Annual Report 2019

FRIENDLY SOCIETY MEDICAL ASSOCIATION LIMITED

NATIONAL PHARMACIES®

Where wonder meets wisdom.


Coming into contact with
the flu virus is this easy.
ly, all you caught this time
some harmless bubbles.
the flu

"Bubble Box" flu activation, Rundle Mall, Adelaide.

Contents

Report of National Pharmacies' Operations for 2018/19

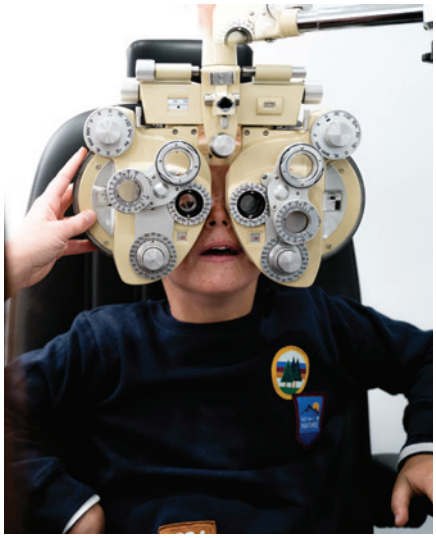
New dispensary at Semaphore.

The Friendly Society Medical Association, trading as National Pharmacies, has for 108 years proudly served its members and the community with primary health and wellbeing services and products.

The current trading environment is challenging for all pharmacy enterprises throughout Australia.

The Board has, therefore, undertaken a series of significant initiatives to protect and grow our business. These include store enhancements and improvements to our member offers and are investments from which our members will benefit for years to come.

The organisational transformation program is on course using contemporary, proven technology to further advance operational productivity and provide better service, pricing and benefits to our customers.



New National Pharmacies Optical at Gawler.

We have invested significantly to improve member value with under co-payment prescription pricing and free spectacles for children of up to 12 years of age who are on family memberships.

OPERATIONS

The Directors approved a range of improvements to member value and benefits over the past year. Five pharmacies were relocated to prime retail sites with larger store formats at Littlehampton, Semaphore, Williamstown, Gawler and Cumberland Park, the latter of which features a new optical service. Some also include naturopathic services to augment existing health services and provide more choice for our members and the community.

Four underperforming stores at Glen Waverley, Balwyn, Burwood and Port Adelaide were divested.

We have invested significantly to improve member value with under co-payment prescription pricing and free spectacles for children of up to 12 years of age who are on family memberships. Both initiatives stem from research in which we asked members how to improve the value of their membership. Early indications are pleasing with improved membership retention and growth.

Our inaugural all-employee conference in October 2018 brought together our people from around the country, with 400 employees attending and acclaiming it as a huge success.

Images from the "2020 by 2020" campaign.

Opposite: Williamstown prestige beauty and dispensary.

PEOPLE AND CULTURE

Our People and Culture Plan maps the effective delivery of the National Pharmacies vision, mission and goals within our People strategic pillar.

Our culture is demonstrated through our values and behaviours, the way in which we lead our people and, ultimately, the consistent delivery of quality services to our members, for whom National Pharmacies exists.

At National Pharmacies we achieve a high-performance culture through:

- Maintaining an unrelenting focus on safety and a healthy working environment for employees and customers.
- Sound decisions that reflect the ethical standards of a trusted health care provider.
- The value and respect we hold for our heritage and longevity as we innovate and evolve to add value to our members' lives.
- Our willingness to step back and evaluate what we do and how we do it with a passion for renewal and excellence.
- A clear strategy that enables each individual in our business to understand the value that they contribute to the success of National Pharmacies.

Our People and Culture Plan sets out accountabilities, responsibilities, obligations and commitments at three levels as:

- An organisation
- Leaders
- Individuals

The Plan sets the tone for current and future employees. It is our people who deliver on the promise of high-quality services and value to members. We are committed to attract, retain, build capability, motivate and inspire our employees to constantly improve National Pharmacies as a workplace.


NATIO
L'OCCITANE
Jurlique
Elizabeth Arden
NEW YORK
CLARINS
The French Skin Expert trusted since 1954
CLARINS


Prescriptions In
Pharmacy Medicines

Above: Local sponsorship engagement.
Below: New Glenelg prestige beauty expansion.

SOCIAL CONTRIBUTION

This year National Pharmacies won the naming rights sponsorship of the iconic South Australian Christmas Pageant. This much-loved Christmas tradition is an ideal platform for National Pharmacies to highlight its commitment and contribution to the community it serves. Our partnership with the Christmas Pageant assures its future and enables National Pharmacies to bring Christmas joy to all South Australians. Importantly, it also affords our employees and members an opportunity to be part of an 86-year-old community event with which many of us grew up.

