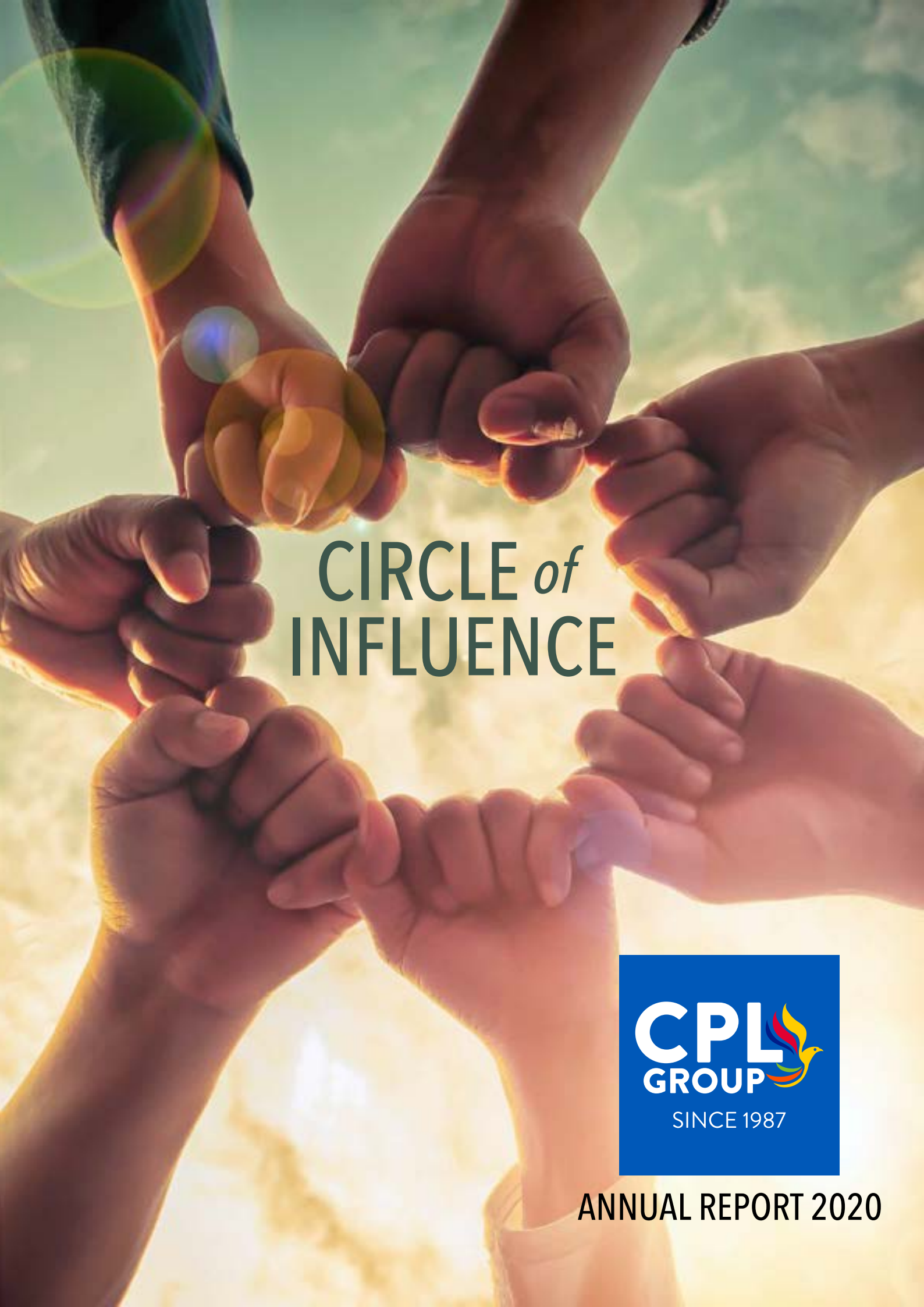




# CIRCLE *of* INFLUENCE

**CPL**  
**GROUP**   
SINCE 1987

ANNUAL REPORT 2020

A stylized bird logo, possibly a phoenix, is the central graphic. The bird is yellow, facing right, with a simple circular eye. Its wings are spread wide, composed of several large, curved, overlapping bands of color: red, yellow, dark blue, light blue, green, orange, and yellow. The entire logo is set against a solid blue background.

CPL GROUP  
ANNUAL REPORT  
2020

# TABLE OF CONTENTS

|                                                        |         |
|--------------------------------------------------------|---------|
| <b>CHAIRMAN'S STATEMENT</b>                            | 1       |
| Achievements                                           | 3       |
| <b>THE CIRCLE OF COMMITMENT</b>                        |         |
| Vision, Mission and Values of CPL Group                | 5       |
| Our Brand Presence                                     | 6       |
| Officers & Registered Corporate Office                 | 7       |
| <b>THE CIRCLE OF LEADERSHIP</b>                        |         |
| CPL Group Board Directors                              | 10      |
| <b>THE CIRCLE OF THE COMMON GOOD</b>                   |         |
| CPL Foundation                                         | 14      |
| <b>THE CIRCLE OF BEST BUSINESS PRACTICE</b>            |         |
| CPL Group Brand Portfolio                              | 16      |
| <b>THE CIRCLE OF REFLECTION AND PLANNING</b>           |         |
| Year in review: 2020                                   | 19      |
| <b>THE CIRCLE OF RESILIENCE</b>                        |         |
| Business Strategy Highlights                           | 27      |
| Management Discussion and Analysis                     | 28      |
| <b>THE CIRCLE OF TRANSPARENCY &amp; ACCOUNTABILITY</b> |         |
| Director's Report                                      | 30      |
| Director's Declaration                                 | 32      |
| Consolidated Statement of Comprehensive Income         | 33      |
| Consolidated Statement of Financial Position           | 34      |
| Consolidated Statement of Changes in Equity            | 35 - 36 |
| Consolidated Statement of Cash Flow                    | 37      |
| Notes to the Consolidated Financial Statements         | 38 -72  |
| Independent Auditor's Report                           | 74 - 78 |

# Chairman's Statement

The world became a strange and different place in 2020 with the outbreak of the COVID-19 pandemic. Borders were closed both internationally and on the domestic front, supply chains were severely disrupted, and economies were devastated. The increased demand for sanitization and health care products created some opportunities for CPL in the first half of 2020, however the impact of a subdued economy was felt in the other aspects of the business throughout the year and continues till today.

The delay in the Papua LNG project, combined with the closure of the Porgera Gold mine, crippled business confidence and has put further strain on the availability of foreign currency, which is critical in maintaining the supply of goods like medicines and hardware products.

Whilst PNG should be commended for its early response to COVID-19 and known cases remained minimal for most of 2020 at the time of writing this report, it has become evident that the virus is very much amongst us and will require a more determined and well-coordinated response to be managed successfully.

Given all the challenges mentioned, the Board is pleased to announce a 3.6% increase in Revenue to K581,429k, which despite not achieving our initial plans was an impressive result given overall performance in the Consumer Goods sector. Gross profit increased by 5.92% in absolute terms to K186,151k. This result delivered a 32.0% gross margin for the year compared to 31.3% for 2019. Achieving these metrics is very pleasing considering the stress in the market and limited disposable income.

Counter to trend, Management was able to reduce overheads by 1.73% to K152,238k as a result of strict cost-reduction initiatives across the business and a war on waste to eliminate bad costs. Net Profit after Tax (NPAT) increased by 18.81% to K14,543k.

Due to improved cash flow management, the Board is elated to announce dividend payment of toea 3.00 per share representing a 6.00% yield on current share prices.

The notable highlight during the reporting period is the near completion of a transformation project, which began 3 years ago and has driven efficiencies to improve margins. The Gerehu Distribution Centre is expected to provide the operational capacity to consider a number of growth projects.

Succession plans are critical to all businesses. Sir Mahesh Patel, our founder and major shareholder, has stepped down from the position of CEO at the end of December. Mr. Navin Raju, an experienced CEO both overseas and within PNG will take up the role beginning 2021.

This transition spanned over a period of 3 years, beginning from the time Sir Mahesh resumed a direct role in the business after the fire in 2017.

Sir Mahesh will remain as Chairman of the CPL Foundation and will continue as a mentor for a number of important projects, and remain on the Board of Directors. We congratulate Navin on the promotion and wish him success.

On the same token, we welcome Mr Aru Chellappan, as a non-executive director. He was appointed in September 2020 and brings extensive financial management experience. In addition, the board appointed Mr Nazar Shaffee, as company secretary in September, 2020. I also announce the resignation of Mr Peter Robinson on March 2020, the Board, Management and Staff are grateful for his contribution in making CPL Group the leading and innovative retail group in PNG.

The outlook into 2021 is heavily conditional on how the COVID-19 pandemic plays out in PNG. Whilst CPL has put in place all the necessary precautions to provide a safe place for consumers to shop and employees to work, the unique characteristics of the PNG community provide a number of challenges. We will continue to work with all stakeholders to ensure that safety remains our number one priority. Recent announcements in the resource sector are encouraging and we trust that this will continue to strengthen the PNG economy.

In closing, I would like to thank all our customers, suppliers, employees and families for your unceasing support to the business.

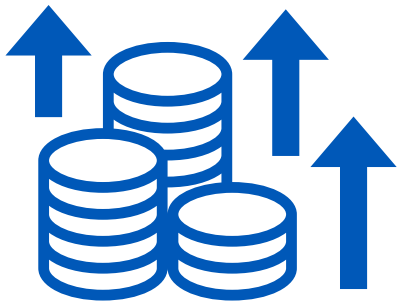
To my fellow Board Members, I am very grateful for your continued valuable contribution to the business and wise counsel and that the circles of influence that CPL Group yields in our business and communities brings a safer and new normal to our homes and the PNG economy.

A handwritten signature in black ink, appearing to read 'Stan Joyce', with a long horizontal stroke extending from the bottom of the signature.

Stan Joyce CSM,  
Chairman  
Board of Directors  
CPL Group

# ACHIEVEMENTS

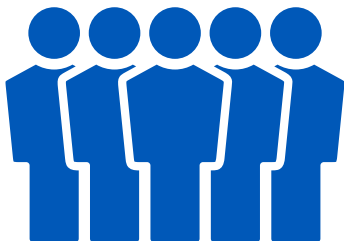
K20 MILLION PROFIT



OVER 50 PRIVATE LABELS  
& EXCLUSIVE BRANDS



OVER 2000 EMPLOYEES



60 STORES NATIONWIDE



OVER 700,000 PNGeans  
INVESTED THROUGH  
MAJOR SUPER FUNDS



OVER 2 MILLION  
CUSTOMERS





*The*  
**CIRCLE of**  
**COMMITMENT**

# Business Overview

CPL Group is Papua New Guinea's leading retailer. In over 30 years, it has diversified into different brands and has become a public listed company that is registered on the Port Moresby Stock Exchange, since 2002.

## CPL Group's Vision, Mission and Values

We are driven as a business to deliver on three fronts: Our Mission, Vision and our Values to customers, and those within our circle of influence.

### VISION

Helping the people of Papua New Guinea live healthier and better lives

### MISSION

To be the preferred shopping destination by delivering outstanding value and exceptional customer experience and maximizing shareholder value.

### VALUES

#### 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**

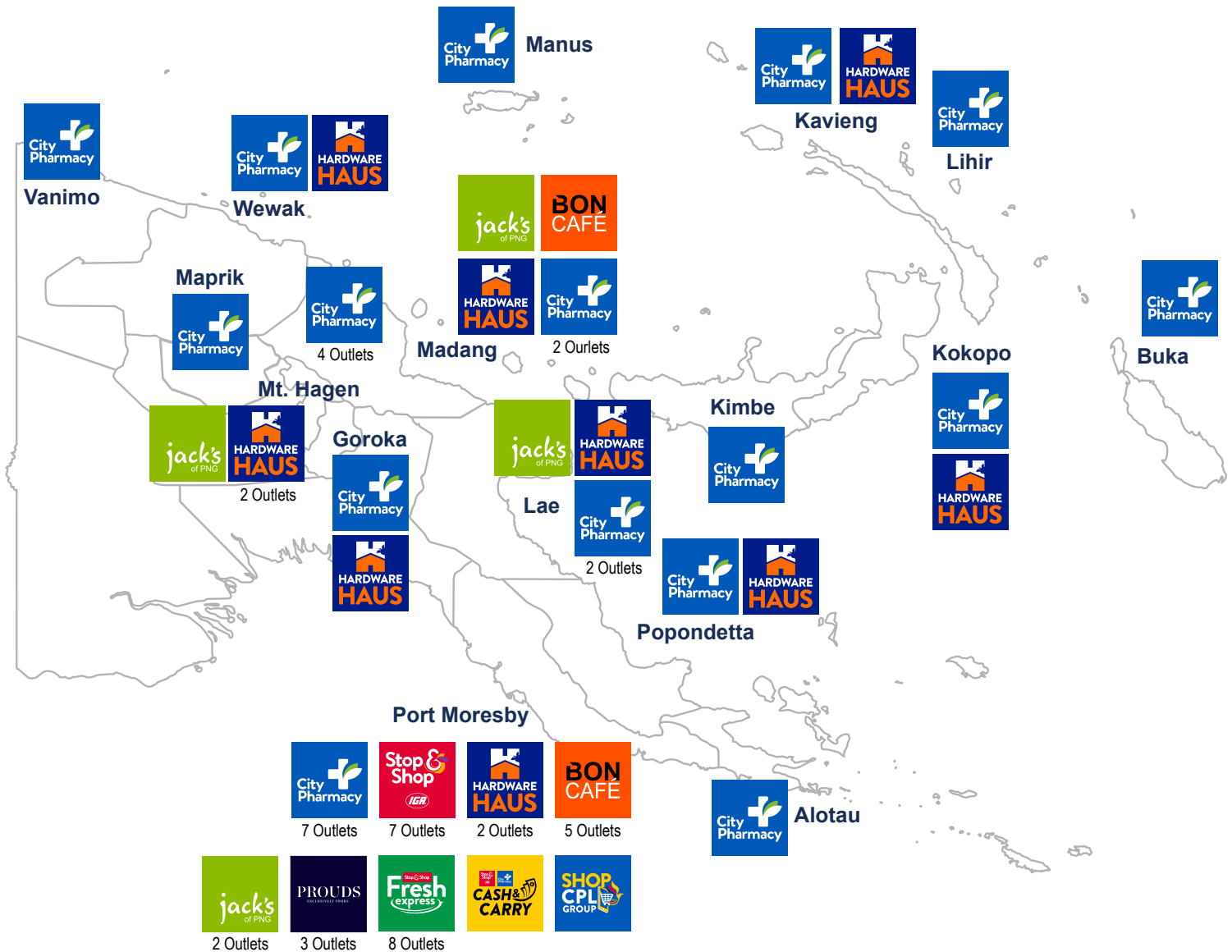
#### DELIVER ON COMMITMENTS

**We Do What We Promise**

#### DELIVER QUALITY

**We are Committed to Quality through  
Continuous Development.**

# Our Brand Presence



In response to high market demands, the Group operates over 60 supermarkets, pharmacies, cafes, eateries, boutiques, wholesales and an online store. These are represented by the brands: Stop & Shop, City Pharmacy, Hardware Haus, Jacks of PNG, Prouds, Fresh Express, Stop & Shop Cash & Carry, PWL (Australia) and Bon Café nationwide.

