses.

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7 CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Cash and cash equivalents	9,728	11,960	5,555	6,474
Fixed deposits	6,493	20,707	6,493	20,468
	16,221	32,667	12,048	26,942

8 TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Current				
Trade receivables	17,867	17,446	10,417	10,295
Other receivables	7,641	12,810	6,941	11,633
Total receivables	25,508	30,256	17,358	21,928
Less: Expected credit losses	(1,660)	(1,086)	(127)	(110)
Net current receivables	23,848	29,170	17,231	21,818
Non-current				
Other receivables	-	7,000	-	7,000
Total non-current receivables	-	7,000	-	7,000

Breakdown of other receivables is as follows:

	Consolidated		Parent	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Medical Claims	39	41	39	39
Insurance Claims	270	528	270	528
Employee loans	3	36	-	35
GST receivable	2,077	4,589	2,150	4,491
Freight and duty advances	-	471	-	467
Landlord development costs	-	9,400	-	9,400
Other	5,252	4,745	4,482	3,673
Total Other Receivables	7,641	19,810	6,941	18,633

Landlord development costs pertains to redevelopment of the Harbour city and Koki supermarkets cost of structural nature. These costs will be recouped from lease payments due over the seven-year term of the lease which have been part of IFRS 16 – Lease transition and fully recognised as part of Right of Use Assets.

The general credit period on sales of goods is 30 to 90 days. No interest is charged on outstanding trade receivables.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

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8 TRADE AND OTHER RECEIVABLES *continued*

Consolidated	Not past due	Past due not Impaired	Impaired	Total
	K'000	K'000	K'000	K'000
2019				
Balance as at 31 December 2019	8,128	8,079	1,660	17,867
Expected Credit Losses	-	-	(1,660)	(1,660)
Total trade receivables	8,128	8,079	-	16,207
2018				
Balance as at 31 December 2018	11,934	4,426	1,086	17,446
Expected Credit Losses	-	-	(1,086)	(1,086)
Total trade receivables	11,934	4,426	-	16,360
Parent Company				
	Not past due	Past due not impaired	Impaired	Total
	K'000	K'000	K'000	K'000
2019				
Balance as at 31 December 2019	5,060	5,230	127	10,418
Expected Credit Losses	-	-	(127)	(127)
Total trade receivables	5,060	5,230	-	10,291
2018				
Balance as at 31 December 2018	4,446	5,849	110	10,405
Expected Credit Losses	-	-	(110)	(110)
Total trade receivables	4,446	5,849	-	10,295

As at year-end movement for expected credit losses:

	Consolidated		Parent	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Balance at the beginning of the year	1,086	5,212	110	176
Impairment recognised on receivable	574	(4,126)	17	(66)
Balance at the end of the year	1,660	1,086	127	110

9 INVENTORIES

	Consolidated		Parent Company	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Inventory for resale	96,625	91,058	60,989	54,283
Provision for inventory shrinkage	(5,391)	(6,823)	(2,467)	(3,588)
Total	91,234	84,235	58,522	50,695

Due to the nature of the business environment and operations, a provision for stock shrinkage has been made based on past experience.

CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
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10 PROPERTY, PLANT AND EQUIPMENT

Group	Land and Buildings at valuation	Motor Vehicles at cost	Leasehold Improvement, Office equipment and Furniture & Fixtures at cost	Total
	K'000	K'000	K'000	K'000
Cost or Valuation				
At 01 January 2019	18,000	18,515	80,438	116,953
Additions	-	2,621	9,125	11,746
Disposals	-	(1,140)	(408)	(1,548)
Work in progress	-	-	16,904	16,904
Asset Revaluation	2,400	-	-	2,400
At 31 December 2019	20,400	19,996	106,059	146,455
Accumulated Depreciation				
At 01 January 2019	-	13,133	34,790	47,923
Charge for the period	-	1,801	10,258	12,059
Disposals	-	(1,041)	(208)	(1,249)
At 31 December 2019	-	13,893	44,840	58,733
Net Carrying Value				
At 31 December 2019	20,400	6,103	61,219	87,722
At 01 January 2019	18,000	5,382	45,648	69,030
2018				
Group	Land and Buildings at valuation	Motor Vehicles at cost	Leasehold Improvement, Office equipment and Furniture & Fixtures at cost	Total
	K'000	K'000	K'000	K'000
Cost or Valuation				
At 01 January 2018	22,927	16,427	75,607	114,961
Additions	-	4,070	17,532	21,602
Disposals	(596)	(1,982)	(25,032)	(27,610)
Transfer from Assets held for sale	8,000	-	-	8,000
Transfers - Reclassification	(12,331)	-	12,331	-
At 31 December 2018	18,000	18,515	80,438	116,953
Accumulated Depreciation				
At 01 January 2018	3,939	13,017	41,160	58,116
Charge for the period	344	1,861	8,235	10,440
Disposals	(958)	(1,745)	(17,930)	(20,633)
Transfers - Reclassification	(3,325)	-	3,325	-
At 31 December 2018	-	13,133	34,790	47,923
Net Carrying Value				
At 31 December 2018	18,000	5,382	45,648	69,030
At 01 January 2018	18,988	3,410	34,447	56,845