Our grass roots support of local sporting clubs is in its seventh year and sponsors more than 60 clubs across a wide range of sports. We continue our support of Kick Start for Kids, which provides breakfast and mentoring for primary school children to help realise learning potential. We have been partners of Kick Start for Kids since 2013 during which time it has expanded from 10 to more than 320 primary schools.

Glenelg store.

TRADING RESULTS

Economic uncertainty and the gradual decline in consumer confidence experienced across Australia in recent years, combined with low wages growth and falling property prices, all impacted on National Pharmacies in the 2019 Financial Year. Additionally, a number of one time costs including redundancies, expenses associated with store openings, sponsorship costs and a market competitive prescription pricing strategy reduced reported EBIT by $1.9 million. Revenue during 2018/19 was $254.4 million which was a 7.0% decrease on the previous year. Reported underlying earnings from operations was a loss of $0.1 million with a corresponding EBIT loss of $1.4 million and EBITDA of $4.5 million. Benefits to members over this period were $25 million.

The carrying value of goodwill and intangible assets takes into consideration the future profitability of individual pharmacies. The basis for the calculation this year included the impact from our revised dispensary pricing strategy and the expectation that over the five year forecasted period we will realise growth in prescription numbers, and retail and optical sales.

No assumptions have been made in regard to the Seventh Community Pharmacy Agreement. The result is that no impairment adjustment is required to reduce the carrying value of Goodwill and Intangible Assets held on the Balance Sheet as at the 30 June 2019.

The factors outlined above influenced this year's reported net profit after tax which was a loss of $1.6 million. However, strategic initiatives implemented towards the end of last financial year, are already returning favourable results with prescription numbers, optical sales and retail sales favourable versus the recent trend.

Above: Minister for Trade, Tourism and Investment David Ridgeway with retiring Managing Director, Tony Wojciechowski at the launch of the National Pharmacies Christmas Pageant.
Opposite: New Semaphore store.

RETIREMENT OF MANAGING DIRECTOR

Our Managing Director, Tony Wojciechowski, will retire early in 2020. Tony has made an enormous contribution in his 16 years at National Pharmacies, the first 10 of which were as General Manager of Operations and, since March 2013, as Managing Director.

With his strong retail operations background, Tony navigated National Pharmacies through the challenges of Pharmaceutical Benefits Scheme (PBS) and industry reform and oversaw a significant change program over the past three years with the replacement of all back office and customer facing technology.

The Board is appreciative of Tony's leadership of, and contribution to, National Pharmacies and wishes him and his family well in his forthcoming retirement.

OUR FUTURE

Our initiatives to improve member value are calculated to strengthen the Association. These initiatives, together with the adoption of contemporary technology, prepare us for a sustainable future.

Our people are our key to ultimate success. We rely on our people to support each other every day to deliver professional services and products to the members and communities that we serve. The FSMA Board and Management sincerely thank all our hard-working employees for their dedication and efforts.

P F CARR
Chairman

A E WOJCIECHOWSKI
Managing Director


NATIONAL
PHARMACIES
Where
wonder
meets
wisdom.
NATIONAL
PHARMACIES


Prescriptions
Collect
Dispensary

Corporate Governance Statement

(June 2019)

OVERVIEW

Friendly Society Medical Association Limited (FSMA), which operates as National Pharmacies under its various trading names is a mutual organisation owned by its members. It strives to operate at the appropriate level of corporate governance. Whilst the inclusion of a Corporate Governance Statement is not a requirement for FSMA, as it is not an ASX listed company, we have included a Corporate Governance Statement to demonstrate to members the commitment of the Board to operate under the appropriate level of corporate governance.

ROLE AND RESPONSIBILITIES OF THE BOARD

The Board has adopted a formal Charter which can be viewed in the Corporate Governance section of the National Pharmacies website.

The Board is responsible for setting and reviewing the strategic direction of FSMA and monitoring the implementation of that strategy by executive management, including:

- The oversight of FSMA including its control and accountability systems;
- Appointing and removing the Chief Executive Officer;
- Approving the appointment and the removal of senior executives;
- Providing input into and final approval of senior executives' development of corporate strategy and performance objectives;
- Reviewing, approving and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- Monitoring senior executives' performance and implementation of strategy;
- Ensuring appropriate resources are available to senior executives;
- Approving the annual budget, including the capital expenditure budget;
- Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestments;
- Approving and monitoring financial and other reporting on the recommendation of the Audit and Risk Committee;
- Reviewing and approving the remuneration of the Chief Executive Officer and senior executives on the recommendation of the People, Culture and Rewards Committee;
- Appointing, re-appointing or removing the Company's external auditors on the recommendation of the Audit and Risk Committee;
- Monitoring and overseeing the management of member and community relations; and
- The oversight of workplace health and safety.