# Officers and Registered Corporate Office

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

|                   |                                                                                                                                                                                                                                    |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Registered Office | Allotment 33, Section 38<br>Waigani Drive<br>National Capital District<br>Papua New Guinea<br>Telephone: +675 312 0000                                                                                                             |
| Directors         | Stanley Thomas Joyce, CSM, Chairman<br>Sir Mahesh Patel, OBE, Managing Director<br>Graham John Dunlop<br>Peter Robinson (resigned 11 March 2020)<br>Mary Handen<br>Mary Ellen Johns<br>Aru Chellappan (appointed 9 September 2020) |
| Secretary         | Nazar Shaffee (appointed 9 September 2020)                                                                                                                                                                                         |
| Auditors          | Ernst & Young<br>Level 4, Credit House Cuthbertson St.<br>PO Box 1380, Port Moresby 121<br>NCD, Papua New Guinea                                                                                                                   |
| Bankers           | Westpac Bank PNG Limited<br>Bank of South Pacific Limited<br>Kina Bank Limited                                                                                                                                                     |
| Stock Exchange    | PNGX Markets Limited (listing code: CPL)                                                                                                                                                                                           |
| Brokers           | BSP Capital<br>Kina Securities                                                                                                                                                                                                     |
| Share Register    | PNG Registries Limited                                                                                                                                                                                                             |



*The*  
**CIRCLE of**  
**LEADERSHIP**



**Ms Mary Handen**  
Independent Director



**Mr Stanley Joyce, CSM**  
Chairman



**Ms Mary Johns, ML**  
Independent Director



**Sir Mahesh Patel, OBE**  
Managing Director



**Mr Aru Chellappan**  
Independent Director



**Mr Graham John Dunlop**  
Independent Director



**Mr Nazar Shaffee**  
Company Secretary

# CPL GROUP BOARD DIRECTORS

## **Mr Stanley Joyce, CSM** - Chairman

Mr Joyce brings more than 30 years of management and board experience to CPL Group. He sits as the Chairman for CPL Group and has his imprint in the food, beverage and manufacturing industries in Papua New Guinea and abroad. His notable PNG business acumen includes leading the South Pacific Brewery Limited (SP) for 14 years as its Managing Director. He also spearheaded campaigns rallying public support for the SP PNG Hunters, SP Sports Awards and encouraging responsible alcohol consumption. During his tenure, he also provided expertise support to the 2015 Pacific Games Authority, the PNG Business Council, PNG Manufacturer's Council, Mainland Holdings Limited and Solomon Island Brewery Limited. He is the honorary consul for the Netherlands, and has been honoured by the Commonwealth with titles such as the Companian Star of the Order of Melanesia and the Logohu Awards.

## **Sir Mahesh Patel, OBE** – Executive Director

Sir Mahesh has been serving Papua New Guinea for nearly four decades. He started as a pharmacist and then as a maverick entrepreneur, co-founding what is now PNG's largest and leading retailer, CPL Group in 1987. His influence is evident in many public, private and community entities such as the PNG Red Cross, Kumul Telikom Holdings Limited, 2015 Pacific Games, Ginigoda Foundation and the Buk Bilong Pikinini (BBP) community libraries, orphanages and countless community organisations. A celebrated business leader, he was recognised for his contribution to commerce and communities with a Knight Bachelor award in the 2020 Queen's Birthday Honours List. He has since resigned from his post as Managing Director of the Group and continues his passion as Chairman for the CPL Foundation championing causes close to CPL Group's ethos.

## **Mr Graham John Dunlop** – Independent Director

Mr Dunlop is a chartered accountant with over 38 years in the region. He was CPL's Group Chairman for two years. His corporate experience in Papua New Guinea first started with Steamships Trading Company and expanded to the Solomon Islands, Fiji, and New Zealand. He now serves on the board of Mainland Holdings Limited, John Swire and Sons (PNG) Ltd and Group of Companies, Credit Corporation, and CPL Group.

# CPL GROUP BOARD DIRECTORS

## **Ms Mary Handen** - Independent Director

Ms Mary Handen divides her time and expertise between her business and helping budding entrepreneurs and professionals develop oratory and financial literacy skills. Her managerial and board experience includes Steamships Group of Companies, Transparency International PNG, Employees Federation of PNG, and the PNG Business Council. Her community work focuses on social enterprises such as the Em Stret Holdings Youth Debates, PNG Fashion and Design Week Limited, and the Pehi-Koko Waste Management Limited.

## **Ms Mary Johns, ML** - Independent Director

Ms Johns is a lawyer with 25 years of dedicated service to compliance, audit and risk management in the Papua New Guinean banking and finance, and oil and gas industries. She is currently the Board Secretary for PNG's leading bank, BSP and a board committee member for Oil Search Limited. She was recognised in 2015 by the Commonwealth with the honour of the Member of the Logohu for services to community and sports organisations, such as the Badili Club, Leadership PNG, the 2015 Pacific Games Committee, National Soccer League, and the Capital Rugby Union.

## **Mr Aru Chellappan** – Independent Director

Mr Chellappan joined the CPL Group Board in September 2020. He is an accountant with over 35 years of working experience across different financial landscapes in North America, Australia and Asia. Before joining CPL Group, his last role lasted for 17 years with the Siemens Healthcare Sdn Bhd, a health technology company based in Kuala Lumpur, Malaysia. He is a Fellow of the Institute of the Chartered Accountants in Australia and a member of the Malaysia-Australia Business Council.

## **Mr Nazar Shaffee - Company Secretary | General Manager** - Finance

Mr Shaffee is CPL Group's Company Secretary. He is a trained accountant and IT Specialist with over a decade of experience in Banking, Aviation and Retail. He has worked with Multinational Banking and Financial Service Provider, HSBC Bank, CHM Group, Heli Niugini Limited, PT. Sayap Garuda Indah (Heli SGI) and CPL Group in both fields of computerized data management and finance. He currently forms the helm of the Senior Management Team as General Manager Finance overseeing all financial functions and dealings for the group.



Ms Roberta Morlin



Ms Eunice Parua

## Trainee Directors

## Senior Executive Management Lead



Mr Navin Raju - CEO

# Trainee Directors

## **Ms Roberta Morlin** – Trainee Director

In 2012, Ms Morlin rose with promise when she was awarded with her Bachelor of Arts (PNG Studies and International Relations) with the prestigious Joseph Rainbubu Excellence in Research in Arts award from the Divine Word University. Ms Morlin's area of expertise is in the field of PNG epidemiology and sociological data analytics. She currently works with Bank South Pacific Limited Papua New Guinea as Head of Digital Strategy.

## **Ms Eunice Parua** – Trainee Director

Ms Parua made history for Papua New Guinea as the youngest lawyer to make partner at a law firm: Leahy Lewin Lowing Sullivan Lawyers. Her fledgling board experience began with the CPL Group as a Trainee Director in 2019. She is also a board observer for growing banking group, Kina Bank. She is a full member of the PNG Law Society, and the Papua New Guinea Women Lawyers Association. She is also the co-founder of Lawyers4Literacy, a rural literacy advocacy organization.

# Senior Executive Management Lead

## **Mr Navin Raju** – CEO

Navin Raju was appointed as CEO of CPL Group in October 2020 after working as the Chief Operating Officer of the Group and previously as CEO of Hardware Haus Limited.

Navin has held senior executive-level roles within various industries such as aviation, retail and manufacturing. He has worked in major international companies in various countries such as Stokes Australasia Limited, Airwork NZ Limited, Heli Niugini Limited and International Coatings conglomerate: Akzo Nobel Limited.

He holds a Bachelor of Commerce (BCom) Degrees in Accounting and Finance, attained from Auckland University, New Zealand and Masters in Business Administration (MBA) from the Southern Cross University in Lismore, Australia.

Navin's capabilities lie in business transformation and turnaround, building capacity and developing strong business cultures.

# CPL Foundation

## "CIRCLE OF THE COMMON GOOD"

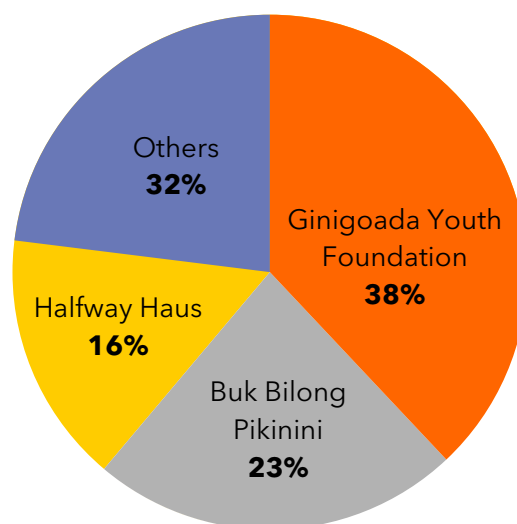
CPL Foundation was borne from Sir Mahesh's passion for Papua New Guinean SME's and communities when he co-founded the CPL Group with his wife, Lady Usha Patel. This is now the blueprint adopted by the entire CPL group.

As part of CPL's value of being responsible to our people, community and the environment, CPL has placed a commitment to health, business and education services, women empowerment, and rural development through farming and sustainability projects while encouraging a savings culture amongst largely unbanked rural village communities.

In 2020, CPL Group continued in its stride for the common good despite a slowing economy amidst the COVID-19 pandemic. Its long-time partnership with the Buk Bilong Pikinini community libraries, the Ginigoada Foundation, and Cheshire Disability Services were maintained, while the now biannual Pride of PNG Awards was cancelled due to the pandemic and the series of state-sanctioned lockdowns.

For new projects, the Foundation commemorated the 33rd anniversary of the CPL Group by bequeathing a scholarship to 33 academically gifted pharmacy students at the University of Papua New Guinea's School of Medicine. In one off donations, the Foundation has made donations to schools, orphanages, prisons and a myriad of community organisations.

|                            |             |
|----------------------------|-------------|
| Ginigoada Youth Foundation | K130,000    |
| Buk Bilong Pikinini        | K80,000     |
| Halfway Haus Donation      | K54,000     |
| Other Community Program    | K80,000     |
| Total Spent Since 2014     | K10 Million |
| Total Spent in 2020        | K350,000    |



CPL Foundation  
donations for 2020

BON  
CAFÉ



jack  
of PNG

PROUDS  
EXCLUSIVELY YOURS



The  
CIRCLE of  
BEST BUSINESS  
PRACTISE

PWL

# CPL Group Brand Portfolio



This is the flagship retail brand of CPL Group. More than 33 years ago, Sir Mahesh Patel and his wife Lady Usha, established the first City Pharmacy outlet. It entered the market to trial a co-location scheme and the rest is history. It rose from four employees in a small shop in Port Moresby's Garden City mall, to over 2,000 employees nationwide. Synonymous with being the most sought after health and beauty retail chain, today it sees branches with 20 outstations nationwide, with 12 in the nations' capital, Port Moresby.



Stop and Shop is a formidable brand in CPL Group's retail portfolio. Its range of products caters to all customers from the thrifty shopper to the bespoke grocery shopper. It is established throughout the nation's capital, Port Moresby, with 8 supermarkets and two express stores. In 2020, after 5 years of development, PNG farmer suppliers of fresh fruit and vegetables are closing the gap in the supply chain by directly supplying SNS, fresh produce and providing customers that farm to table experience.



Hardware Haus' legacy holds history as a household-name supplier of building and maintenance, gardening and leisure materials when it was known as Steamships Hardware. It continues this tradition today as a thriving tradie's and family home improvement haven stocking a wider range of products since becoming part of the CPL Group in 2008.

## CPL Group Brand Portfolio



Bon Café started operating in 2011 offering coffee, tea and treats to customers by well-trained baristas and staff. Today it has 11 outlets in Port Moresby and Madang.



Jack's of PNG found a niche market in the demand for quality clothing, and accessories, and perfume amongst Papua New Guineans. Five years on, and the joint venture operation now sees five outlets in Port Moresby, Madang, Hagen and Lae catering for men, women and children's fashion and style demands. The stock is sourced from the Fijian Islands, Australia, and Papua New Guinean fashion designers.



Prouds is the other joint venture brand of CPL Group. Prouds was launched in 2015 as a Duty Free Shop. This partnership with Fiji's Motibhai Group of Companies offers a wide range of perfumes and exquisite accessories. Prouds today has two duty-free stores in the Nations' capital.



The PNG farmer relationship does not end in the Stop & Shop Supermarkets, the added value to Papua New Guinean fresh vegetables goes to the new Fresh Express restaurants. It offers healthy and quick meals at affordable prices. The range starts from sweet potato chips, stews, sandwiches, and local favorite, chicken and chips, made fresh every day.



There is a growing demand by families and small business owners to buy goods in bulk. With the grocery wholesale arm of the CPL Group, customers can now purchase home essentials in 6 packs, 12 packs, and a carton. Its shelves are stocked with a wide range of products retailed in Stop & Shop Supermarkets.



This brand saw its relaunch in December 2020. This is CPL Group's response for demands for easy, efficient and innovative ways customers can shop. The online shop can be accessed via web on [shop.cpl.com.pg](http://shop.cpl.com.pg)



The Pharmacy Wholesalers Limited is a distribution supply chain for pharmaceutical and health and beauty goods based in Australia. Acquired by CPL Group in 2013, it aims to extend the group's portfolio across the region.