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
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10 PROPERTY, PLANT AND EQUIPMENT *continued*

	Land and Buildings at valuation	Motor Vehicles At cost	Leasehold Improvement, Office equipment and Furniture & Fixtures at cost	Total
Parent Company	K'000	K'000	K'000	K'000
Cost or Valuation				
At 01 January 2019	10,000	11,377	66,378	87,755
Additions	-	2,621	7,750	10,371
Disposals	-	(1,140)	(409)	(1,549)
Work in progress	-	-	16,904	16,904
At 31 December 2019	10,000	12,858	90,623	113,481
Accumulated Depreciation				
At 01 January 2019	-	6,427	24,428	30,855
Charge for the period	-	1,697	9,404	11,101
Disposals	-	(1,041)	(208)	(1,249)
At 31 December 2019	-	7,083	33,624	40,707
Net Carrying Value				
At 31 December 2019	10,000	5,775	56,998	72,774
At 01 January 2019	10,000	4,950	41,950	56,900

	Land and Buildings at valuation	Motor Vehicles At cost	Leasehold Improvement, Office equipment and Furniture & Fixtures at cost	Total
Parent Company	K'000	K'000	K'000	K'000
Cost or Valuation				
At 01 January 2018	18,379	9,302	64,599	92,280
Additions	-	3,953	14,912	18,865
Disposals	(596)	(1,878)	(20,916)	(23,390)
Transfer - Reclassification	(7,783)	-	7,783	-
At 31 December 2018	10,000	11,377	66,378	87,755
Accumulated Depreciation				
At 01 January 2018	614	6,663	31,784	39,061
Charge for the period	344	1,405	7,157	8,906
Disposal	(958)	(1,641)	(14,513)	(17,112)
At 31 December 2018	-	6,427	24,428	30,855
Net Carrying Value				
At 31 December 2018	10,000	4,950	41,950	56,900
At 01 January 2018	17,765	2,639	32,815	53,219

Fair Value measurement of Land and Buildings

The Group's freehold land and building are stated at their revalued amounts being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 31 December 2019 were performed by Yagur Property Valuers, independent valuer is not related to the Group.

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10 PROPERTY, PLANT AND EQUIPMENT *continued*

The Valuer is a member of the Institute of Valuers and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties/other methods. The fair value of the building was determined using capitalisation and direct comparison on a per square metre rate for the building area.

Carrying amount of Land & Buildings without revaluation is K9,338k.

Impairment

There are no indications that the assets may be impaired as at 31 December 2019.

11 INVESTMENTS

	Note	Consolidated		Parent Company	
		2019	2018	2019	2018
		K'000	K'000	K'000	K'000
Non-Current					
Investment in Subsidiaries - at cost	11(a)	-	-	17,901	17,901
Joint Ventures – Equity method	11(b)	5,282	4,788	5,282	4,788
Total		5,282	4,788	23,183	22,689

	Country	Ownership	2019	2018
			K'000	K'000
11(a) Subsidiary Companies				
Pharmacy Wholesales Pty Limited	Australia	71%	2,105	2,105
Hardware Haus Limited	PNG	100%	15,796	15,796
City Property Limited	17 PNG	100%	-	-
Real Rewards Limited	17 PNG	100%	-	-
			17,901	17,901
11(b) Joint Ventures				
Paradise Cinemas (PNG) Limited	PNG	46.2%	-	-
Jacks Retail (PNG) Limited	PNG	50%	3,588	3,276
DFS (PNG) Limited	PNG	50%	1,694	1,512
			5,282	4,788

Summarised statement of financial position of joint ventures:

	2019	2018
	K'000	K'000
Current assets	24,177	13,308
Non-current assets	35,433	6,564
Current liabilities	(37,329)	(7,746)
Non-current liabilities	(11,308)	(2,163)
Net assets	10,972	9,962
Total Revenue	38,515	31,783
Total Profit / (Loss)	1,595	1,876
Group's share of Profit / (Loss)	797	1,444
Dividends	(303)	-
Carrying amount of the investment (50%)	5,282	4,788

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12 GOODWILL

	Consolidated		Parent Company	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Net Carrying value	4,825	4,825	3,431	3,431

As part of the purchase of the supermarket operations in 2005, K3,400k of goodwill was recognised. Also, the Group recognised K1,400k of goodwill in relation to the business combination at Pharmacy Wholesalers Pty. Limited.

For impairment testing purposes, goodwill has been allocated to the following cash-generating units:

Cash flow projections during the budget period are based on the same expected gross margin and inventories price inflation throughout the budget period. The cash flow beyond that five-year period have been extrapolated using a steady 5% (2018: 5%) per annum growth rate which is the projected long-term average growth rate. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

Pharmacy Wholesalers Limited

The recoverable amount of this cash generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the Directors covering a five-year period, and a discount rate of 14% per annum.

