CPL GROUP

CHAIRMAN'S STATEMENT

Half Yearly report for the period ended 30th June 2016.

2016 started off with similar challenges of 2015 - of a weakening level of economic activity and soft commodity prices. With reduced domestic consumption, the effects were felt both on the top line and on profits.

Revenue was K260m (K218m in 2015), but this included K60m from Hardware Haus, which was not included in last years figures. The parent company revenues were down 9% (K184m vs K202m). This was not matched by cost reductions in the first half and thus Net Loss before tax for the group was K16k compared to a profit of K3.04m in 2015.

This was mainly impacted by :

- a reversal of K1.5m insurance claim for Business Interruption, which has come about in the last week.
- a reduced profit of approx. K1.3m from our tenders and wholesale Business predominantly from the government sector.
- This was further compounded by one-off expenses of approx. K500,000 for additional security and logistics expenses for our new stores at Koki and Harbour City.

We also lost revenues of almost K2m (gross profit of almost K500,000) in the month of June due to store closures and disruptions during the student unrest around the nation.

City Pharmacy Retail
We saw an increase in revenues of 8% over last year, and also an increase in EBITDA before support office costs by 3%.
As a majority of the outlets are in the outstations, there was not the slowdown impact which has been seen in Port Moresby. We expect this trends will be sustained in H2.

Stop n Shop Retail
Revenues were lower by 13% compared to last year, primarily due to the impact of the Waigani central store (we are operating in a much smaller store this year compared to last year), but have been able to maintain last year's EBITDA before support office costs, by maintaining a strong focus on expiry/ damage / shrinkage and waste and were able to reduce this from 1.9% of sales last year to 1.5% this year !
We have seen further softening in the Port Moresby market in July and August and expect this trend to continue in H2 for our like to like stores.

Hardware Haus
Revenues were lower by 11% compared to last year, which included our Kwik Built Business, robust sales at Haus Depot (sales declined since the fire disruptions) and Mt.Hagen Mitre store (which closed for relocation to a smaller site in January 2016 for a couple of months).

Focused cost reductions (almost K2.5m from last year), gave us a positive K1.7m EBITDA before support office costs compared to a loss of K337,000 for the same period last year.

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Wholesale and Tender
Revenues were down by 23% compared to last year, due to lack of government spending on Department of Health and Provincial Hospitals. We expect this will be made up in H2 as we have future orders in hand.
The EBITDA before support office costs was down by 40% !

CPL Group
Group EBITDA before support office cost increased by 4% but there was a 7% increase in Group costs (support office, interest, depreciation and amortization). We expect to bring these costs down by around 5% in H2 primarily due to benefits of management restructure starting from July, and tight cost controls.

We expect the overall revenue to be stronger in H2 with the inclusion of 2 new supermarkets at Koki and Harbour City.

We have plans for capital expenditure of K1 million primarily on store refurbishments.

Insurance claims of K3.5m has been paid against a claim of K10.3m for the fixed assets.

The Business interruption claim of K6m is still outstanding. While final assessment of the Business Interruption claim is outstanding, there has been general agreement of the amount to be received. The company is disappointed that despite this agreement no payment has yet been received from the Insurer.

We are still faced with delayed government payments for supplies of essential pharmaceuticals and combined with slow insurance payouts is putting a lot of strain on the cash flows for the day to day operations.

We will continue our focus on tight cost controls and inventory management.

We have launched our certified retail training programs and will continue to invest in our people development across the group of companies.

We are very proud to have created 600 additional jobs in 2016, despite tough trading conditions. Our community service obligation remain strong and we will celebrate our 10th Anniversary for the Pride of PNG for Woman's Empowerment Programme.

From the Board, the management and the staff of CPL to the hundreds of thousands of shareholders (members of Nasfund, Nambawan Super, Commrade Trustees, MRDC and others) - CPL is committed to PNG for the long term and will continue to invest in its business improvement processes.

For,

MAHESH PATEL, OBE
Chairman