CPL Chairman's Statement Six Months to June 2018

The reported profit after tax for the six months to June 30, 2018 is K1.2m. The results have been affected by the following one-off items:

- Gerehu Fire Insurance claim, including Business Interruption, for 2017 of K10.2m.
- Professional fees and on-costs for Business Transformation Programme of K1.1m.
- Write-off of Fixed Assets of Old Waigani Central of K700k.

The results do not include an approved Business Interruption claim of K5.0m for the period December to May 2018 as the payment for this claim has not yet been received.

Trading during this period has been difficult but the additional injection of cash via the Rights Issue as detailed later has allowed the restocking of products and normalisation of creditors' terms in the last few months with improvements seen in the results from July.

The Pharmacy Business has continued to contribute well and we look forward to the opening of a new store in Mt Hagen in September and refurbishment of stores in Vision City, Kimbe, Manus, Kavieng, Lihir and Maprik by the end of the year.

The Hardware Haus business, which suffered from inadequate stocks caused by the Group's financial position throughout 2017, has shown signs of improvement with sales in July and August ahead of the equivalent period in 2017. In addition, the underperforming store in Kimbe was closed in June and the Waigani store relocated to more affordable premises in the old Stop N Shop store in the same compound.

Stop N Shop is the operation that is most affected by the loss of the Gerehu Distribution Centre. To a small degree the new Napa Napa warehouse has rectified this problem although some stock lines still need to be fully replenished. This makes picking and packing more complex and costly.

The Waigani Supermarket has been completed well within the budget and the operations relocated to the rebuilt building, which has resulted in a substantial increase in sales since the opening in May. The recent introduction of an experienced Butchery trainer has seen the standard of meat improve substantially in all stores.

The company has commenced the operation of a Total Fuel and Retail operation at Erima. Once this concept has been proven successful consideration will be given to assuming management of a number of new sites across Port Moresby.

In reviewing the Group it is apparent that the efforts of the senior management team were fully committed to the day-to-day operations of the Group. The decision was then made to establish a Project Management Team to ensure prompt attention to the following key strategies, which will lead to an increase in both Revenue and reduction in the cost of operations:

- Development of plans for the new Warehouse.
- Installation of an updated version of the core software programme which incorporates new features which will assist with reordering systems and communication between stores and the distribution centre.
- Review of the use of systems across the group.
- Review of the Real Rewards Programme.
- Assist with establishment of the Fuel and Retail business.

By November 2018 we will be able to consolidate three of our five Distribution Centres into a substantial warehouse at Napa Napa adjacent to the Motukea Port. While this is an improvement from the five warehouses used since the fire, the lack of a central facility remains a major factor in ensuring that the supply of goods to our retail stores is at a satisfactory level. Planning has commenced, with the assistance of a consultant, to design a centralized warehouse and office complex incorporating a number of services currently carried out at store level. It is intended that the design will be approved in the second half of 2018 and the construction will take place in 2019.

Our Joint Venture Companies, Jacks of PNG and Prouds Duty Free, have been trading well with increased profits over the same period in 2017.

Jacks will open a store in Mt. Hagen in December, its third store and first outside Port Moresby and small store-in-store operations will open inside major Stop N Shop stores by year-end.

Prouds Duty free will open its 400 square meter store within Waigani Stop N Shop by end of the year. The store will concentrate on up-market Fragrances, Fashion Goods, Cosmetics and Jewellery.

The Paradise Cinemas business, in which City Pharmacy held a 46.2% stake, was sold in June. All costs of the disposal have been taken up in the 2018 accounts. The rental commitment for Waigani central Cinema will be offset with the rental income from the sub leasing of this site.

I am very pleased to announce that all of the steps required to place the Group on a secure financial footing mentioned in the Group's 2017 Annual Report to Shareholders have been completed. The raising of funds from Shareholders with an amount of K37.0m added to Shareholders Funds.

We are progressing on the insurance claims for the Gerehu fire as follows:

- The company has been fully reimbursed for all Building, Plant and Inventory losses arising from the Gerehu fire.
- The Business Interruption claim to the end of November 2017 was K8.3m, out of this K4.6m was included in the December 2017 accounts and balance of K3.7m was included in the June 2018 accounts, the cash has been received in the current period.
- A further claim of K5.0m for the period December 2017 to May 2018 has been agreed with the Insurer and payment is expected imminently. This will be reflected upon receipt in the accounts for the second half of 2018.
- Further Business Interruption claims for the period June to mid-December will be made in due course. Claims will be recorded in the accounts as and when cash is received.

The Company is in constant contact with the Receiver of the Insurer of the Waigani Supermarket fire, which occurred in 2015. There has been no progress on the resolution of amounts owed by the insurer.

Three buildings owned by the company and used as Pharmacies were sold in August to an Investor on a sale-and-lease back basis. The profit on sale of fixed assets of K1.5m will be reflected in the accounts for the second half of 2018.

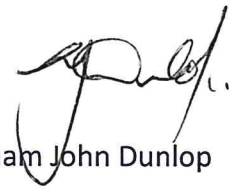
Trade creditors have been brought within standard trading terms.

The final piece of the Financing Plan is to agree with Bankers on a permanent arrangement for future funding. As at June the Group's net borrowings were only K32.6m which has been reduced by the receipt of insurance claims for the period and will be further reduced upon the receipt of proceeds from the sale of properties in July. In addition to normal trading facilities the Group may need funding for the new Warehouse.

Our community program initiatives are progressing well with the following:

- Almost 3,000 enrolments at the settlement and village levels in Port Moresby and Lae for financial literacy programs in partnership with the Ginigoada Foundation.
- A commitment for another five years with the CPL sponsored Tatana Village Library with Buk Bilong Pikinini.
- Our Kunai Grass to paper making project with the Keasu Community produced 7,500 packages for the Queen Emma Chocolates, earning the Association K15,000.
- Our Pride of PNG for Women's Empowerment continues strongly with the 2018 awards to be held later this year.

Finally, I would like to thank our team members across the nation, our shareholders and business partners for the continued support.



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Chairman

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