Cash flow projections during the budget period are based on the same expected gross margin and inventories price inflation throughout the budget period. The cash flow beyond that five-year period have been extrapolated using a steady 5% per annum growth rate which is the projected long-term average growth rate. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

13 INTEREST BEARING LOANS AND BORROWINGS

	Note	Consolidated		Parent	
		2019 K'000	2018 K'000	2019 K'000	2018 K'000
Current					
Fully-drawn	13(a)	-	4,123	-	4,123
Bank overdraft	13(b)	7,836	3,505	7,836	3,505
Total loans and borrowings		7,836	7,628	7,836	7,628

Bank facilities and security

- a) In August 2015, the Company entered into a five-year loan agreement with ANZ Bank for K16,600k for acquisition of Hardware Haus Limited. As per facility agreement dated 20 November 2017, the revised facility limit was set at K10,050k. The interest rate is fixed. As at 31 December 2019, the carrying value of the loan amounted to K Nil (2018: K4,123k), was repaid in January 2019.

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13 INTEREST BEARING LOANS AND BORROWINGS *continued*

- b) In 2011, the Company entered into a multi - option facility with Westpac Bank (PNG) Limited that includes loans, overdraft and assistance for documentary letters of credit to finance import payments into PNG. The loan is secured by the following:
1. Various Registered Mortgage Deeds
 2. Fixed and floating charge over all Company assets and undertakings
 3. Carrying value of motor vehicles as security over leases
 4. Deed of Cross Guarantee
 5. Master Lease Agreement
- c) As at 31 December 2019, the Company had utilised letters of credit amounting to K1.119k (2018: K2,774k).

14 TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Current				
Trade payables	67,349	67,100	53,208	48,595
Other payables	15,369	16,300	9,685	10,547
	82,718	83,400	62,893	59,142
Non-current				
Security bond	119	666	119	107
Total payables	82,837	84,066	63,012	59,249

Breakdown of other payables is as follows:

	Consolidated		Parent	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Contract liability	4,249	4,774	302	251
Withholding taxes	4,004	3,445	3,933	3,265
Accruals	2,988	6,469	4,597	5,660
Wages payable	431	-	291	-
Other accruals	3,697	1,612	562	1,371
Total other payables	15,369	16,300	9,685	10,547

15 PROVISIONS

	Consolidated		Parent	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Employee provisions				
Current				
Wages Payable	569	399	385	342
Annual Leave	2,330	2,242	1,655	1,711
Employee bonus	658	1,929	643	1,929
	3,557	4,570	2,683	3,982
Non-current				
Long service leave	5,609	5,469	4,604	4,701

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16 EQUITY

Share capital

In accordance with the provisions of the Companies Act 1997, the share capital does not have a par value. In accordance with the provisions of the constitution, the board of directors of the Group may issue shares at its discretion.

The Group did not issue any additional shares during the year. The total number of shares on issue as at 31 December 2019 is 199,972,219 (2018: 199,972,219).

Earnings per Share

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic EPS calculations:

	Parent	
	2019 K'000	2018 K'000
Profit attributable for basic and diluted earnings	12,241	6,633
Weighted average number of shares for basic and diluted EPS*	199,972	199,972
Earnings per share - basic and diluted (toea per share)	6.12	3.32

**The weighted average number of shares takes into account the weighted average effect of changes in treasury shares and preference shares during the year*

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

Revaluation reserve

	Consolidated		Parent	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Balance at beginning of year	8,813	23,925	8,813	23,925
Reversal of revaluation reserve on Gerehu Property	-	(17,562)	-	(17,562)
Reversal of Deferred Tax Liabilities	-	2,450	-	2,450
Asset Revaluation	2,400	-	-	-
Balance at end of year	11,213	8,813	8,813	8,813

The property revaluation reserve arises on the revaluation of land and buildings. When the revalued land and buildings are sold, the portion of the property revaluation reserve that relates to that asset is transferred directly to retained earnings. Items of other comprehensive income included in the property revaluation reserve will not be reclassified subsequently to profit or loss.

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16 EQUITY continued

Foreign currency translation reserve

	Consolidated	
	2019	2018
	K'000	K'000
Balance at beginning of year	554	895
Exchange differences arising on translating the foreign operations	(127)	(341)
Balance at end of year	427	554

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (PNG Kina) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations) are reclassified.

Retained earnings and dividend on equity instruments

	Consolidated		Parent	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Retained earnings	64,383	51,507	68,365	61,811
Balance at beginning of year	51,507	27,429	61,811	35,925
Profit attributable to the owners of the Company	12,154	6,516	9,517	8,324
Reversal of revaluation reserve of properties	-	17,562	-	17,562
Impact on adoption of IFRS 16 (Note 3.1)	722	-	(2,963)	-
Balance at end of year	64,383	51,507	68,365	61,811

In view of the challenging economic situation, and investments in store upgrades and the new distribution centre re-build, the directors declared through a market announcement on 15 March 2019 that no dividend be paid.

17 RELATED PARTY TRANSACTIONS

Related parties are considered to be enterprises or individuals with whom the Company and the Group is especially related because either they or the Company are in a position to significantly influence the outcome of transactions entered into with the Company and the Group, by virtue of being able to control, dominate or participate in a fiduciary capacity in decision making functions or processes. A number of transactions are entered into with these related parties in the normal course of business. These transactions are carried out on commercial terms and market rates.

a) Transactions with Subsidiaries and Joint Ventures

Transactions with Hardware Haus Limited 'HHL', a wholly owned subsidiary from 1 July 2015, are based on commercial arrangements. The Company's total sales to HHL in 2019 were K271k (2018: K371k) while purchases were K859k (2018: K524k). As at 31 December 2019, the Company has a receivable from HHL of K29,242k (2018: K28,206k).

