CPL Chairman's Statement

In the early part of 2014, I advised our Board that I wished to relinquish my executive role and transition to Non-Executive Chairman as we approach our 30th anniversary in 2017. The Board has been working towards that target with the addition of new Directors with extensive retail knowledge and the restructure of responsibilities within the senior management group. Subject to obtaining various regulatory approvals, the Board has agreed to appoint Mr. Joe Barberis, currently a Non-Executive Director, as Managing Director of the CPL Group. Mr. Barberis brings to the position considerable experience in all facets of retail in Australia, Asia and the Pacific, including Papua New Guinea and has served on the CPL Board since May 2015. Ravi Singh will be the CEO for the subsidiaries and General Manager Merchandise for the Group.

Underlying Net Profit Before Tax (before one-off adjustments) for the Company in 2016 was K7.03 million. The Company recorded a Net Profit Before Tax of K2.03 million for the year ended 31st December 2016. This result included a number of one-off adjustments totalling K5 million relating to:

- Under-provisioning of staff entitlements
- An increase in the provision for doubtful debts
- An increase in the provision for obsolete stock

The increase in the provisions for doubtful debts and inventory reflects the current economic downturn in PNG. In addition, the year-end audit identified similar under-provisioning and other adjustments in 2015 and as a result the 2015 financial statements have been restated which has resulted in a reduction of K9.35 million in pre-tax profit previously reported.

For the year ended December 2016 group sales were K539.63 million, an increase of 17% when compared to last year, mainly attributable to the opening of two new supermarkets at Harbour City and Koki during the year. While the additional sales were welcome, the fixed costs of opening these two supermarkets were not able to be fully recovered during the year, which impacted on the result.

The retail market in Port Moresby, where all of the supermarkets are located, has been flat during the year and while the new supermarkets have recorded satisfactory sales, this has been to a degree at the expense of existing stores.

Pleasingly improved contributions have been recorded by Retail Pharmacy operations and both the wholesale and tender businesses. All joint venture companies have reported improved results with the overall loss to the group of K2.01 million in 2015 improving to a profit of K0.06 million in 2016.

With the funding of the two new supermarkets in Port Moresby, coupled with delays in receipt of insurance proceeds relating to the Waigani Central fire in 2015 and Government debts, the Group's cash position remains strained.

Discussions continue with major financers to renew and strengthen facilities, but it is acknowledged that further growth in the Group's operations may proceed only after disposal of non-core assets and/or the introduction of additional capital. The Directors expect that an announcement on this will be made prior to the Annual General Meeting scheduled for June 2017.

In view of the challenging liquidity situation, the Directors will recommend to the Annual General Meeting that no dividend will be paid.

Looking forward, we expect the soft trading conditions to continue through the year and the key focus will be on driving efficiencies and cost reductions. As a consequence CPL will defer further expansion plans as the two new supermarkets gain sales momentum over a full twelve month period. For the first two months of 2017 both the supermarket and pharmacy businesses are trading to budget, however, Hardware Haus sales continue to be impacted by the general economic environment.

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

Mahesh Patel, OBE
Chairman