The customer loyalty program has been operating for over a decade rewarding and retaining over 200,000 active and satisfied members. It is PNG's longest and biggest customer loyalty program and includes participating brands: Hardware Haus, Stop & Stop and City Pharmacy outlets nationwide. To date, thousands of family and home essentials such as appliances, utensils, bedding, bath, health and beauty items have been redeemed by it's members. Another achievement was a refreshed line of stock and cross-brand partnership with Air Niugini on their Destinations Loyalty program.

## Year-in-Review: 2020

### “ The CIRCLE OF REFLECTION AND PLANNING”

The onset of the global, COVID-19 pandemic in early 2020 saw many Papua New Guineans face inaccessibility to goods, services, business and employment.

The government, in its effort to lower risks of spread of infections, imposed periods of domestic isolation, while allowing essential services such as shops, hospitals and banks to operate.

#### **Essential Services**

CPL, through its subsidiaries: Stop & Shop (SNS) and City Pharmacy, remained open as essential providers of food, household and health and well-being supplies. All retail outlets observed strict health and safety guidelines for staff and customers. There are now measures of social distancing, hand sanitizing and mask wearing. This was in addition to an existing health and safety culture that CPL promotes in its work and retail outlets.

The challenges of COVID-19 were unique but CPL found workable solutions to engaging with its suppliers, human capital and communities while providing an enjoyable, safe and efficient shopping experience for its customers.

CPL Group is grateful for its front-liners who are the face of its stores, its support staff, customers and suppliers during these challenging times.

## Farmers Project

The first instance was enlisting more PNG farmers as suppliers of fresh fruit and vegetables to Stop & Shop branches in Port Moresby. Fostered over five years, CPL Group recognised that although most of the food produced by PNG farmers are fresh and organic, many do not make it to markets and supermarkets in the capital city.

This presented a window of help and opportunity for CPL to engage with PNG farmers by providing training and information and sign-up sessions. The training focused on topics such as harvesting and handling techniques to cultivating a vital savings culture for the farmers and their circle of influence in their villages and communities.



# The Inaugural PNG Farmers Awards

The relationship between the farmer suppliers and CPL culminated in a small but significant inaugural awards ceremony at its Waigani Head Office. The event, called the PNG Farmers Awards, recognised the efforts of smallholder farmers from all four regions of Papua New Guinea. The relationship bore the fruits (and vegetables) of their labour from kapiak leaves and bananas from the Highlands, chives, aibika, cherry tomatoes and herbs such as basil and peppermint from the Sogeri plateau in the Central province, to yams, and taros from the Gulf of Papua, Oro and Milne Bay. These were all sold at SNS Supermarkets in Port Moresby to meet growing customer demand.



## CPL Group gives to Pharmacy Faculty, UPNG School of Medicine

While in June, CPL Group celebrated 33 years since it began in 1987. The anniversary was celebrated by sponsoring 33 Scholarships at the University of Papua New Guinea's School of Medicine for 33 of its top performing students in the Pharmacy strand.



# Emerging Leaders Program for Middle Managers

In its mission to encourage life-long learning in its staff, CPL invested in staff training and development. In November 2020, 30 staff members were inducted into the K1million, 13-month-long Emerging Leaders Program. The program is aimed at training long serving middle managers and supervisors to be effective leaders.



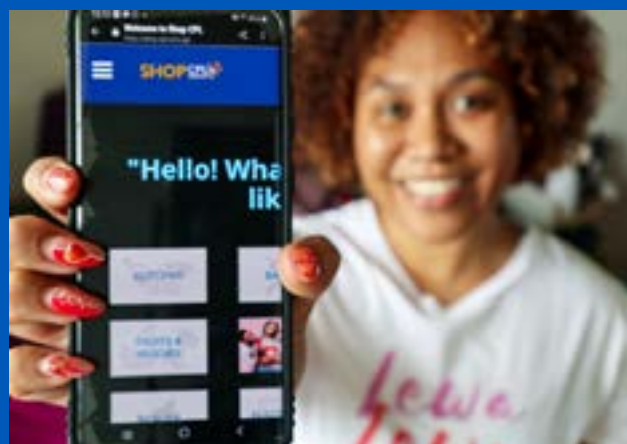
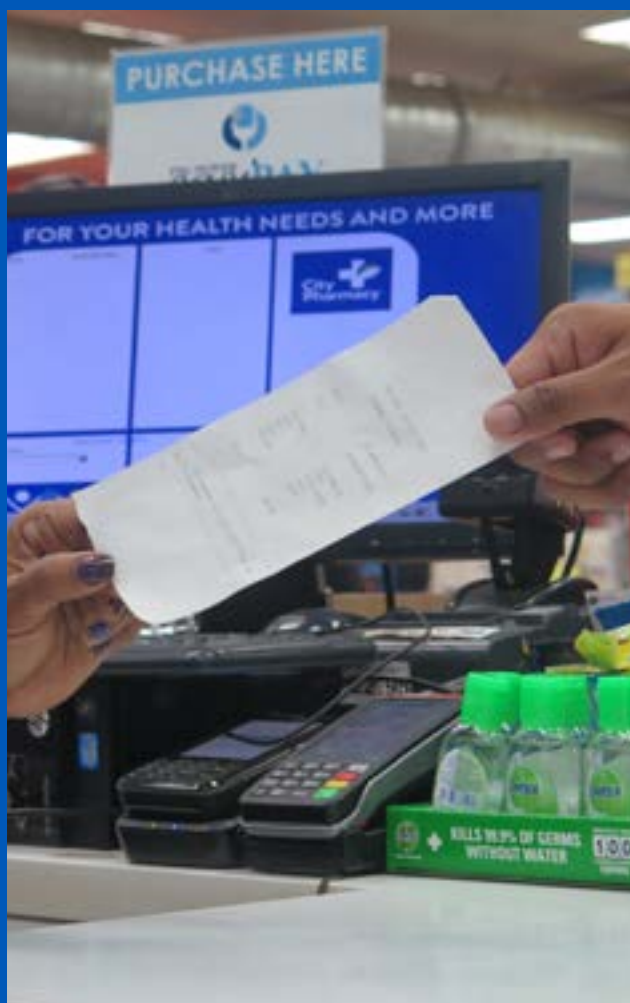
## E is Efficiency and Customer Innovation

Efficiency was the most sought-after service in 2020. In response, City Pharmacy trialed its Telehealth service in Port Moresby with a remote diagnosis and medical advice call centre for its remote customers.

While those finding transport, accessibility and queues a hassle, can now use the timely contactless CPL E-commerce platform for grocery shopping. The online store has pick-up and delivery options at a minimal service fee with VISA and EFTPOS services available.

For shoppers looking for the in-store experience, they will now have the convenience of ODESH-metered taxis pooled at the CPL Waigani Central Supermarkets at affordable rates.

The paying of Esi-pay electricity units also became a breeze for customers as they could pay for their power with their shopping all in a single purchase.



## Customer Loyalty

Customer loyalty was rewarded through a myriad of competitions and improvements all year long. The Real Rewards program was revamped to carry more gifts, prizes and include discounts on goods and services.

The CPL Gift cards were redesigned with a sleek modern look and discount packages for organisations and families as gift ideas during the festive season. The much talked-about CPL Bebi-Blo-Mi Facebook competition, trolley dashes, and September and December Win-A-Car competitions were rolled out with overwhelming responses.

The year 2021 promises to be a year of more innovations, as the world and PNG charter the new normal.



Road to Recovery



*The*  
**CIRCLE of**  
**RESILIENCE**

# Business Strategy Highlights

The drawing board of rising from the ashes planned three phases in accordance with the Azurium Business Transformation Project (BTP) in 2018.

These are the outlined three phases:

**Phase 1:** The project conducted a market audit in the last financial quarter of 2017 and throughout 2018 in the aftermath of the decimated Gerehu Distribution Centre. This stage involved the strategy and planning around an ever-increasing compendium of competitors and tight cash flow constraints. In this phase, it yielded a process design as standard operating procedure (SOP) for timely recovery and a shift in the organizational structure of CPL Group.

**Phase 2:** By 2019, the project objectives focused on the performance improvement opportunities in the tangible and soft assets that were at the organisation's behest.

The Azurium Business Transformation Project provided a methodology and testing assistance in seeing through the plan from the building of the warehouse facility to a fully recognised cultural shift in the human resources of the Group.

**Phase 3:** In 2020, the expected outcome was new growth opportunities, market segments and niches. Succession plans also saw a change in the senior executive leadership of the Group. This was one of the chief objectives in the three-year transformation plan.

The new integrated administrative systems in the business was implemented through an Enterprise Resource Planning (ERP) computerized system and a Centralised Accounting System (CAS). The ERP system informs CPL Group as to its stock supply in the Gerehu Distribution Centre for its over 60 stores nationwide. This enables effective and efficient project analysis for future planning.

# Management Discussion and Analysis

## Road to Recovery: 2018, 2019, 2020

CPL Group embarked on a business transformation program after the losses suffered from the devastating warehouse fire at Gerehu Stage 6, Port Moresby in 2017.

The years 2018, 2019 and 2020 became rebound years. It was an all hands on deck effort as corporate suppliers, farmers, front-liners and the support and supply chain teams contributed a concerted effort towards rebuilding from not just one but two fires in the space of two years.

Sir Mahesh took the helm while Chief Operating Officer, Mr. Navin Raju, led a team of business and management initiatives. The supply chain was the foundation from which all CPL Group operations were based. The business had to take proactive action in keeping its over 60 outlets stocked and replenished accordingly. This translated to operating in seven different warehouses across Port Moresby.

However, this arrangement provided logistical and financial challenges to the organization. In 2018 plans were being drafted for a hybrid structure streamlined to meet unique demands of the business. It was in 2019 that the building began bearing three specific buildings for cold storage of meats, meals, drinks, dairy and produce, the other was built for dry storage of dry goods and another housed flammable materials for cooking, heating and other purposes.

By December 2020, three of the planned set of five buildings became operational, significantly reducing costs and keeping goods supplied and stocked on time. The warehouse facilities will become fully operational by June of 2021 bringing cost saving and efficiency to the entire group.

# FINANCIAL STATEMENTS

Consolidated Financial Statements  
For The Year Ended 31 December 2020



*The*  
**CIRCLE of  
TRANSPARENCY  
& ACCOUNTABILITY**

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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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 2020.

**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               |
| Sir 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 |
| Aru Chellappan (appointed 9 September 2020) | Non-executive Director |

**Company secretary**

Nazar Mohamed Shaffee (appointed 9 September 2020)

**Principal activities**

City Pharmacy Limited operates primarily in Papua New Guinea with 57 stores and approximately 2,430 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; and
- 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 K14.54M (2019: K12.24M). For the Parent Company, net profit after income tax was K8.91M (2019: K9.52M).

A review of the operations of the Group during the financial period and the results of those operations including COVID-19 impact are set out in the Chairman's Report on page 1.

**Dividends**

The Directors have decided that dividend will be paid for the year ended 31 December 2020 as disclosed in Note 22 (2019: 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 2020 are disclosed in Note 18.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**Meetings of directors**

The table below sets out the number of Board meetings held during the financial period ended 31 December 2020 and the number of meetings attended by each Director.

There were five meetings held during the year ended 31 December 2020.

| Directors            | Board Meetings attended |
|----------------------|-------------------------|
| Stanley Thomas Joyce | 5                       |
| Sir Mahesh Patel     | 5                       |
| Graham John Dunlop   | 5                       |
| Mary Handen          | 5                       |
| Mary Ellen Johns     | 5                       |
| Aru Chellappan       | 1                       |

**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: 29 MARCH 2021

Director: 

Date: 29 MARCH 2021

CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2020

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**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: 29 MARCH 2021

Director: 

Date: 29 MARCH 2021

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

|                                                                                                                          | Notes | Consolidated   |                | Parent Company |                |
|--------------------------------------------------------------------------------------------------------------------------|-------|----------------|----------------|----------------|----------------|
|                                                                                                                          |       | 2020           | 2019           | 2020           | 2019           |
|                                                                                                                          |       | K'000          | K'000          | K'000          | K'000          |
| Revenue from Contract with Customers                                                                                     | 4     | 581,429        | 561,081        | 441,607        | 435,403        |
| Cost of sales                                                                                                            |       | (395,278)      | (385,331)      | (295,020)      | (295,596)      |
| <b>Gross profit</b>                                                                                                      |       | <b>186,151</b> | <b>175,750</b> | <b>146,587</b> | <b>139,807</b> |
| Distribution expenses                                                                                                    | 5(a)  | (2,582)        | (3,638)        | (3,451)        | (3,638)        |
| Marketing expenses                                                                                                       | 5(b)  | (4,111)        | (4,495)        | (3,108)        | (3,539)        |
| Administration expenses                                                                                                  |       | (130,262)      | (129,853)      | (103,684)      | (105,783)      |
| Finance expense                                                                                                          |       | (15,283)       | (16,931)       | (11,974)       | (13,338)       |
| Finance income                                                                                                           |       | 2,981          | 3,510          | 1,719          | 2,317          |
| Other income/(expenses)                                                                                                  |       | (25,499)       | (19,580)       | (20,346)       | (15,538)       |
| Total Expenses                                                                                                           |       | (174,756)      | (170,987)      | (140,844)      | (139,519)      |
| Share of profit from associates                                                                                          | 11    | 1,582          | 797            | 1,582          | 797            |
| <b>Profit before income tax expense</b>                                                                                  |       | <b>12,977</b>  | <b>5,560</b>   | <b>7,325</b>   | <b>1,085</b>   |
| Income tax (expense) / benefit                                                                                           | 6(a)  | 1,566          | 6,681          | 1,590          | 8,432          |
| <b>Profit for the period after income tax</b>                                                                            |       | <b>14,543</b>  | <b>12,241</b>  | <b>8,915</b>   | <b>9,517</b>   |
| 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                                                                    |       | 985            | (127)          | -              | -              |
| 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          | -              | -              |
| <b>Total comprehensive income for the period</b>                                                                         |       | <b>15,528</b>  | <b>14,514</b>  | <b>8,915</b>   | <b>9,517</b>   |
| <b>Profit for the period is attributed to:</b>                                                                           |       |                |                |                |                |
| Owners of the parent                                                                                                     |       | 14,658         | 12,154         | 8,915          | 9,517          |
| Non-controlling interest                                                                                                 |       | (115)          | 87             | -              | -              |
|                                                                                                                          |       | <b>14,543</b>  | <b>12,241</b>  | <b>8,915</b>   | <b>9,517</b>   |
| <b>Total Comprehensive income for the period is attributed to:</b>                                                       |       |                |                |                |                |
| Owners of the parent                                                                                                     |       | 15,643         | 14,427         | 8,915          | 9,517          |
| Non-controlling interest                                                                                                 |       | (115)          | 87             | -              | -              |
|                                                                                                                          |       | <b>15,528</b>  | <b>14,514</b>  | <b>8,915</b>   | <b>9,517</b>   |
| <b>Earnings per share - basic and diluted (toea per share)</b>                                                           |       |                |                |                |                |
|                                                                                                                          |       | <b>7.05</b>    | <b>6.12</b>    |                |                |