The Company provides administration assistance to Pharmacy Wholesalers Pty. Limited, a subsidiary. As at 31 December 2019, The Company has a receivable from Pharmacy Wholesalers of K579k (2018: K579k).

17 RELATED PARTY TRANSACTIONS *continued*

The Company provides administration assistance to Paradise Cinema (PNG) Limited, a joint venture. As at 31 December 2019, the Company has a receivable from Paradise Cinema of K Nil (2018: K718k).

The Company provides administration assistance to Jacks Retail (PNG) Limited, a joint venture. As at 31 December 2019, the Company has a receivable from Jacks Retail of K162k (2018 payable: K84k)

The Company provides administration assistance to DFS (PNG) Limited, a joint venture. As at 31 December 2019, the Company has a payable from DFS (PNG) of K47k (2018: K26k).

b) Transaction with directors

Mahesh Patel is a shareholder and director of the Company and receives a director's fee, accommodation, motor vehicle to him by the Company.

Mahesh Patel is a director of New World Limited, Fiji, a supplier to the company. In 2019, the Group has a receivable amount of K Nil (2018: K7k)

Mahesh Patel is a related party of US All American ENT.INC.USA, a supplier to the company. In 2019, City Pharmacy Limited's total stocks purchased from US All American was K1,928k. The Group has an outstanding balance of K 873k (2018: Nil) as at period end

c) Due from / (to) key management personnel

During the period, the key management personnel who are non-company directors received advances from the Group amounting to K48k. As at 2019 year end, the balance owed to the Group is K Nil.

d) Remuneration of the Directors and key management officers

The total remuneration paid to Directors and key management officers during the year was K8,449k and consisted of fixed directors' fees, salaries and fees and non-monetary benefits* as follows:

	2019 K'000	2018 K'000
Short-term employment benefits	8,449	8,091

In the current year, the Company does not have post-employment benefits, other long-term benefits and termination benefits for its directors and employee.

*Non-monetary benefits relate to provision of accommodation, motor vehicle, etc.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

17 RELATED PARTY TRANSACTIONS *continued*

Remuneration by Directors

	2019 K'000	2018 K'000
Stanley Thomas Joyce, Chairman	219	101
Mahesh Patel, OBE, Managing Director	1,400	735
Graham John Dunlop	221	279
Peter Robinson	147	154
Mary Handen	148	101
Mary Ellen Johns	148	101
Peter John Aitsi (resigned 15 May 2019)	55	154
Joseph Barberies (resigned 1 March 2018)	-	520
Robert Baily (resigned 2 May 2018)	-	65

Mahesh Patel is a full-time employee starting from 1 March 2018 and received the benefit of fully provided vehicle, accommodation and air fares, the value of which is included above.

Interest Register

Name of Director	Interest/Position	Name of entity
Mahesh Patel	Director/Shareholder	Mainsbridge Pty. Limited, Australia
	Director	New World Limited, Fiji
	Shareholder	Manu Nominees Pty. Limited, Australia
	Director/Shareholder Related to Director	Amar Business Holding Pte Ltd, Singapore U.S. All American ENT. Inc., USA
Graham John Dunlop	Director	Steamships Trading Company Limited
Peter Robinson	Chairman	Australian Pharmaceutical Industries Ltd, Australia
	Chairman	Clover Corporation Limited, Australia
Mary Handen	Director/Shareholder	KBS Network Limited
	Director/Shareholder	Jedjays Limited
Mary Ellen Johns	Company Secretary	Bank of South Pacific Limited
	Committee member	Oil Search Limited
	Committee member	Men's National Soccer League
	Treasurer	PNG Women Lawyers Association Inc.
	Secretary Chairman	Capital Rugby Union Leadership PNG Inc.
Stanley Thomas Joyce	Director	South Pacific Brewery Limited
	Director	Solomon Islands Brewery
	Director	Mainland Holdings Limited
	Director	Westpac Bank PNG Limited
Peter John Aitsi (resigned 15 May 2019)	Director	PNG FM Limited
	Director/Shareholder	RBC Holdings Limited
	Director	Leadership PNG
	Director	Steamships Trading Company Limited
	Director	Newcrest PNG Limited
	Deputy Chairman Sr. Vice President	Kumul Consolidated Holdings PNG Chamber of Mines & Petroleum

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

17 RELATED PARTY TRANSACTIONS *continued*

Shareholdings of Directors and Related Parties

Related Party	No. of Shares In the Company	% Holding
Amar Business Holdings Pte Limited, Singapore	21,280,712	10.64%
New World Limited, Fiji	13,887,857	6.94%
Mainsbridge Pty. Limited, Australia	3,152,846	1.58%
Mahesh Patel & Usha Patel	25,148,051	12.58%
Mahesh Patel	10,124,395	5.06%
Manu Nominees Pty. Limited, Australia	3,000,000	1.50%

Remuneration of employees

	2019	2018
K80,001 - K100,000	6	3
K100,001 - K200,000	73	68
K200,001 - K300,000	11	13
K300,001 - K400,000	9	11
K400,001 - K500,000	3	3
K500,001 - K600,000	1	2
K600,001 - K700,000	1	1
K700,001 - K800,000	1	1
K800,001 - K900,000	4	5
K1,200,001 - K1,300,000	1	1
K1,300,001 - K1,400,000	1	1
	111	109

18 SEGMENT INFORMATION

Reportable segments are identified on the basis of internal reports on the business units of the Group that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and assess its performance.

