



Chairman's Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A handwritten signature in black ink, appearing to read 'Stanley Joyce', with a horizontal line underneath it.

Stanley Joyce CSM
Chairman