This statement is to be read in conjunction with the notes to and forming part of the Consolidated Financial Statements set out on pages 38 to 72.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**31 DECEMBER 2020**

|                                                    | Notes | Consolidated   |                | Parent Company |                |
|----------------------------------------------------|-------|----------------|----------------|----------------|----------------|
|                                                    |       | 2020           | 2019           | 2020           | 2019           |
|                                                    |       | K'000          | K'000          | K'000          | K'000          |
| <b>ASSETS</b>                                      |       |                |                |                |                |
| Cash and cash equivalents                          | 7     | 21,896         | 16,221         | 16,647         | 12,048         |
| Trade and other receivables                        | 8     | 22,905         | 23,848         | 13,177         | 17,231         |
| Lease receivable                                   | 15    | 8,796          | 2,919          | 6,826          | 1,103          |
| Income tax receivable                              | 6(c)  | 2,123          | 2,594          | 902            | 1,330          |
| Inventories                                        | 9     | 85,667         | 91,234         | 52,019         | 58,522         |
| Prepayments                                        |       | 1,857          | 3,460          | 953            | 2,342          |
| <b>Total Current Asset</b>                         |       | <b>143,244</b> | <b>140,276</b> | <b>90,524</b>  | <b>92,576</b>  |
| Related party receivables                          |       | 63             | 3,526          | 24,844         | 30,293         |
| Lease receivable                                   | 15    | 27,338         | 35,827         | 7,651          | 14,171         |
| Property, plant and equipment                      | 10    | 102,828        | 87,722         | 88,206         | 72,774         |
| Right of use asset                                 | 15    | 153,416        | 158,579        | 134,017        | 137,352        |
| Investment in Subsidiaries                         | 11(a) | -              | -              | 17,901         | 17,901         |
| Investment in Joint Ventures                       | 11(b) | 6,864          | 5,282          | 6,864          | 5,282          |
| Deferred tax assets, net                           | 6(b)  | 7,402          | 5,020          | 6,410          | 4,393          |
| Goodwill                                           | 12    | 4,825          | 4,825          | 3,431          | 3,431          |
| <b>Total Non-Current Asset</b>                     |       | <b>302,736</b> | <b>300,781</b> | <b>289,324</b> | <b>285,597</b> |
| <b>TOTAL ASSETS</b>                                |       | <b>445,980</b> | <b>441,057</b> | <b>379,848</b> | <b>378,173</b> |
| <b>LIABILITIES</b>                                 |       |                |                |                |                |
| Borrowings                                         | 13    | 1,297          | -              | 1,297          | -              |
| Bank overdraft                                     | 13    | -              | 7,836          | -              | 7,836          |
| Trade and other payables                           | 14    | 64,862         | 82,718         | 45,789         | 62,893         |
| Lease Liabilities                                  | 15    | 12,755         | 17,397         | 7,269          | 11,204         |
| Employee provisions                                | 16    | 5,588          | 3,557          | 4,710          | 2,683          |
| <b>Total Current Liabilities</b>                   |       | <b>84,502</b>  | <b>111,508</b> | <b>59,065</b>  | <b>84,616</b>  |
| Borrowings                                         | 13    | 11,160         | -              | 11,160         | -              |
| Related party payables                             |       | -              | 155            | -              | -              |
| Other payables                                     | 14    | 744            | 119            | 218            | 119            |
| Lease liabilities                                  | 15    | 181,389        | 175,380        | 148,886        | 140,789        |
| Employee provisions                                | 16    | 4,635          | 5,609          | 3,559          | 4,604          |
| <b>Total Non-Current Liabilities</b>               |       | <b>197,928</b> | <b>181,263</b> | <b>163,823</b> | <b>145,512</b> |
| <b>TOTAL LIABILITIES</b>                           |       | <b>282,430</b> | <b>292,771</b> | <b>222,888</b> | <b>230,128</b> |
| <b>NET ASSETS</b>                                  |       | <b>163,550</b> | <b>148,286</b> | <b>156,960</b> | <b>148,045</b> |
| <b>SHAREHOLDERS' EQUITY</b>                        |       |                |                |                |                |
| Issued capital                                     | 17    | 70,867         | 70,867         | 70,867         | 70,867         |
| Reserves                                           | 17    | 11,213         | 11,213         | 8,813          | 8,813          |
| Other reserve                                      | 17    | 1,412          | 427            | -              | -              |
| Retained earnings                                  | 17    | 79,041         | 64,383         | 77,280         | 68,365         |
| <b>Equity attributable to owners of the Parent</b> |       | <b>162,533</b> | <b>146,890</b> | <b>156,960</b> | <b>148,045</b> |
| Non – controlling interest                         |       | 1,017          | 1,396          | -              | -              |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                  |       | <b>163,550</b> | <b>148,286</b> | <b>156,960</b> | <b>148,045</b> |

This statement is to be read in conjunction with the notes to and forming part of the Consolidated Financial Statements set out on pages 38 to 72.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

| <b>Group</b>                                   | <b>Share Capital<br/>K'000</b> | <b>Retained Earnings<br/>(Note 16)<br/>K'000</b> | <b>Revaluation Reserve<br/>(Note 16)<br/>K'000</b> | <b>Translation Reserve<br/>(Note 16)<br/>K'000</b> | <b>Attributable to owners of the parent<br/>K'000</b> | <b>Non-Controlling Interest<br/>K'000</b> | <b>Total<br/>K'000</b> |
|------------------------------------------------|--------------------------------|--------------------------------------------------|----------------------------------------------------|----------------------------------------------------|-------------------------------------------------------|-------------------------------------------|------------------------|
| Balance at 01 January 2019                     | 70,867                         | 51,507                                           | 8,813                                              | 554                                                | 131,741                                               | 1,309                                     | 133,050                |
| Impact on adoption of IFRS 16                  | -                              | 722                                              | -                                                  | -                                                  | 722                                                   | -                                         | 722                    |
| <b>Balance at 01 January 2019 (restated)</b>   | <b>70,867</b>                  | <b>52,229</b>                                    | <b>8,813</b>                                       | <b>554</b>                                         | <b>132,463</b>                                        | <b>1,309</b>                              | <b>133,772</b>         |
| Profit for the period                          | -                              | 12,154                                           | -                                                  | -                                                  | 12,154                                                | 87                                        | 12,241                 |
| Other comprehensive income:                    |                                |                                                  |                                                    |                                                    |                                                       |                                           |                        |
| Translation differences                        | -                              | -                                                | -                                                  | (127)                                              | (127)                                                 | -                                         | (127)                  |
| Asset revaluation                              | -                              | -                                                | 2,400                                              | -                                                  | 2,400                                                 | -                                         | 2,400                  |
| <b>Total comprehensive income for the year</b> | <b>-</b>                       | <b>12,154</b>                                    | <b>2,400</b>                                       | <b>(127)</b>                                       | <b>14,427</b>                                         | <b>87</b>                                 | <b>14,514</b>          |
| Issuance of shares                             | -                              | -                                                | -                                                  | -                                                  | -                                                     | -                                         | -                      |
| <b>Balance at 31 December 2019</b>             | <b>70,867</b>                  | <b>64,383</b>                                    | <b>11,213</b>                                      | <b>427</b>                                         | <b>146,890</b>                                        | <b>1,396</b>                              | <b>148,286</b>         |
| Profit for the period                          | -                              | 14,658                                           | -                                                  | -                                                  | 14,658                                                | (115)                                     | 14,543                 |
| Other comprehensive income:                    |                                |                                                  |                                                    |                                                    |                                                       |                                           |                        |
| Translation differences                        | -                              | -                                                | -                                                  | 985                                                | 985                                                   | -                                         | 985                    |
| Asset revaluation                              | -                              | -                                                | -                                                  | -                                                  | -                                                     | -                                         | -                      |
| <b>Total comprehensive income for the year</b> | <b>-</b>                       | <b>14,658</b>                                    | <b>-</b>                                           | <b>985</b>                                         | <b>15,643</b>                                         | <b>(115)</b>                              | <b>15,528</b>          |
| Issuance of shares                             | -                              | -                                                | -                                                  | -                                                  | -                                                     | -                                         | -                      |
| Dividends declared                             | -                              | -                                                | -                                                  | -                                                  | -                                                     | (264)                                     | (264)                  |
| <b>Balance at 31 December 2020</b>             | <b>70,867</b>                  | <b>79,041</b>                                    | <b>11,213</b>                                      | <b>1,412</b>                                       | <b>162,533</b>                                        | <b>1,017</b>                              | <b>163,550</b>         |

This statement is to be read in conjunction with the notes to and forming part of the Consolidated Financial Statements set out on pages 38 to 72.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

|                                                | Share Capital<br>K'000 | Retained Earnings<br>(Note 16)<br>K'000 | Revaluation Reserve<br>(Note 16)<br>K'000 | Total<br>K'000 |
|------------------------------------------------|------------------------|-----------------------------------------|-------------------------------------------|----------------|
| <b>Parent Company</b>                          |                        |                                         |                                           |                |
| Balance at 01 January 2019                     | 70,867                 | 61,811                                  | 8,813                                     | 141,491        |
| Impact on adoption of IFRS 16                  | -                      | (2,963)                                 | -                                         | (2,963)        |
| <b>Balance at 01 January 2019 (restated)</b>   | <b>70,867</b>          | <b>58,848</b>                           | <b>8,813</b>                              | <b>138,528</b> |
| Profit for the period                          | -                      | 9,517                                   | -                                         | 9,517          |
| <b>Total comprehensive income for the year</b> | <b>-</b>               | <b>9,517</b>                            | <b>-</b>                                  | <b>9,517</b>   |
| Issuance of share                              | -                      | -                                       | -                                         | -              |
| <b>Balance at 31 December 2019</b>             | <b>70,867</b>          | <b>68,365</b>                           | <b>8,813</b>                              | <b>148,045</b> |
| Profit for the period                          | -                      | 8,915                                   | -                                         | 8,915          |
| <b>Total comprehensive income for the year</b> | <b>-</b>               | <b>8,915</b>                            | <b>-</b>                                  | <b>8,915</b>   |
| Issuance of share                              | -                      | -                                       | -                                         | -              |
| <b>Balance at 31 December 2020</b>             | <b>70,867</b>          | <b>77,280</b>                           | <b>8,813</b>                              | <b>156,960</b> |

This statement is to be read in conjunction with the notes to and forming part of Consolidated Financial Statements set out on pages 38 to 72.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

|                                                       | <b>Consolidated</b> |                 | <b>Parent Company</b> |                 |
|-------------------------------------------------------|---------------------|-----------------|-----------------------|-----------------|
|                                                       | <b>2020</b>         | <b>2019</b>     | <b>2020</b>           | <b>2019</b>     |
|                                                       | <b>K'000</b>        | <b>K'000</b>    | <b>K'000</b>          | <b>K'000</b>    |
| <b>Operating Activities</b>                           |                     |                 |                       |                 |
| Cash receipts from customers                          | 598,938             | 570,780         | 447,662               | 439,990         |
| Cash paid to suppliers and employees                  | (539,022)           | (518,664)       | (399,689)             | (398,509)       |
| Cash receipts from lessees                            | 2,613               | 2,360           | 796                   | 1,023           |
| Cash payments from low value and short-term leases    | (9,473)             | (7,917)         | (8,328)               | (5,875)         |
| Cash generated from (used in) operations              | 53,056              | 46,559          | 40,441                | 36,629          |
| Interest paid from borrowings                         | (617)               | (2,072)         | (300)                 | (1,103)         |
| Interest paid from lease liabilities                  | (7,416)             | (15,503)        | (11,674)              | (12,235)        |
| Interest received                                     | 2,981               | 3,066           | 1,204                 | 1,227           |
| Insurance claim received                              | 93                  | 3,347           | 93                    | 3,347           |
| Income tax paid                                       | (340)               | (3,645)         | -                     | (3,589)         |
| <b>Cash generated by operating activities</b>         | <b>47,757</b>       | <b>31,752</b>   | <b>29,764</b>         | <b>24,276</b>   |
| <b>Investing Activities</b>                           |                     |                 |                       |                 |
| Proceeds from sale of equipment                       | 53                  | 489             | 53                    | 489             |
| Purchase of plant and equipment                       | (26,044)            | (28,652)        | (24,684)              | (27,275)        |
| <b>Cash utilised by investing activities</b>          | <b>(25,991)</b>     | <b>(28,163)</b> | <b>(24,631)</b>       | <b>(26,786)</b> |
| <b>Financing Activities</b>                           |                     |                 |                       |                 |
| Receipts/(Repayment) of borrowings                    | 4,621               | 208             | 4,621                 | 208             |
| Repayment of lease liabilities                        | (25,091)            | (19,108)        | (12,031)              | (13,258)        |
| Receipt/(Payment) of rental bonds                     | 100                 | 13              | 100                   | 13              |
| (Repayment)/Receipts from related parties             | 4,279               | (1,148)         | 6,776                 | 653             |
| <b>Cash utilised by financing activities</b>          | <b>(16,091)</b>     | <b>(20,035)</b> | <b>(534)</b>          | <b>(12,384)</b> |
| <b>Net decrease in Cash and cash equivalents</b>      | <b>5,675</b>        | <b>(16,446)</b> | <b>4,599</b>          | <b>(14,894)</b> |
| Cash and cash equivalents at beginning of the period  | 16,221              | 32,667          | 12,048                | 26,942          |
| <b>Cash and cash equivalents at end of the period</b> | <b>21,896</b>       | <b>16,221</b>   | <b>16,647</b>         | <b>12,048</b>   |

This statement is to be read in conjunction with the notes to and forming part of the Consolidated Financial Statements set out on pages 38 to 72.