The Group has two reportable segments. These business units offer different products and services and are managed separately because they require different technology and marketing strategies.

The following table presents assets and liabilities information for the Group's operating segments as at 31 December 2019 and 2018, respectively:

	Retail	Wholesale and Tender	Total
	K'000	K'000	K'000
Assets			
31 December 2019	428,500	12,557	441,057
31 December 2018	229,639	10,124	239,763
Liabilities			
31 December 2019	288,045	4,726	292,771
31 December 2018	106,654	59	106,713

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

18 SEGMENT INFORMATION *continued*

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of detailed reconciliations presented further below:

	Retail	Wholesale and Tender	Total Segment	Elimination	Consolidated
	K'000	K'000	K'000	K'000	K'000
Revenue					
External customer	547,465	13,616	561,081		561,081
Inter-segment		10,184	10,184	(10,184)	-
Total revenue	547,465	23,800	571,265	(10,184)	561,081
Cost of sales	(374,256)	(21,259)	(395,515)	10,184	(385,331)
Total Expenses	(163,116)	(1,769)	(164,885)	-	(164,885)
	10,093	772	10,865	-	10,865
Profit before income tax					
Income tax expense	6,893	(212)	6,681	-	6,681
Segment profit before impact of IFRS 16	16,986	560	17,546	-	17,546
Impact					
IFRS 16 Impact:					
Amortisation – ROU	(24,147)	(439)	(24,585)	-	(24,585)
Interest expense	(15,503)	(120)	(15,623)	-	(15,623)
Rent expense	36,621	509	37,130	-	37,130
Interest Income	3,059	-	3,059	-	3,059
Rent Income	(5,419)	-	(5,419)	-	(5,419)
Other income	133	-	133	-	133
Total Net Profit	11,730	511	12,241	-	12,241

Revenue from external customers

Consolidated	For the years ended 31 December					
	2019			2018		
	Retail	Wholesale and Tender	Total	Retail	Wholesale and Tender	Total
K'000	K'000	K'000	K'000	K'000	K'000	
Geographical markets						
Papua New Guinea	538,078	10,183	548,261	492,463	9,948	502,411
Australia	-	2,034	2,034	-	3,855	3,855
Others	-	11,583	11,583	-	10,573	10,573
Total revenue	538,078	23,800	561,878	492,463	24,376	516,839

Parent Company	For the years ended 31 December					
	2019			2018		
	Retail	Wholesale and Tender	Total	Retail	Wholesale and Tender	Total
K'000	K'000	K'000	K'000	K'000	K'000	
Geographical markets						
Papua New Guinea	435,403		435,403	398,969		398,969
Total revenue	435,403		435,403	398,969		398,969

Non-current operating assets

	2019	2018
	K'000	K'000
Papua New Guinea	248,234	72,263
Australia	2,892	1,592
	251,126	73,855

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets, and intangible assets.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

19 FINANCIAL INFORMATION

The Group's activities expose it to a variety of financial risks, including the effects of changes in market prices and interest rates. The Group monitors these financial risks and seeks to minimize the potential adverse effects on the financial performance of the Group. The Group does not use any derivative financial instruments to hedge these exposures.

a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

	Consolidated		Parent	
	2019 K'000	2018 K'000	2019 K'000	2018 K'000
Cash at bank	16,221	32,667	12,048	26,942
Trade and other receivables	23,848	29,170	17,231	21,818
Related party receivables	3,526	87	30,293	28,872
Lease receivable	38,746	-	15,274	-
	82,341	61,924	74,846	77,632

Management does not expect any accountable party to fail to meet its obligations.

The counterparties to these assets has not been assessed with a credit risk rating in Papua New Guinea.

b) Foreign exchange risk

The Group's foreign currency risk arises on account of transactions with suppliers due to current BPNG regulations, management is unable to fully mitigate against foreign exchange fluctuations, and foreign currency is only available upon providing the appropriate documents to the bank.

c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Group	On demand	0-3 Months	3 Months - 1 Year	Due more than a year
	K'000	K'000	K'000	K'000
2019				
Trade and other payables	82,718	-	-	-
Bank overdraft	7,836	-	-	-
Borrowings	-	-	-	-
Lease liabilities	-	8,642	24,687	261,357
	90,554	8,642	24,687	261,357

Group	On demand	0-3 Months	3 Months - 1 Year	Due more than a year
	K'000	K'000	K'000	K'000
2018				
Trade and other payables	83,400	-	-	-
Bank overdraft	3,505	-	-	-
Borrowings	4,123	-	-	-
	91,028	-	-	-