The Chief Executive Officer is responsible to the Board for the day-to-day management of FSMA.

STRUCTURE AND COMPOSITION OF THE BOARD

The Board will be comprised of a majority of independent non-executive Directors. As at 30 June 2019 it was comprised of five Directors, with four non-executive Directors, including the Chairman, and one executive Director, being the Managing Director.

The composition of the Board will be derived from the skills and diversity matrix which will be reviewed periodically.

The roles of Chairman and Managing Director are held by two separate individuals. The Chairman is an independent non-executive Director and the Managing Director is an executive Director. There are no other executive Directors.

The skills and experience of the Company's Directors are detailed on pages 21 to 23 of this Annual Report.

INDEPENDENCE

An independent Director must be independent of management and able to exercise unfettered and independent judgement, free of any business or other relationship that could materially interfere with the Director's ability to act in the best interests of the Company. Directors are required to bring independent views and judgement to Board deliberations.

The independent Directors are identified in the Directors' Report.

In assessing whether the Director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations.

The Board considers that all the non-executive Directors are independent. That is, for the 2019 financial year, no non-executive Director had any relationship that could materially interfere, or be perceived to materially interfere, with the Director's unfettered and independent judgement. The non-executive Directors meet at times during the year without the Chief Executive Officer present. The non-executive Directors also hold an in camera session at each regular Board meeting.

In determining independence, each non-executive Director is required to make an annual disclosure of all relevant information to the Board, and provide any changes at each meeting of the Board. Any assessment of independence for a non-executive Director who does not meet the independence standards adopted by the Board will be specifically disclosed in the Corporate Governance Statement.

Disclosure of related party transactions is set out in Note 21 in the financial report.

INDUCTION AND CONTINUING EDUCATION

Management, working with the Board, provides an orientation program for new Directors and new senior executives. The program includes discussions with executives and management, reading material and site visits. These cover National Pharmacies' strategic plan, its significant financial, accounting and risk management issues, compliance programs, code of conduct, management structure, internal and external audit programs, and Directors' rights, duties and responsibilities.

Management periodically conducts additional presentations and briefing sessions for Directors about FSMA and the factors impacting, or likely to impact, on its businesses, including visits to stores and operational locations, which assists non-executive Directors to gain a broader understanding of National Pharmacies. Directors are also encouraged to keep up to date on topical issues.

APPOINTMENT AND RE-ELECTION OF BOARD MEMBERS

A review of Board composition and skills is undertaken periodically by the People, Culture and Rewards Committee using a skills matrix that enables the Committee to assess the skills and the experience of each Director and the combined capabilities of the Board.

The results of this review are considered in the context of the FSMA operations and strategy and Board diversity. The results of this review are then incorporated into the selection process for new Directors.

The process for appointing a Director is that, when a vacancy exists, the People, Culture and Rewards Committee identifies candidates with the appropriate expertise and experience, using external consultants where appropriate. The most suitable candidate is appointed by the Board but must stand for election by members at the next Annual General Meeting of the Company. At any one time the number of Directors appointed by the Board shall not exceed 40% of the total number of Directors as per the FSMA Constitution.

The Company has formal letters of appointment for each of its Directors, setting out the key terms and conditions of the appointment.

The process for the re-election of a Director is in accordance with the Company's Constitution, which requires that, other than the Managing Director and Chairman, one Director is required to retire at each Annual General Meeting and is eligible to stand for re-election. The Board determines which Director shall stand for re-election.

INDEMNITY

A deed has been entered into with each Director to provide indemnity and access to corporate records.

MANAGEMENT OF THE COMPANY

Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time when they consider it appropriate.

The Board delegates authority and responsibility for the conduct of the Company's business to the Chief Executive Officer who is directly accountable to the Board through established policies and authority levels.

The executive team is comprised of the General Managers who meet regularly with the Chief Executive Officer to review the business of the organisation on a timely basis. The details of the executive management team are included at page 61 of the Annual Report.