## 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 2020, the Group has a combined retail operation of 69 stores nationwide and employs over 2,430 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 18 March 2021.

## 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 of the financial statements of the Company and its subsidiaries as at 31 December 2020. 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; and
- 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; and
- 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) 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*

### b) 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*

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 payables" line item in balance sheet.

## d) **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 the Group incurs in connection with the borrowing of funds.

## e) **Cash and cash equivalents**

Cash and cash equivalents comprise of 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.

## f) **Trade and other receivables (Wholesale Customers)**

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.

## g) **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.

## h) **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.

### i) Taxes

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

### I) Financial Instruments

#### *Classification*

Financial instruments include financial assets and liabilities. Financial assets that are classified as debt instruments at amortised cost include 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; and
- 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, 12-month 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 at amortised cost. Subsequently, all financial liabilities are classified as either FVTPL or other financial liabilities at amortised cost.

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

### **m) 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*

### n) 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.

### o) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### 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.

### 2.3 Summary of Significant accounting policies *continued*

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.

#### 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

Under IFRS 16, the Group has accounted for its sub-lease arrangements as finance leases.

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. 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.

## 2.3 Summary of Significant accounting policies *continued*

### 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.

### **p) Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

## 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.

### e) *Leases - 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.

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.

## **2.4 Accounting, judgments, estimate and assumptions *continued***

### **f) Leases - 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.

### **g) Taxes**

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

The Group has K39,528k (2019: K45,783k) of tax losses carried forward. These losses relate to a subsidiary that have history of losses and may not be used to offset taxable income elsewhere in the Group. The Group's position to not recognise the tax losses is on the basis that Group's undiscounted cash flows do not show evidence of the ability to utilise tax losses in future. With this, the Group has determined that it cannot recognise deferred tax assets on the tax losses carried forward.

## **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 2020.

| <b>Description</b>                                                       | <b>Effective for annual periods beginning on or after</b> |
|--------------------------------------------------------------------------|-----------------------------------------------------------|
| Definition of a Business – Amendments to IFRS 3                          | 1 January 2020                                            |
| Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 | 1 January 2020                                            |
| Definition of Material – Amendments to IAS 1 and IAS 8                   | 1 January 2020                                            |
| The Conceptual Framework for Financial Reporting                         | 1 January 2020                                            |
| Covid-19-Related Rent Concessions – Amendment to IFRS 16                 | 1 June 2020                                               |

The above amendments and interpretations apply for the first time in 2020, but do not have a material impact on the Group's Consolidated Financial Statements.

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

#### 3.1 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 |
|--------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16                      | 1 January 2021                                     |
| Reference to the Conceptual Framework – Amendments to IFRS 3                                                             | 1 January 2022                                     |
| Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16                                       | 1 January 2022                                     |
| Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37                                                | 1 January 2022                                     |
| AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter       | 1 January 2022                                     |
| AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities             | 1 January 2022                                     |
| AIP IAS 41 Agriculture – Taxation in fair value measurements                                                             | 1 January 2022                                     |
| IFRS 17 Insurance Contracts                                                                                              | 1 January 2023                                     |
| Classification of Liabilities as Current or Non-current – Amendments to IAS 1                                            | 1 January 2023                                     |
| Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 | Deferred effectivity                               |

The Group continues to assess the impact of the foregoing new and amended accounting standards and interpretations effective subsequent to 2020 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 |         |
|-------------------------|--------------|---------|----------------|---------|
|                         | 2020         | 2019    | 2020           | 2019    |
|                         | K'000        | K'000   | K'000          | K'000   |
| Contract with Customers | 581,429      | 561,081 | 441,607        | 435,403 |

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**5 OTHER OPERATING EXPENSES**

**a) Distribution expenses**

|                      | <b>Consolidated</b> |              | <b>Parent Company</b> |              |
|----------------------|---------------------|--------------|-----------------------|--------------|
|                      | <b>2020</b>         | <b>2019</b>  | <b>2020</b>           | <b>2019</b>  |
|                      | <b>K'000</b>        | <b>K'000</b> | <b>K'000</b>          | <b>K'000</b> |
| Freight and handling | 2,582               | 3,638        | 3,451                 | 3,638        |

**b) Marketing expenses**

|                                   | <b>Consolidated</b> |              | <b>Parent Company</b> |              |
|-----------------------------------|---------------------|--------------|-----------------------|--------------|
|                                   | <b>2020</b>         | <b>2019</b>  | <b>2020</b>           | <b>2019</b>  |
|                                   | <b>K'000</b>        | <b>K'000</b> | <b>K'000</b>          | <b>K'000</b> |
| Advertising and promotions        | 2,368               | 1,788        | 1,522                 | 1,096        |
| Decorations and display materials | 30                  | 86           | 30                    | 86           |
| Other marketing expenses          | 1,713               | 2,621        | 1,556                 | 2,357        |
| <b>Total</b>                      | <b>4,111</b>        | <b>4,495</b> | <b>3,108</b>          | <b>3,539</b> |

**6 INCOME TAX EXPENSE**

|                               | <b>Consolidated</b> |                | <b>Parent Company</b> |                |
|-------------------------------|---------------------|----------------|-----------------------|----------------|
|                               | <b>2020</b>         | <b>2019</b>    | <b>2020</b>           | <b>2019</b>    |
|                               | <b>K'000</b>        | <b>K'000</b>   | <b>K'000</b>          | <b>K'000</b>   |
| <b>(a) Income tax benefit</b> |                     |                |                       |                |
| Current tax                   | 816                 | (5,021)        | 427                   | (7,274)        |
| Deferred tax                  | (2,380)             | (1,660)        | (2,017)               | (1,158)        |
| <b>Income tax benefit</b>     | <b>(1,566)</b>      | <b>(6,681)</b> | <b>(1,590)</b>        | <b>(8,432)</b> |

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

|                                                                |                |                |                |                |
|----------------------------------------------------------------|----------------|----------------|----------------|----------------|
| Accounting profit before tax                                   | 12,977         | 5,560          | 7,325          | 1,085          |
| Tax for the period at 30%                                      | 3,893          | 1,668          | 2,197          | 326            |
| Share of profit from associates                                | (475)          | (239)          | (475)          | (239)          |
| Adjustments in respect of current income tax of previous years | (149)          | (4,856)        | (144)          | (7,156)        |
| Unrecognised deferred tax on Carry Forward Losses              | (5,150)        | (3,430)        | (3,274)        | (1,513)        |
| Non-deductible expenses                                        | 315            | 176            | 106            | 150            |
| <b>Income tax benefit</b>                                      | <b>(1,566)</b> | <b>(6,681)</b> | <b>(1,590)</b> | <b>(8,432)</b> |

**(b) Deferred taxes**

**Deferred tax assets**

|                                 |              |              |              |              |
|---------------------------------|--------------|--------------|--------------|--------------|
| Expected credit loss            | 584          | 501          | 6            | 38           |
| Provision for inventory losses  | 1,518        | 1,612        | 653          | 740          |
| Provision for employee benefits | 2,856        | 2,585        | 2,280        | 2,071        |
| Others                          | 484          | 550          | 429          | 487          |
| Fixed assets                    | 474          | 1,112        | 586          | 1,167        |
|                                 | <b>5,916</b> | <b>6,360</b> | <b>3,954</b> | <b>4,503</b> |

**Deferred tax liabilities**

|                                  |              |                |              |              |
|----------------------------------|--------------|----------------|--------------|--------------|
| Prepaid expenses                 | (225)        | (223)          | (175)        | (168)        |
| Lease liability                  | 1,721        | (1,117)        | 2,641        | 58           |
| Unrealised foreign exchange gain | (10)         | -              | (10)         | -            |
| Revaluation gain                 | -            | -              | -            | -            |
|                                  | <b>1,486</b> | <b>(1,340)</b> | <b>2,456</b> | <b>(110)</b> |

**Net Deferred tax assets / (liabilities)**

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
|  | <b>7,402</b> | <b>5,020</b> | <b>6,410</b> | <b>4,393</b> |
|--|--------------|--------------|--------------|--------------|

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**6 INCOME TAX EXPENSE *continued***

***Carry forward losses***

| Year | Losses<br>K'000 | Utilised in<br>2020<br>K'000 | Unutilised<br>K'000 | Expiry |
|------|-----------------|------------------------------|---------------------|--------|
| 2014 | 2,640           | (2,640)                      | -                   | 2034   |
| 2015 | 9,860           | (3,616)                      | 6,244               | 2035   |
| 2016 | 4,422           |                              | 4,422               | 2036   |
| 2017 | 35,693          | (10,916)                     | 24,777              | 2037   |
| 2018 | 4,085           |                              | 4,085               | 2038   |
|      | <b>56,700</b>   | <b>(17,172)</b>              | <b>39,528</b>       |        |

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

**7 CASH AND CASH EQUIVALENTS**

|                           | Consolidated  |               | Parent        |               |
|---------------------------|---------------|---------------|---------------|---------------|
|                           | 2020<br>K'000 | 2019<br>K'000 | 2020<br>K'000 | 2019<br>K'000 |
| Cash and cash equivalents | 21,669        | 9,728         | 16,647        | 5,555         |
| Fixed deposits            | 227           | 6,493         | -             | 6,493         |
|                           | <b>21,896</b> | <b>16,221</b> | <b>16,647</b> | <b>12,048</b> |

**8 TRADE AND OTHER RECEIVABLES**

|                              | Consolidated  |               | Parent        |               |
|------------------------------|---------------|---------------|---------------|---------------|
|                              | 2020<br>K'000 | 2019<br>K'000 | 2020<br>K'000 | 2019<br>K'000 |
| <b>Current</b>               |               |               |               |               |
| Trade receivables            | 18,819        | 17,867        | 8,657         | 10,417        |
| Other receivables            | 6,039         | 7,641         | 4,539         | 6,941         |
| Total receivables            | 24,858        | 25,508        | 13,196        | 17,358        |
| Less: Expected credit losses | (1,953)       | (1,660)       | (19)          | (127)         |
| Net current receivables      | <b>22,905</b> | <b>23,848</b> | <b>13,117</b> | <b>17,231</b> |

Breakdown of other receivables is as follows:

|                         | Consolidated  |               | Parent        |               |
|-------------------------|---------------|---------------|---------------|---------------|
|                         | 2020<br>K'000 | 2019<br>K'000 | 2020<br>K'000 | 2019<br>K'000 |
| Medical Claims          | 2             | 39            | 2             | 39            |
| Insurance Claims        | 292           | 270           | 249           | 270           |
| Employee loans          | 83            | 3             | 76            | -             |
| GST receivable          | 1,139         | 2,077         | 666           | 2,150         |
| Other                   | 4,523         | 5,252         | 3,546         | 4,482         |
| Total Other Receivables | <b>6,039</b>  | <b>7,641</b>  | <b>4,539</b>  | <b>6,941</b>  |

The general credit period on sales of goods is 30 to 90 days for wholesale customers. 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.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**8 TRADE AND OTHER RECEIVABLES *continued***

| <b>Consolidated</b>            | <b>Not past due</b> | <b>Past due not<br/>impaired</b> | <b>Impaired</b> | <b>Total</b>  |
|--------------------------------|---------------------|----------------------------------|-----------------|---------------|
|                                | <b>K'000</b>        | <b>K'000</b>                     | <b>K'000</b>    | <b>K'000</b>  |
| <b>2020</b>                    |                     |                                  |                 |               |
| Balance as at 31 December 2020 | 11,105              | 5,761                            | 1,953           | 18,819        |
| Expected Credit Losses         | -                   | -                                | (1,953)         | (1,953)       |
| <b>Total trade receivables</b> | <b>11,105</b>       | <b>5,761</b>                     | <b>-</b>        | <b>16,866</b> |
| <b>2019</b>                    |                     |                                  |                 |               |
| Balance as at 31 December 2019 | 8,128               | 8,079                            | 1,660           | 17,867        |
| Expected Credit Losses         | -                   | -                                | (1,660)         | (1,660)       |
| <b>Total trade receivables</b> | <b>8,128</b>        | <b>8,079</b>                     | <b>-</b>        | <b>16,207</b> |
| <b>Parent Company</b>          | <b>Not past due</b> | <b>Past due not<br/>impaired</b> | <b>Impaired</b> | <b>Total</b>  |
|                                | <b>K'000</b>        | <b>K'000</b>                     | <b>K'000</b>    | <b>K'000</b>  |
| <b>2020</b>                    |                     |                                  |                 |               |
| Balance as at 31 December 2020 | 5,290               | 3,348                            | 19              | 8,657         |
| Expected Credit Losses         | -                   | -                                | (19)            | (19)          |
| <b>Total trade receivables</b> | <b>5,290</b>        | <b>3,348</b>                     | <b>-</b>        | <b>8,638</b>  |
| <b>2019</b>                    |                     |                                  |                 |               |
| Balance as at 31 December 2019 | 5,060               | 5,230                            | 127             | 10,418        |
| Expected Credit Losses         | -                   | -                                | (127)           | (127)         |
| <b>Total trade receivables</b> | <b>5,060</b>        | <b>5,230</b>                     | <b>-</b>        | <b>10,291</b> |

As at year-end movement for expected credit losses:

|                                             | <b>Consolidated</b> |              | <b>Parent</b> |              |
|---------------------------------------------|---------------------|--------------|---------------|--------------|
|                                             | <b>2020</b>         | <b>2019</b>  | <b>2020</b>   | <b>2019</b>  |
|                                             | <b>K'000</b>        | <b>K'000</b> | <b>K'000</b>  | <b>K'000</b> |
| <b>Balance at the beginning of the year</b> | 1,660               | 1,086        | 127           | 110          |
| Impairment recognised on receivable         | 293                 | 574          | (108)         | 17           |
| <b>Balance at the end of the year</b>       | <b>1,953</b>        | <b>1,660</b> | <b>19</b>     | <b>127</b>   |