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

19 FINANCIAL INFORMATION *continued*

Parent Company	On demand	0-3 Months	3 Months – 1 Year	Due more than a year
2019	K'000	K'000	K'000	K'000
Trade and other payables	62,893	-	-	-
Bank overdraft	7,836	-	-	-
Borrowings	-	-	-	-
Lease liabilities	-	6,513	18,300	219,661
	70,729	6,513	18,300	219,661

Parent Company	On demand	0-3 Months	3 Months – 1 Year	Due more than a year
2018	K'000	K'000	K'000	K'000
Trade and other payables	59,142	-	-	-
Bank overdraft	3,505	-	-	-
Borrowings	4,123	-	-	-
	66,770	-	-	-

The Group regularly reviews its short, medium- and long-term funding requirements. The Policy requires that sufficient committed funds are available to meet medium term requirements, with flexibility and headroom in the event a strategic opportunity should arise.

d) Interest risk

The Group monitors the interest rate exposure on a regular basis. However, the Group is restricted in its ability to mitigate the risks associated with interest rate movements.

e) Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the long term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 31 December 2019, a general increase of one percentage point in interest rates or one percentage point in the value of the Kina against other foreign currencies would not have a significant impact on the Group's profit.

f) Capital Management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. The Group includes within net debt, interest bearing loans and borrowings, lease liability, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

19 FINANCIAL INFORMATION *continued*

Gearing Ratio

As the year end, the ratio was as follows:

	Consolidated	
	2019	2018
	K'000	K'000
Interest-bearing loans and borrowings	25,233	7,628
Trade and other payables	82,718	83,400
Less: cash and short-term deposits	<u>(16,221)</u>	<u>(32,667)</u>
Net debt	91,730	58,361
Equity (i)	152,615	133,050
Capital and net debt	244,345	191,411
Gearing ratio	37%	30%

The gearing ratio for the current year is not comparable to previous year due to the IFRS 16 *Leases* adjustments.

(i) Equity includes all capital and reserves of the Group that are managed as capital.

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

20 COMMITMENTS AND CONTINGENCIES

Commitments

Future financial charges total KNil (2018:K10k) in relation to various financial leases of vehicles, bakery, freezer and computer equipment from the Bank South Pacific Limited, Westpac Bank PNG Limited & ANZ Bank.

The Company has committed to lease various retail store outlets from which they are operating from lessors up to five years at commercial rates and conditions.

Contingencies

- a) The Company has a credit facility of K19,750k (2018: K19,750k) for Multi - Option Facilities which includes documentary letters of credit from Westpac Bank PNG Limited.
- b) The Company has guaranteed the Hardware Haus Limited multi-option and fully drawn loan facilities from ANZ Banking Group Limited. The guarantee is supported by a mortgage of the Company property.

20 COMMITMENTS AND CONTINGENCIES *continued*

- c) In October 2019 the Company received an Issue Paper from the Internal Revenue Commission (IRC) on the treatment of GST. The Directors have reviewed the Issue Paper and taken external tax advice and are satisfied that no adjustments to the financial statements are required to be recognised by the Company. The Company and its external tax agents are in constant engagement with the IRC. Additional documents to fully support the Company's position have been provided to the IRC and the Company does not believe the Issue Paper will result in any financial settlement.

21 SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or is likely to have any significant effect on, the operations of the Group and Company, the results of those operations, or the state of affairs of the Group and Company in future financial year.

Independent Auditor's Report to the Members of City Pharmacy Limited

Report of the Audit of Financial Report

Qualified Opinion

We have audited the Financial Report of City Pharmacy Limited (the Company) and its subsidiaries (collectively, the Group), which comprises the Consolidated Statement of Financial Position as at 31 December 2019, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes In Equity and Consolidated Statement of Cash Flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' Declaration.

In our opinion, the accompanying financial report of the Company and Group is in accordance with the *Companies Act 1997*, including:

- a) giving a true and fair view of the Company's and Group's financial position as at 31 December 2019 and of their financial performance and cash flows for the year ended on that date; and
- b) complying with International Financial Reporting Standards.

Basis for Qualified Opinion

Comparative Information

We were appointed the auditors of the Company and Group on 15 July 2019. The audit reports on the financial reports for the Group for the years ended 31 December 2017 and 31 December 2018 were issued with disclaimers of opinion. In addition, the Group's predecessor auditor qualified their report in respect of:

- The timing of the Group's recognition of its insurance fire receivable and associated income of K14.5 million in respect of its Gerehu fire insurance claim incorrectly recorded in the year ended 31 December 2018 as opposed to the year ended 31 December 2017; and
- The absence of an independent valuation to support the carrying amount of the Group's leasehold land of K10.0 million at 31 December 2017 and 31 December 2018, carried at fair value.

With the exception of the carrying amount of the Group's leasehold land of K10.0 million at 31 December 2018, the predecessor auditor was able to obtain sufficient appropriate audit evidence in respect of the Group and Company's statements of financial position as at 31 December 2018 but because of the impact of the above matters on the opening balances used the determination of financial performance and cash flows for the year ended 31 December 2018, the predecessor auditor was unable to form an opinion on the 31 December 2018 financial report taken as a whole.