**9 INVENTORIES**

|                                   | <b>Consolidated</b> |               | <b>Parent Company</b> |               |
|-----------------------------------|---------------------|---------------|-----------------------|---------------|
|                                   | <b>2020</b>         | <b>2019</b>   | <b>2020</b>           | <b>2019</b>   |
|                                   | <b>K'000</b>        | <b>K'000</b>  | <b>K'000</b>          | <b>K'000</b>  |
| Inventory for resale              | 90,750              | 96,625        | 54,195                | 60,989        |
| Provision for inventory shrinkage | (5,083)             | (5,391)       | (2,176)               | (2,467)       |
| <b>Total</b>                      | <b>85,667</b>       | <b>91,234</b> | <b>52,019</b>         | <b>58,522</b> |

These inventories are carried at net realisable value. 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**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**10 PROPERTY, PLANT AND EQUIPMENT**

|                                 | Land and<br>Buildings at<br>valuation | Motor<br>Vehicles<br>at cost | Leasehold<br>Improvement,<br>Office equipment<br>and Furniture &<br>Fixtures at cost | Total          |
|---------------------------------|---------------------------------------|------------------------------|--------------------------------------------------------------------------------------|----------------|
| Group                           | K'000                                 | K'000                        | K'000                                                                                | K'000          |
| <b>Cost or Valuation</b>        |                                       |                              |                                                                                      |                |
| At 01 January 2020              | 20,400                                | 19,996                       | 106,059                                                                              | 146,455        |
| Additions                       | -                                     | 2,590                        | 6,102                                                                                | 8,692          |
| Disposals                       | -                                     | (3,246)                      | (5,085)                                                                              | (8,331)        |
| Work in progress                | -                                     | -                            | 17,388                                                                               | 17,388         |
| Asset Revaluation               | -                                     | -                            | -                                                                                    | -              |
| <b>At 31 December 2020</b>      | <b>20,400</b>                         | <b>19,340</b>                | <b>124,464</b>                                                                       | <b>164,204</b> |
| <b>Accumulated Depreciation</b> |                                       |                              |                                                                                      |                |
| At 01 January 2020              | -                                     | 13,893                       | 44,840                                                                               | 58,733         |
| Charge for the period           | -                                     | 2,026                        | 8,359                                                                                | 10,385         |
| Disposals                       | -                                     | (3,066)                      | (4,676)                                                                              | (7,742)        |
| <b>At 31 December 2020</b>      | <b>-</b>                              | <b>12,853</b>                | <b>48,523</b>                                                                        | <b>61,376</b>  |
| <b>Net Carrying Value</b>       |                                       |                              |                                                                                      |                |
| At 31 December 2020             | <b>20,400</b>                         | <b>6,487</b>                 | <b>75,941</b>                                                                        | <b>102,828</b> |
| At 01 January 2020              | <b>20,400</b>                         | <b>6,103</b>                 | <b>61,219</b>                                                                        | <b>87,722</b>  |
|                                 |                                       |                              |                                                                                      |                |
|                                 | Land and<br>Buildings at<br>valuation | Motor<br>Vehicles<br>at cost | Leasehold<br>Improvement,<br>Office equipment<br>and Furniture &<br>Fixtures at cost | Total          |
| Group                           | K'000                                 | K'000                        | K'000                                                                                | K'000          |
| <b>Cost or Valuation</b>        |                                       |                              |                                                                                      |                |
| 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          |
| <b>At 31 December 2019</b>      | <b>20,400</b>                         | <b>19,996</b>                | <b>106,059</b>                                                                       | <b>146,455</b> |
| <b>Accumulated Depreciation</b> |                                       |                              |                                                                                      |                |
| 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)        |
| <b>At 31 December 2019</b>      | <b>-</b>                              | <b>13,893</b>                | <b>44,840</b>                                                                        | <b>58,733</b>  |
| <b>Net Carrying Value</b>       |                                       |                              |                                                                                      |                |
| At 31 December 2019             | <b>20,400</b>                         | <b>6,103</b>                 | <b>61,219</b>                                                                        | <b>87,722</b>  |
| At 01 January 2019              | <b>18,000</b>                         | <b>5,382</b>                 | <b>45,648</b>                                                                        | <b>69,030</b>  |

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**10 PROPERTY, PLANT AND EQUIPMENT *continued***

|                                 | Land and<br>Buildings at<br>valuation | Motor<br>Vehicles<br>At cost | Leasehold<br>Improvement,<br>Office equipment<br>and Furniture &<br>Fixtures at cost | Total          |
|---------------------------------|---------------------------------------|------------------------------|--------------------------------------------------------------------------------------|----------------|
|                                 | K'000                                 | K'000                        | K'000                                                                                | K'000          |
| <b>Parent Company</b>           |                                       |                              |                                                                                      |                |
| <b>Cost or Valuation</b>        |                                       |                              |                                                                                      |                |
| At 01 January 2020              | 10,000                                | 12,858                       | 90,623                                                                               | 113,481        |
| Additions                       | -                                     | 1,816                        | 5,634                                                                                | 7,450          |
| Disposals                       | -                                     | (1,138)                      | (730)                                                                                | (1,868)        |
| Work in progress                | -                                     | -                            | 17,234                                                                               | 17,234         |
| At 31 December 2020             | <b>10,000</b>                         | <b>13,536</b>                | <b>112,761</b>                                                                       | <b>136,297</b> |
| <b>Accumulated Depreciation</b> |                                       |                              |                                                                                      |                |
| At 01 January 2020              | -                                     | 7,083                        | 33,624                                                                               | 40,707         |
| Charge for the period           | -                                     | 1,630                        | 7,069                                                                                | 8,699          |
| Disposals                       | -                                     | (984)                        | (331)                                                                                | (1,315)        |
| At 31 December 2020             | -                                     | <b>7,729</b>                 | <b>40,362</b>                                                                        | <b>48,091</b>  |
| <b>Net Carrying Value</b>       |                                       |                              |                                                                                      |                |
| At 31 December 2020             | <b>10,000</b>                         | <b>5,807</b>                 | <b>72,399</b>                                                                        | <b>88,206</b>  |
| At 01 January 2020              | <b>10,000</b>                         | <b>5,775</b>                 | <b>56,998</b>                                                                        | <b>72,774</b>  |
|                                 |                                       |                              |                                                                                      |                |
|                                 | Land and<br>Buildings at<br>valuation | Motor<br>Vehicles<br>At cost | Leasehold<br>Improvement,<br>Office equipment<br>and Furniture &<br>Fixtures at cost | Total          |
|                                 | K'000                                 | K'000                        | K'000                                                                                | K'000          |
| <b>Parent Company</b>           |                                       |                              |                                                                                      |                |
| <b>Cost or Valuation</b>        |                                       |                              |                                                                                      |                |
| 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             | <b>10,000</b>                         | <b>12,858</b>                | <b>90,623</b>                                                                        | <b>113,481</b> |
| <b>Accumulated Depreciation</b> |                                       |                              |                                                                                      |                |
| 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             | -                                     | <b>7,083</b>                 | <b>33,624</b>                                                                        | <b>40,707</b>  |
| <b>Net Carrying Value</b>       |                                       |                              |                                                                                      |                |
| At 31 December 2019             | <b>10,000</b>                         | <b>5,775</b>                 | <b>56,998</b>                                                                        | <b>72,774</b>  |
| At 01 January 2019              | <b>10,000</b>                         | <b>4,950</b>                 | <b>41,950</b>                                                                        | <b>56,900</b>  |

***Fair Value measurement of Land and Buildings***

The Group's and Parent'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 2020 were performed by Yagur Property Valuers, an independent valuer who is not related to the Group.

## 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. In determining the fair value, a capitalisation rate of 11% was used along with a market rent of between K550 to K750 per square metre.

Carrying amount of Land & Buildings in the Group and Parent without revaluation is K9,338k.

### *Capitalised borrowing costs*

The Group started the re-construction of the Gerehu Warehouse on May 2019. This project is expected to be completed in June 2021. The carrying amount of the Preoperative cost at 31 December 2020 was K34,127k (2019: K16,175k). The warehouse is financed by Westpac in a facility agreement as discussed below in Note 13. The amount of borrowing costs capitalised during the year ended 31 December 2020 was K521k (2019: Nil). The rate used to determine the amount of borrowing costs eligible for capitalisation was 6.95%, which is the EIR of the specific borrowing.

### *Impairment*

There are no indications that the assets may be impaired as at 31 December 2020.

## 11 INVESTMENTS

|                                      | Note  | Consolidated |              | Parent Company |               |
|--------------------------------------|-------|--------------|--------------|----------------|---------------|
|                                      |       | 2020         | 2019         | 2020           | 2019          |
|                                      |       | 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) | 6,864        | 5,282        | 6,864          | 5,282         |
| <b>Total</b>                         |       | <b>6,864</b> | <b>5,282</b> | <b>24,765</b>  | <b>23,183</b> |

|                                   | Country   | Ownership | 2020          | 2019          |
|-----------------------------------|-----------|-----------|---------------|---------------|
|                                   |           |           | K'000         | K'000         |
| <b>11(a) Subsidiary Companies</b> |           |           |               |               |
| 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%      | -             | -             |
|                                   |           |           | <b>17,901</b> | <b>17,901</b> |
| <b>11(b) Joint Ventures</b>       |           |           |               |               |
| Paradise Cinemas (PNG) Limited    | PNG       | 46.2%     | -             | -             |
| Jacks Retail (PNG) Limited        | PNG       | 50%       | 4,275         | 3,588         |
| DFS (PNG) Limited                 | PNG       | 50%       | 2,589         | 1,694         |
|                                   |           |           | <b>6,864</b>  | <b>5,282</b>  |

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**11 INVESTMENTS *continued***

Summarised statement of financial position of joint ventures, based on its IFRS Financial Statements, and reconciliation with the carrying amount of the investment in the consolidated financial statement:

|                                                    | 2020<br>K'000    | 2019<br>K'000    |
|----------------------------------------------------|------------------|------------------|
| Current assets                                     | 19,189           | 24,177           |
| Non-current assets                                 | 26,823           | 35,433           |
| Current liabilities                                | (7,770)          | (37,329)         |
| Non-current liabilities                            | (24,513)         | (11,308)         |
| Net assets                                         | 13,729           | 10,972           |
| <br>Total Revenue                                  | <br>37,797       | <br>38,515       |
| Total Profit / (Loss)                              | 2,484            | 1,595            |
| Group's share of Profit / (Loss)                   | 1,242            | 797              |
| Dividends                                          | -                | (303)            |
| <br><b>Carrying amount of the investment (50%)</b> | <br><b>6,864</b> | <br><b>5,282</b> |

**12 GOODWILL**

|                    | Consolidated  |               | Parent Company |               |
|--------------------|---------------|---------------|----------------|---------------|
|                    | 2020<br>K'000 | 2019<br>K'000 | 2020<br>K'000  | 2019<br>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 with Pharmacy Wholesalers Pty. Limited.

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

*City Pharmacy 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 15% per annum (2019: 15%).

Cash flow projections during the budget period are based on the same expected gross margin and inventory price inflation throughout the budget period. The terminal growth rate used beyond that five-year period is 5% (2019: 5%) 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 15% per annum (2019: 15%).

Cash flow projections during the budget period are based on the same expected gross margin and inventories price inflation throughout the budget period. The terminal growth rate used beyond that five-year period is 4% (2019: 4%) which is the projected long-term average growth rate.

## 12 GOODWILL *continued*

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        |               |
|-----------------------------------|-------------|---------------|---------------|---------------|---------------|
|                                   |             | 2020<br>K'000 | 2019<br>K'000 | 2020<br>K'000 | 2019<br>K'000 |
| <b>Current</b>                    |             |               |               |               |               |
| Bank overdraft                    | 13(a)       | -             | 7,836         | -             | 7,836         |
| Bank Loans                        | 13(b),13(c) | 1,297         | -             | 1,297         | -             |
| <b>Non-Current</b>                |             |               |               |               |               |
| Bank Loans                        | 13(b),13(c) | 11,160        | -             | 11,160        | -             |
| <b>Total loans and borrowings</b> |             | <b>12,457</b> | <b>7,836</b>  | <b>12,457</b> | <b>7,836</b>  |

### Bank facilities and security

- a) 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; and
  5. Master Lease Agreement.
- b) In August 2020, the City Pharmacy Facility Agreement with Westpac was amended via the *Fifth Deed of Amendment and Restatement*. Under the Deed, the Company entered into a K22m facility to complete the construction of the Gerehu warehouse. The facility is to be repaid within 5 years of drawdown, the first year being interest only and the succeeding 4 years to be principle and interest. The facility is secured by the following assets:
  - Interlocking guarantee between CPL and HHL supported by:
    - First ranking fixed and floating charge over the current and future assets and undertakings of the Obligor; and
    - First ranking registered mortgages over the two (2) commercial properties plus all improvements thereon, properties being:
      1. Lot 18 Section 342 Uduka Street Hohola; and
      2. Allotment 2, Sec 163, Orion Rd, Taraka, Lae
- c) At 31 December 2020, the Group had available K9.543k (2019: K1.119k) of undrawn committed borrowing facilities.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**14 TRADE AND OTHER PAYABLES**

|                    | Consolidated  |               | Parent        |               |
|--------------------|---------------|---------------|---------------|---------------|
|                    | 2020<br>K'000 | 2019<br>K'000 | 2020<br>K'000 | 2019<br>K'000 |
| <b>Current</b>     |               |               |               |               |
| Trade payables     | 44,065        | 67,349        | 34,312        | 53,208        |
| Other payables     | 20,797        | 15,369        | 11,477        | 9,685         |
|                    | <b>64,862</b> | <b>82,718</b> | <b>45,789</b> | <b>62,893</b> |
| <b>Non-current</b> |               |               |               |               |
| Security bond      | 744           | 119           | 218           | 119           |
| Total payables     | <b>65,606</b> | <b>82,837</b> | <b>46,007</b> | <b>63,012</b> |

Breakdown of other payables is as follows:

|                      | Consolidated  |               | Parent        |               |
|----------------------|---------------|---------------|---------------|---------------|
|                      | 2020<br>K'000 | 2019<br>K'000 | 2020<br>K'000 | 2019<br>K'000 |
| Contract liability   | 6,222         | 4,249         | 699           | 302           |
| Withholding taxes    | 3,770         | 4,004         | 3,707         | 3,933         |
| Accruals             | 6,519         | 2,988         | 4,246         | 4,597         |
| Wages payable        | 398           | 431           | 287           | 291           |
| Other accruals       | 3,888         | 3,697         | 2,538         | 562           |
| Total other payables | <b>20,797</b> | <b>15,369</b> | <b>11,477</b> | <b>9,685</b>  |