As part of our procedures for the year ended 31 December 2019, we have been able to satisfy ourselves as to the carrying amount of the Group's leasehold land of K10.0 million as at 31 December 2018.

Our audit opinion on the current year financial report is modified because of the qualification on the Group's and Company's financial performance and cash flows for the prior year, being the year ended 31 December 2018 (disclosed in this financial report for comparative purposes) and the possible effects of these matters on the comparability of the current year's figures with the comparative information.

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial report in Papua New Guinea, and we have fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section above, we have determined the matters described below to be the key audit matters to be communicated in our report.

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We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying Financial Report.

1. Impairment of non-current assets, including goodwill

Why significant	How our audit addressed the key audit matter
<p>International Financial Reporting Standards require goodwill to be tested for impairment on an annual, or more frequent basis.</p> <p>The assessment of impairment is complex and highly judgmental, and includes modelling a range of assumptions and estimates that are affected by expected future performance and market conditions. Accordingly, this matter was considered to be a key audit matter.</p> <p>Key assumptions, judgments and estimates applied in the Group's impairment assessment are set out in Note 12.</p>	<p>Our audit procedures included following:</p> <ul style="list-style-type: none"> ▶ Assessing the following judgements and assumptions used in the Group's assessment: <ul style="list-style-type: none"> ▶ Determination of cash generating units; ▶ Forecast cash flows; ▶ Growth rates; ▶ Discount rates; ▶ Comparative industry valuation multiples; and ▶ Other market evidence. <p>We involved our valuation specialists to evaluate the appropriateness of key inputs where relevant;</p> <ul style="list-style-type: none"> ▶ We performed sensitivity analyses to ascertain the extent changes in key assumptions could lead to alternative conclusions; ▶ We tested the mathematical accuracy of the impairment models; and, ▶ We also considered the adequacy of the Financial Report disclosures regarding the impairment testing approach and key assumptions.

2. Adoption of the new leasing standard

Why significant

The Group adopted the new International Financial Accounting Standard (IFRS) 16 *Leases* effective 1 January 2019. In doing so, the Group has elected to apply the modified retrospective approach. The new standard requires the Group to recognise its lease commitments as liabilities in the statement of financial position, along with an associated right of use asset.

On the date of transition, a PGK197.78 million lease liability and PGK158.58 million right of use asset were recognised.

The key inputs used in derivation of the lease liability a right of use asset are:

- ▶ Lease term, including termination clauses and option periods;
- ▶ Incremental borrowing rate ('IBR');
- ▶ Lease contractual terms including payments.

This was considered to be a key audit matter due to the judgment and assumptions involved in identifying contracts containing leases and the calculation of right of use assets and associated lease liabilities on transition.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Assessed the Group's processes relating to the identification of contracts containing leases, recognition and measurement of lease liabilities and right of use assets;
- ▶ Assessed key inputs and assumptions applicable to a sample of lease contracts;
- ▶ Assessed the incremental borrowing rate applied by the Group;
- ▶ Tested the mathematical accuracy of a sample of lease calculations; and,
- ▶ Evaluated the adequacy of the Group's disclosures in relation to leases.

3. Inventory Existence

Why significant

As disclosed in Note 9 at 31 December 2019, the Group held inventories of PGK91.34 million. As one of the most significant balances on the Consolidated Statement of Financial Position, the Group's inventory verification process is extensive and occurs routinely throughout the financial year. The inventory is held at multiple locations around Papua New Guinea at stores and warehouses.

Due to the size of the inventory balance and the dispersed nature of the inventory, this was considered a key audit matter.

How our audit addressed the key audit matter

We performed the following audit procedures:

- ▶ Attended store and warehouses inventory counts on a sample basis at period end and assessed the controls over Group's stocktake processes relating to inventory quantity and quality;
- ▶ For unobserved stock counts, we inspected stocktake work sheets to determine whether quantities were input for all items counted;
- ▶ Assessed whether the count variances identified in the variance report were appropriately investigated; and,
- ▶ Agreed count variances to inventory adjustments recorded in the accounting records.

4. Property Valuation

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Why significant

As described in Note 10, land and buildings of the Group are stated at fair value. The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties and other methods where appropriate. The fair value of the building was determined using a combination of capitalization of earnings and a direct comparison using a rate per square meter. The fair value measurements of the Group's land and buildings as at 31 December 2019 were performed by independent valuers who used various assumptions and estimates.

Due to the degree of judgement required to determine fair values, and the quantum of the amounts involved, this was considered to be a key audit matter.

How our audit addressed the key audit matter

We involved our valuation specialists to assess:

- ▶ the appropriateness of the key assumptions used;
- ▶ the valuers qualifications and experience; and,
- ▶ the reasonableness of the valuation methodology.

We also considered the adequacy of the Financial Report disclosures.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with International Financial Reporting Standards and the *Companies Act 1997* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

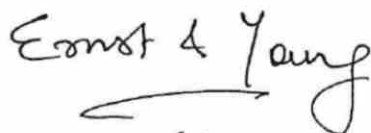
Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The Papua New Guinea *Companies Act 1997* requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- a) In our opinion proper accounting records have been kept by the Company, so far as appears from our examination of those records; and
- b) we have obtained all the information and explanations we have required.