**15 LEASES**

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 assets</u><br><u>- Buildings</u> | <u>Lease</u><br><u>liabilities</u> | <u>Lease</u><br><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)                           |
| <b>As at 31 December 2019</b> | <b>158,579</b>                                   | <b>192,777</b>                     | <b>38,746</b>                     |
| Additions                     | 16,409                                           | 18,408                             | -                                 |
| Sub-lease                     | -                                                | -                                  | 327                               |
| Modification                  | 4,277                                            | 4,277                              | -                                 |
| Depreciation                  | (22,597)                                         | -                                  | -                                 |
| Lease termination             | (3,252)                                          | (3,476)                            | -                                 |
| Interest expense              | -                                                | 14,755                             | -                                 |
| Interest income               | -                                                | -                                  | 2,927                             |
| Payment of lessee/sublessee   | -                                                | (32,597)                           | (5,866)                           |
| <b>As at 31 December 2020</b> | <b>153,416</b>                                   | <b>194,144</b>                     | <b>36,134</b>                     |

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**15 LEASES continued**

| <b>Parent</b>                 | <b><u>Right-of-use assets</u></b><br><b><u>- Buildings</u></b><br><b>K'000</b> | <b><u>Lease</u></b><br><b><u>liabilities</u></b><br><b>K'000</b> | <b><u>Lease</u></b><br><b><u>receivable</u></b><br><b>K'000</b> |
|-------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------|
| <b>As at 1 January 2019</b>   | 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)                                                         |
| <b>As at 31 December 2019</b> | <b>137,352</b>                                                                 | <b>151,994</b>                                                   | <b>15,274</b>                                                   |
| Additions                     | 16,410                                                                         | 18,410                                                           | -                                                               |
| Sublease                      | -                                                                              | -                                                                | 327                                                             |
| Modification                  | 1,259                                                                          | 1,259                                                            | -                                                               |
| Depreciation                  | (17,752)                                                                       | -                                                                | -                                                               |
| Lease termination             | (3,252)                                                                        | (3,476)                                                          | -                                                               |
| Interest expense              | -                                                                              | 11,674                                                           | -                                                               |
| Interest income               | -                                                                              | -                                                                | 1,170                                                           |
| Payment of lessee/sublessee   | -                                                                              | (23,706)                                                         | (2,294)                                                         |
| <b>As at 31 December 2020</b> | <b>134,017</b>                                                                 | <b>156,155</b>                                                   | <b>14,477</b>                                                   |

The following are amounts recognised in profit or loss:

| <b>Consolidated</b>                              | <b>2020</b><br><b>K'000</b> | <b>2019</b><br><b>K'000</b> |
|--------------------------------------------------|-----------------------------|-----------------------------|
| Depreciation expense of right-of-use assets      | (22,597)                    | (24,586)                    |
| Interest expense on lease liabilities            | (14,755)                    | (15,623)                    |
| Interest income on lease receivables             | 2,927                       | 3,059                       |
| Gain from lease termination                      | 224                         | -                           |
| Expense relating to short-term leases            | -                           | (85)                        |
| Expense relating to leases of low-value assets   | (9,473)                     | (7,917)                     |
| <b>Total amount recognised in profit or loss</b> | <b>(43,674)</b>             | <b>(45,152)</b>             |
| <b>Parent</b>                                    | <b>2020</b><br><b>K'000</b> | <b>2019</b><br><b>K'000</b> |
| Depreciation expense of right-of-use assets      | (17,752)                    | (19,580)                    |
| Interest expense on lease liabilities            | (11,674)                    | (12,235)                    |
| Interest income on lease receivables             | 1,170                       | 1,227                       |
| Gain from lease termination                      | 224                         | -                           |
| Expense relating to short-term leases            | -                           | (85)                        |
| Expense relating to leases of low-value assets   | (8,328)                     | (5,875)                     |
| <b>Total amount recognised in profit or loss</b> | <b>(36,360)</b>             | <b>(36,548)</b>             |

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**15 LEASES *continued***

**(a) Classification of lease receivable and liability**

|                                | Consolidated   |                | Parent         |                |
|--------------------------------|----------------|----------------|----------------|----------------|
|                                | 2020<br>K'000  | 2019<br>K'000  | 2020<br>K'000  | 2019<br>K'000  |
| <b>Lease receivables</b>       |                |                |                |                |
| Current                        | 8,796          | 2,919          | 6,826          | 1,103          |
| Non-current                    | 27,338         | 35,827         | 7,651          | 14,171         |
| <b>Total lease receivables</b> | <b>36,134</b>  | <b>38,746</b>  | <b>14,477</b>  | <b>15,274</b>  |
| <b>Lease liabilities</b>       |                |                |                |                |
| Current                        | 12,755         | 17,397         | 7,269          | 11,204         |
| Non-current                    | 181,389        | 175,380        | 148,886        | 140,790        |
| <b>Total lease liabilities</b> | <b>194,144</b> | <b>192,777</b> | <b>156,155</b> | <b>151,994</b> |

**16 PROVISIONS**

|                            | Consolidated  |               | Parent        |               |
|----------------------------|---------------|---------------|---------------|---------------|
|                            | 2020<br>K'000 | 2019<br>K'000 | 2020<br>K'000 | 2019<br>K'000 |
| <b>Employee provisions</b> |               |               |               |               |
| Current                    |               |               |               |               |
| Wages Payable              | 702           | 569           | 668           | 385           |
| Annual Leave               | 2,367         | 2,330         | 1,807         | 1,655         |
| Employee bonus             | 1,766         | 658           | 1,482         | 643           |
| Long service leave         | 753           | -             | 753           | -             |
|                            | <b>5,588</b>  | <b>3,557</b>  | <b>4,710</b>  | <b>2,683</b>  |
| Non-current                |               |               |               |               |
| Long service leave         | <b>4,635</b>  | <b>5,609</b>  | <b>3,559</b>  | <b>4,604</b>  |

**17 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 total number of shares on issue as at 31 December 2020 is 206,277,911 (2019: 199,972,219), additional shares issued relates to shares escrowed by a shareholder to a bank institution released in June 2020.

***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.

**17 EQUITY *continued***

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

|                                                              | <b>Parent</b> |              |
|--------------------------------------------------------------|---------------|--------------|
|                                                              | <b>2020</b>   | <b>2019</b>  |
|                                                              | <b>K'000</b>  | <b>K'000</b> |
| Profit attributable for basic and diluted earnings           | 14,543        | 12,241       |
| Weighted average number of shares for basic and diluted EPS* | 206,278       | 199,972      |
| Earnings per share - basic and diluted (toea per share)      | 7.05          | 6.12         |

*\*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**

|                                                    | <b>Consolidated</b> |               | <b>Parent</b> |              |
|----------------------------------------------------|---------------------|---------------|---------------|--------------|
|                                                    | <b>2020</b>         | <b>2019</b>   | <b>2020</b>   | <b>2019</b>  |
|                                                    | <b>K'000</b>        | <b>K'000</b>  | <b>K'000</b>  | <b>K'000</b> |
| Balance at beginning of year                       | 11,213              | 8,813         | 8,813         | 8,813        |
| Reversal of revaluation reserve on Gerehu Property | -                   | -             | -             | -            |
| Reversal of Deferred Tax Liabilities               | -                   | -             | -             | -            |
| Asset Revaluation                                  | -                   | 2,400         | -             | -            |
| Balance at end of year                             | <b>11,213</b>       | <b>11,213</b> | <b>8,813</b>  | <b>8,813</b> |

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.

**Foreign currency translation reserve**

|                                                                    | <b>Consolidated</b> |              |
|--------------------------------------------------------------------|---------------------|--------------|
|                                                                    | <b>2020</b>         | <b>2019</b>  |
|                                                                    | <b>K'000</b>        | <b>K'000</b> |
| Balance at beginning of year                                       | 427                 | 554          |
| Exchange differences arising on translating the foreign operations | 985                 | (127)        |
| Balance at end of year                                             | <b>1,412</b>        | <b>427</b>   |

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**

|                                                  | <b>Consolidated</b> |               | <b>Parent</b> |               |
|--------------------------------------------------|---------------------|---------------|---------------|---------------|
|                                                  | <b>2020</b>         | <b>2019</b>   | <b>2020</b>   | <b>2019</b>   |
|                                                  | <b>K'000</b>        | <b>K'000</b>  | <b>K'000</b>  | <b>K'000</b>  |
| Retained earnings                                | 79,041              | 64,383        | 77,820        | 68,365        |
| Balance at beginning of year (restated)          | 64,383              | 52,229        | 68,365        | 58,848        |
| Profit attributable to the owners of the Company | 14,658              | 12,154        | 8,915         | 9,517         |
| Balance at end of year                           | <b>79,041</b>       | <b>64,383</b> | <b>77,280</b> | <b>68,365</b> |

## 18 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 2020 were K559k (2019: K271k) while purchases were K1,227k (2019: K859k). As at 31 December 2020, the Company has a receivable from HHL of K24,810k (2019: K29,242k).
- The Company provides administration assistance to Pharmacy Wholesalers Pty. Limited, a subsidiary. As at 31 December 2020, The Company has a payable to Pharmacy Wholesalers of K1,975k (2019 receivable: K579k).
- The Company provides administration assistance to Paradise Cinema (PNG) Limited, a joint venture. As at 31 December 2020, the Company has a receivable from Paradise Cinema of K5k (2019: Nil).
- The Company provides administration assistance to Jacks Retail (PNG) Limited, a joint venture. As at 31 December 2020, the Company has a receivable from Jacks Retail of K29k (2019 payable: K162k)
- The Company provides administration assistance to DFS (PNG) Limited, a joint venture. As at 31 December 2020, the Company has a payable to DFS (PNG) of K129k (2019: K47k).

### b) Transaction with Directors

- Sir Mahesh Patel is a shareholder and director of the Company and receives a director's fee, accommodation, motor vehicle provided to him by the Company.
- Sir Mahesh Patel is a director of New World Limited, Fiji, a supplier to the company. In 2020, the Group has a receivable amount of K Nil (2019: Nil)
- Sir Mahesh Patel is related to a Director of US All American ENT.INC.USA, a supplier to the company. In 2020, City Pharmacy Limited's total stocks purchased from US All American was K576k. The Group has payable of K142k (2019: K 873k) as at year end.

**18 RELATED PARTY TRANSACTIONS *continued***

**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 2020 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 K6,833k and consisted of fixed directors' fees, salaries and fees and non-monetary benefits\* as follows:

|                                | 2020<br>K'000 | 2019<br>K'000 |
|--------------------------------|---------------|---------------|
| Short-term employment benefits | 6,833         | 8,449         |

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.

**Remuneration by Directors**

|                                             | 2020<br>K'000 | 2019<br>K'000 |
|---------------------------------------------|---------------|---------------|
| Stanley Thomas Joyce, Chairman              | 241           | 219           |
| Sir Mahesh Patel, OBE, Managing Director    | 1,287         | 1,400         |
| Graham John Dunlop                          | 121           | 221           |
| Peter Robinson (resigned 11 March 2020)     | 36            | 147           |
| Mary Handen                                 | 121           | 148           |
| Mary Ellen Johns                            | 121           | 148           |
| Peter John Aitsi (resigned 15 May 2019)     | -             | 55            |
| Aru Chellappan (appointed 9 September 2020) | 50            | -             |

Sir 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.

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**18 RELATED PARTY TRANSACTIONS *continued***

**Interest Register**

| <b>Name of Director</b> | <b>Interest/Position</b> | <b>Name of entity</b>                               |
|-------------------------|--------------------------|-----------------------------------------------------|
| Sir Mahesh Patel        | Director/Shareholder     | Mainsbridge Pty. Limited, Australia                 |
|                         | Director                 | New World Limited, Fiji                             |
|                         | Shareholder              | Manu Nominees Pty. Limited, Australia               |
|                         | Director/Shareholder     | Amar Business Holding Pte Ltd, Singapore            |
|                         | Director                 | Mountain Valley Springs (India) Pvt Ltd.            |
|                         | Related to Director      | 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                | Capital Rugby Union                                 |
|                         | Chairman                 | Leadership PNG Inc.                                 |
| Stanley Thomas Johns    | Director                 | South Pacific Brewery Limited                       |
|                         | Director                 | NGIP Agmark Limited                                 |
|                         | Director                 | Mainland Holdings Limited                           |
|                         | Director                 | Westpac Bank PNG Limited                            |

**Shareholdings of Directors and Related Parties**

| <b>Related Party</b>                          | <b>No. of Shares in the Company</b> | <b>% Holding</b> |
|-----------------------------------------------|-------------------------------------|------------------|
| Amar Business Holdings Pte Limited, Singapore | 21,280,712                          | 10.32%           |
| New World Limited, Fiji                       | 13,887,857                          | 6.73%            |
| Mainsbridge Pty. Limited, Australia           | 9,458,538                           | 4.59%            |
| Sir Mahesh Patel & Lady Usha Patel            | 25,148,051                          | 12.19%           |
| Sir Mahesh Patel                              | 9,892,395                           | 4.08%            |
| Manu Nominees Pty. Limited, Australia         | 3,000,000                           | 1.45%            |

**Remuneration of employees**

|                         | <b>2020</b> | <b>2019</b> |
|-------------------------|-------------|-------------|
| K80,001 - K100,000      | 27          | 6           |
| K100,001 - K200,000     | 70          | 73          |
| K200,001 - K300,000     | 7           | 11          |
| K300,001 - K400,000     | 7           | 9           |
| K400,001 - K500,000     | 2           | 3           |
| K500,001 - K600,000     | 2           | 1           |
| K600,001 - K700,000     | 1           | 1           |
| K700,001 - K800,000     | 1           | 1           |
| K800,001 - K900,000     | -           | 4           |
| K1,200,001 - K1,300,000 | 2           | 1           |
| K1,300,001 - K1,400,000 | -           | 1           |
|                         | <b>119</b>  | <b>111</b>  |