Ernst & Young



Madhu Nair
Partner
Registered under the Accountants Act 1996
Port Moresby

13th of March 2020

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**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
STOCK EXCHANGE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019**

City Pharmacy Limited listed on Port Moresby Stock Exchange (POMSOX) in a compliance listing on 20 February 2002.

Top Shareholding

Shareholders	No. of Shares	%
National Superannuation Fund Limited	34,579,566	17.29
Mahesh Patel & Usha Patel	25,148,051	12.58
Nambawan Super Limited	23,660,343	11.83
Amar Business Holdings PTE Limited	21,280,712	10.64
Almana Holdings PTE Limited	17,000,000	8.50
New World Limited	13,887,857	6.94
MRL Capital Limited	10,325,510	5.16
Mahesh Patel	10,124,395	5.06
Rolex Investment Limited	4,134,241	2.07
Mainsbridge Pty Limited	3,152,846	1.58
Manu Nominees Pty Limited	3,000,000	1.50
Real Genius Investment Limited	2,737,773	1.37
Even Stronger Investments Limited	2,700,269	1.35
Comrade Trustee Services Limited	2,576,921	1.29
Mineral Resources OK Tedi No.2 Limited	2,500,000	1.25
Mineral Resources Star Mountains Limited	2,500,000	1.25
Laxmi Investments Limited	2,061,317	1.03
Credit Corporation (PNG) Limited	1,953,544	0.98
Mineral Resources Development Company Limited	1,651,119	0.83
TNG Constructions Limited	1,500,000	0.75
Others*	13,497,755	6.75
Total	199,972,219	100.00

*724 other shareholders hold less than 1,100,000 shares in total

Shareholding Bands

Shareholders	No. of Shareholders	No. of shares
1 – 1,000	170	104,821
1,001 – 5,000	444	1,050,289
5,001 – 10,000	38	254,022
10,001 – 100,000	43	1,401,252
100,001 and above	49	197,161,835
Total	744	199,972,219

During the year, there were 24 transactions traded with a volume of 25,189,058 shares for a value of K16,374,437.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
STOCK EXCHANGE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019**

Shareholding Bands (continued)

	Amounts in PGK'000					
	2014	2015 Restated	2016	2017	2018	2019
Statement of Comprehensive Income						
Turnover	411,930	495,616	556,344	579,591	548,425	582,397
Operating Profit/(loss) before tax	12,215	674	2,031	(28,252)	8,837	5,560
Operating Profit/(loss) after tax attributable to the Group	6,913	(61)	1,373	(31,912)	6,633	12,241
Dividends proposed	3,740	3,740	-	-	-	-
Shares on issue (number)	124,679,532	124,679,532	124,679,532	143,381,461	199,972,219	199,972,219
Dividends proposed per share (Kina)	3 toea	3 toea	0 toea	0 toea	0 toea	0 toea

	Amounts in PGK'000					
	2014	2015 Restated	2016	2017 Restated	2018	2019
Statement of Financial Position						
Shareholders' Funds	112,301	109,811	109,257	86,120	131,741	146,890
Inventories	66,418	90,845	97,751	67,938	84,235	91,234
Other assets	139,736	195,569	233,132	217,720	158,292	349,823
Borrowings	25,096	82,611	94,868	82,257	7,628	7,836
Other liabilities	67,806	92,965	125,847	115,489	101,849	284,935
Current Ratio	1.42	1.14	1.1	1.1	1.6	1.25
Debt to Net worth	22%	72%	87%	96%	6%	5%
Net asset backing per Share (Kina)	0.91	0.88	0.87	0.57	0.64	0.74
Net Profit Margin	1.68%	(0.01%)	0.25%	(6.37%)	1.28%	2.18%
Net Profit to Equity	6.10%	(0.06%)	1.26%	(37.05%)	4.99%	8.25%
Earnings per Share (Toea)	6	0	1.1	(22.26)	3.32	6.12

Corporate Governance Statement

The Board of Directors conducts the affairs of the Company in accordance with best practices to achieve a high standard of governance. It sets the strategic decision of the Company and continually review management performance. Transparent reporting procedures are in place for all Company activities.

Composition of the Board

The Board is made of 1 executive and 5 non-executive directors. One-third of the directors retire on a rotational basis in accordance with the Company's constitution (para. 38(4)). Retiring directors may be eligible for re-election by the shareholders at the Company's Annual General Meeting. The Chairman is responsible for reviewing the Board's membership following consultation with existing Board members.

Staff Appointment and Remuneration

Officers and staff remuneration is now being handled by the Remuneration Committee, headed by Mary Ellen Johns, Stanley Thomas Joyce, and Mahesh Patel. Company performance is assessed to determine the compensation of senior management staff and the directors themselves.

Risk Management

The Board approves an annual budget. Deviation from this budget may be permitted by the Board following detailed submissions from management.

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**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES
STOCK EXCHANGE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019**

Access to Professional Advice

Directors are entitled to seek independent legal advice on their duties at the Company's expense, provided that they seek the prior approval of the Chairman

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OUR PRESENCE in PNG





OUR TEAM OUR FRONTLINERS





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