## 19 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 2020 and 2019, respectively:

|                    | Retail<br>K'000 | Wholesale and<br>Tender<br>K'000 | Total<br>K'000 |
|--------------------|-----------------|----------------------------------|----------------|
| <b>Assets</b>      |                 |                                  |                |
| 31 December 2020   | 432,875         | 13,105                           | 445,980        |
| 31 December 2019   | 428,500         | 12,557                           | 441,057        |
| <b>Liabilities</b> |                 |                                  |                |
| 31 December 2020   | 278,290         | 4,140                            | 282,430        |
| 31 December 2019   | 288,045         | 4,726                            | 292,771        |

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

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. The impact of IFRS 16 adjustments is presented as this is viewed by the Board when monitoring the business.

| 2020                                                          | Retail<br>K'000 | Wholesale<br>and Tender<br>K'000 | Total Segment<br>K'000 | Elimination<br>K'000 | Consolidated<br>K'000 |
|---------------------------------------------------------------|-----------------|----------------------------------|------------------------|----------------------|-----------------------|
| <b>Revenue</b>                                                |                 |                                  |                        |                      |                       |
| External customer                                             | 552,000         | 29,429                           | 581,429                | -                    | 581,429               |
| Inter-segment                                                 | -               | 10,428                           | 10,428                 | (10,428)             | -                     |
| Total revenue                                                 | 552,000         | 39,857                           | 591,857                | (10,428)             | 581,429               |
| Cost of sales                                                 | (382,311)       | (23,395)                         | (405,706)              | 10,428               | (395,278)             |
| Total Expenses                                                | (163,318)       | (1,604)                          | (164,922)              | (1,107)              | (166,029)             |
| Profit before income tax                                      | 6,371           | 14,858                           | 21,229                 | (1,107)              | 20,122                |
| Income tax expense                                            | 1,893           | (327)                            | 1,566                  | -                    | 1,566                 |
| <b>Segment profit before<br/>impact of IFRS 16<br/>impact</b> | <b>8,264</b>    | <b>14,531</b>                    | <b>22,795</b>          | <b>(1,107)</b>       | <b>21,688</b>         |
| <b>IFRS 16 Impact:</b>                                        |                 |                                  |                        |                      |                       |
| Amortisation – ROU                                            | (22,378)        | (219)                            | (22,597)               | -                    | (22,597)              |
| Interest expense                                              | (14,666)        | (89)                             | (14,755)               | -                    | (14,755)              |
| Rent expense                                                  | 32,343          | 254                              | 32,597                 | -                    | 32,597                |
| Interest Income                                               | 2,927           | -                                | 2,927                  | -                    | 2,927                 |
| Rent Income                                                   | (5,541)         | -                                | (5,541)                | -                    | (5,541)               |
| Other income                                                  | 224             | -                                | 224                    | -                    | 224                   |
| <b>Total Net Profit</b>                                       | <b>1,173</b>    | <b>14,477</b>                    | <b>15,650</b>          | <b>(1,107)</b>       | <b>14,543</b>         |

**CITY PHARMACY LIMITED AND SUBSIDIARY COMPANIES**  
**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**19 SEGMENT INFORMATION** *continued*

| 2019                                           | Retail        | Wholesale and Tender | Total Segment | Elimination | Consolidated  |
|------------------------------------------------|---------------|----------------------|---------------|-------------|---------------|
|                                                | K'000         | K'000                | K'000         | K'000       | K'000         |
| <b>Revenue</b>                                 |               |                      |               |             |               |
| 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         |
| <b>Segment profit before impact of IFRS 16</b> | <b>16,986</b> | <b>560</b>           | <b>17,546</b> | <b>-</b>    | <b>17,546</b> |
| <b>IFRS 16 Impact:</b>                         |               |                      |               |             |               |
| 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           |
| <b>Total Net Profit</b>                        | <b>11,730</b> | <b>511</b>           | <b>12,241</b> | <b>-</b>    | <b>12,241</b> |

**Revenue from external customers**

| Consolidated                | For the years ended 31 December |                      |         |         |                      |         |
|-----------------------------|---------------------------------|----------------------|---------|---------|----------------------|---------|
|                             | 2020                            |                      |         | 2019    |                      |         |
|                             | Retail                          | Wholesale and Tender | Total   | Retail  | Wholesale and Tender | Total   |
|                             | K'000                           | K'000                | K'000   | K'000   | K'000                | K'000   |
| <b>Geographical markets</b> |                                 |                      |         |         |                      |         |
| Papua New Guinea            | 552,000                         | 13,383               | 565,383 | 538,078 | 10,183               | 548,261 |
| Australia                   | -                               | 1,975                | 1,975   | -       | 2,034                | 2,034   |
| Others                      | -                               | 14,071               | 14,071  | -       | 11,583               | 11,583  |
| Total revenue               | 552,000                         | 29,429               | 581,429 | 538,078 | 23,800               | 561,878 |
|                             |                                 |                      |         |         |                      |         |
| Parent Company              | For the years ended 31 December |                      |         |         |                      |         |
|                             | 2020                            |                      |         | 2019    |                      |         |
|                             | Retail                          | Wholesale and Tender | Total   | Retail  | Wholesale and Tender | Total   |
|                             | K'000                           | K'000                | K'000   | K'000   | K'000                | K'000   |
| <b>Geographical markets</b> |                                 |                      |         |         |                      |         |
| Papua New Guinea            | 428,224                         | 13,383               | 441,607 | 425,220 | 10,183               | 435,403 |
| Total revenue               | 428,224                         | 13,383               | 441,607 | 425,220 | 10,183               | 435,403 |

**Non-current operating assets**

|                  | 2020<br>K'000 | 2019<br>K'000 |
|------------------|---------------|---------------|
| Papua New Guinea | 258,345       | 248,234       |
| Australia        | 2,724         | 2,892         |
|                  | 261,069       | 251,126       |

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

## 20 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        |               |
|-----------------------------|---------------|---------------|---------------|---------------|
|                             | 2020          | 2019          | 2020          | 2019          |
|                             | K'000         | K'000         | K'000         | K'000         |
| Cash at bank                | 21,896        | 16,221        | 16,647        | 12,048        |
| Trade and other receivables | 22,905        | 23,848        | 13,177        | 17,231        |
| Related party receivables   | 63            | 3,526         | 24,844        | 30,293        |
| Lease receivable            | 36,134        | 38,746        | 14,477        | 15,274        |
|                             | <b>80,998</b> | <b>82,341</b> | <b>69,145</b> | <b>74,846</b> |

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                |
| 2020                     |               |              |                   |                      |
| Trade and other payables | 64,862        | -            | -                 | -                    |
| Borrowings               | 1,297         | -            | -                 | 11,160               |
| Lease liabilities        | -             | 9,361        | 27,996            | 300,946              |
|                          | <b>66,159</b> | <b>9,361</b> | <b>27,996</b>     | <b>312,106</b>       |
| 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              |
|                          | <b>90,554</b> | <b>8,642</b> | <b>24,687</b>     | <b>261,357</b>       |

**20 FINANCIAL INFORMATION *continued***

| Parent Company           | On demand<br>K'000 | 0-3 Months<br>K'000 | 3 Months<br>– 1 Year<br>K'000 | Due more<br>than a year<br>K'000 |
|--------------------------|--------------------|---------------------|-------------------------------|----------------------------------|
| 2020                     |                    |                     |                               |                                  |
| Trade and other payables | 45,789             | -                   | -                             | -                                |
| Borrowings               | 1,297              | -                   | -                             | 11,160                           |
| Lease liabilities        | -                  | 5,639               | 16,828                        | 220,207                          |
|                          | <b>47,086</b>      | <b>5,639</b>        | <b>16,828</b>                 | <b>231,367</b>                   |
| Parent Company           | On demand<br>K'000 | 0-3 Months<br>K'000 | 3 Months<br>– 1 Year<br>K'000 | Due more<br>than a year<br>K'000 |
| 2019                     |                    |                     |                               |                                  |
| Trade and other payables | 62,893             | -                   | -                             | -                                |
| Bank overdraft           | 7,836              | -                   | -                             | -                                |
| Borrowings               | -                  | -                   | -                             | -                                |
| Lease liabilities        | -                  | 6,513               | 18,300                        | 219,661                          |
|                          | <b>70,729</b>      | <b>6,513</b>        | <b>18,300</b>                 | <b>219,661</b>                   |

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 2020, 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.

## 20 FINANCIAL INFORMATION *continued*

### Gearing Ratio

As at year end, the ratio was as follows:

|                                       | Consolidated   |                |
|---------------------------------------|----------------|----------------|
|                                       | 2020           | 2019           |
|                                       | K'000          | K'000          |
| Interest-bearing loans and borrowings | 12,457         | 25,233         |
| Trade and other payables              | 64,862         | 82,718         |
| Less: cash and short-term deposits    | (21,896)       | (16,221)       |
| <b>Net debt</b>                       | <b>55,423</b>  | <b>91,730</b>  |
| Equity (i)                            | 159,533        | 152,615        |
| <b>Capital and net debt</b>           | <b>214,956</b> | <b>244,345</b> |
| Gearing ratio                         | <b>26%</b>     | <b>37%</b>     |

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 borrowings in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

## 21 COMMITMENTS AND CONTINGENCIES

### Commitments

Future financial charges total K1,833k (2019: KNil) in relation to various financial leases of vehicles, bakery, freezer and computer equipment from the Westpac Bank PNG Limited.

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

- The Company has a credit facility of K19,750k (2019: K19,750k) for Multi - Option Facilities which includes documentary letters of credit from Westpac Bank PNG Limited.
- The Company has guaranteed the Hardware Haus Limited multi-option and fully drawn loan facilities from Westpac Bank PNG Limited. The guarantee is supported by a mortgage of the Company property.

**21 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 have 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.

**22 SUBSEQUENT EVENTS**

Despite the challenging economic situation and the new distribution centre re-build, the directors declared through a market announcement on 23 March 2021 that final dividends of 1.67 toea per share will be paid.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY PHARMACY LIMITED



## REPORT ON THE AUDIT OF THE FINANCIAL REPORT

## Independent auditor's report to the members of City Pharmacy Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of City Pharmacy Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- ▶ The Group consolidated and Company statements of financial position as at 31 December 2020;
- ▶ The Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- ▶ Notes to the financial statements, including a summary of significant accounting policies; and
- ▶ The director's declaration.

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

- a. Giving a true and fair view of the Company's and the Group's financial position as at 31 December 2020 and of their financial performance for the year ended on that date; and
- b. Complying with International Financial reporting Standards.

#### Basis for opinion

We conducted our audit in accordance with International Auditing Standards. 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 Group in accordance with the auditor independence requirements of the *Companies Act 1997* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Papua New Guinea. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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 for our audit opinion on the accompanying financial report.

## 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, including the impacts of COVID-19. 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 considered the requirements of International Accounting Standard IAS 36 <i>Impairment of Assets</i>. Our audit procedures in relation to the impairment assessment included, amongst others:</p> <ul style="list-style-type: none"> <li>▶ Assessing the Group's definition of its CGUs for consistency with International Accounting Standards and considering indicators of impairment for each of the Group's CGUs.</li> <li>▶ Understanding the process undertaken by the Group in the preparation of its discounted cash flow models used to assess the recoverable amount of the Group's CGUs, including how key assumptions used in the cash flow forecasts are determined by management.</li> <li>▶ Evaluating the reasonability of the Group's cashflow forecast models used to estimate the recoverable amounts by: <ul style="list-style-type: none"> <li>▪ Assessing the mathematical accuracy of the cash flow models;</li> <li>▪ Considering the historical reliability of the Group's cash flow forecasts;</li> <li>▪ Assessing whether the allocation of assets, including goodwill, to CGUs, was consistent with our knowledge of the Group's operations;</li> <li>▪ Involving our valuation specialists to evaluate the reasonability of the discount rate and growth rates used by the Group;</li> <li>▪ Assessing the sensitivities of the impairment model to reasonably possible changes in assumptions relating to cash flow forecasts, terminal growth rates and discount rates applied; and</li> <li>▪ Comparing the market capitalisation of the Group to the Group's net assets.</li> </ul> </li> <li>▶ Considering the adequacy of the note disclosures regarding the impairment testing approach and key assumptions.</li> </ul> |

## Inventory Existence

| Why significant                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>At 31 December 2020, the Group held inventories of PGK85,667,000 which represents 19% (2019: 21%) of the Group's total assets, refer Note 9.</p> <p>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 retail stores and warehouses.</p> <p>Due to the size of the inventory balance and the dispersed nature of the inventory, this was considered a key audit matter.</p> | <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▶ We obtained an understanding of the Group's internal controls in respect of inventory management and physical stocktaking and investigating stocktake variances when identified.</li> <li>▶ For a sample of the Group's retail stores and warehouses, we attended the location at or around 31 December 2020 and performed test counts of inventory line items to assess whether the inventory line items counted aligned with that reported in the Group's accounting records.</li> <li>▶ For the retail stores not attended as part of our inventory observation procedures, we inspected the Group's stocktake records to understand the extent of stocktake variances identified and tested whether adjustments had been appropriately recorded in the Group's accounting records.</li> <li>▶ We performed analytical procedures over stocktake variances, inventory losses and gross margin for the 2020 financial year and considered whether our other audit procedures provided any contrary evidence as to the existence of the Group's inventory.</li> <li>▶ Assessing the adequacy of related note disclosures in relation to the requirements of applicable accounting standards.</li> </ul> |

## Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 annual report, but does not include the financial report and our auditor's report thereon.

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 Accounting 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 Group 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 Auditing Standards 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.

As part of an audit in accordance with the International Auditing Standards, 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 Company's or 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 the 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 entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group 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.

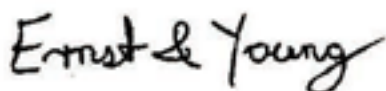
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

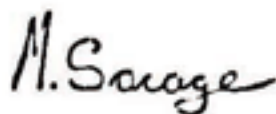
### Report on other legal and regulatory requirements

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



Matthew Savage  
Partner  
Registered under the Accountants Act 1996  
Port Moresby

1 April 2021



A stylized yellow bird, possibly a dove, is depicted in profile, facing right. It has a simple blue circular eye and a pointed beak. Behind the bird, several thick, curved, overlapping lines in various colors (red, yellow, dark blue, light blue, green, orange, and yellow) flow outwards, creating a sense of motion and energy. The entire composition is set against a solid blue background.

CPL GROUP  
ANNUAL REPORT  
2020

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