COMMITTEES OF THE BOARD

During the 2019 financial year the Board operated an Executive Committee, an Audit and Risk Committee, a People, Culture and Rewards Committee, and a Corporate Governance Committee to assist the Board in the discharge of its responsibilities. Following the end of the financial year the Board reviewed the governance arrangements and Committees' terms of reference and determined that the activities of the Corporate Governance Committee could be reallocated to other Committees without loss of oversight.

As a result the Corporate Governance Committee was dissolved on 26 August 2019 and its duties were reallocated to either another existing Board Committee or the Board . All Directors have a standing invitation to attend the meetings of the Audit and Risk, and People, Culture and Rewards Committees. The charters for these Committees are available on the National Pharmacies website under the Corporate Governance section.

These Committees review matters on behalf of the Board and, subject to the terms of the relevant committee's charter:

- Where the Committee acts in an advisory capacity the Committee refers matters to the Board for consideration with a recommendation from the Committee; or
- Where the Committee acts with delegated authority the Committee determines matters which it then reports to the Board.

The Chairman may attend all meetings of those Committees of which they are not a member in an ex-officio capacity. The Chief Executive Officer will attend all meetings of Committees of which they are not a member in an ex-officio capacity.

Details of the membership, composition and responsibilities of each Committee are detailed in the following chart.

	AUDIT AND RISK COMMITTEE	PEOPLE, CULTURE AND REWARDS COMMITTEE	EXECUTIVE COMMITTEE	CORPORATE GOVERNANCE COMMITTEE *(Dissolved on 26 August 2019)*
MEMBERS	Mr I R Witton (Chairman) Mr G J Connor Ms L M Heron	Ms L M Heron (Chairman) Mr I R Witton Ms P F Carr	Ms P F Carr (Chairman) Mr G J Connor Mr A E Wojciechowski	Mr G J Connor (Chairman) Ms L M Heron Ms P F Carr
COMPOSITION	The Committee must comprise • Only independent non-executive Directors; • At least three members; • Members who have an understanding of financial statements and general accounting principles; and • At least one member who has financial experience.	The Committee must comprise: • Only non-executive Directors; • The Chairman of the Board; • At least three members; and • A majority of independent non-executive Directors.	The Committee must comprise: • At least three members and includes the Chairman, Deputy Chairman and the Managing Director.	The Committee must comprise: • Only non-executive Directors; and • At least three members.
RESPONSIBILITIES	• Reviewing all published financial accounts of the Company and discussion of the accounts with the external auditors and management prior to their submission to the Board for approval; • Reviewing any changes in accounting policies or practices and subsequent effects on the financial accounts of the Company; • Making recommendations to the Board on the appointment, performance and remuneration of the external auditor; • Reviewing with management the terms of the external audit engagement to make recommendations to the Board; • Reviewing and assessing non-audit services to be provided by the external auditor; • Monitoring and assessing the systems for internal compliance and control, legal compliance and risk management including cybersecurity and controls; • Overseeing tax compliance and governance; and • Reviewing the list of Committee tasks.	• Assisting the Board in the appointment, re-election and performance of Directors; • Reviewing the composition and performance of the Board; • Selecting and recommending the appointment of new Directors; • Ensuring each new Director undertakes an induction program; • Reviewing the composition of sub-Committees and submitting recommendations to the Board for changes to those Committees; • Determining the remuneration and incentive framework for FSMA including all new and any proposed amendments to existing remuneration, retention, and termination policies and practices. Determining the remuneration framework for non-executive Directors, Managing Director and Senior Executives; • Annually reviewing the remuneration conditions of employees not within the Senior Executive ranks; • Reviewing the People and Culture plan for FSMA; and • Reviewing the list of Committee tasks.	• To deal with issues that arise between Board meetings that require urgent consideration. • The Committee is authorised to call a short notice Board meeting for the full Board to address any urgent issues	• Determining any changes required to update the Constitution; • Reviewing and updating the Board on current issues of corporate governance and their impact on FSMA; • Reviewing regulatory and statutory issues facing FSMA and not covered by other committees; • Reviewing the Workplace Health and Safety responsibilities of the Company; • Reviewing and approving non material policies; • Reviewing and referring material policies to the Board for approval; • Developing and reviewing the Board/Committee Charters and Corporate Statements; and • Reviewing the list of Committee tasks.

PERFORMANCE EVALUATION

The Board undertakes a review of the performance of the Board and its Committees on a regular basis. The FSMA Board uses various assessment models for Board and individual Director reviews. This year the Chairman interviewed each Board member individually as part of the Board evaluation process.

Each Director is also evaluated by the People, Culture and Rewards Committee as to their suitability and eligibility when nominations for re-appointment become due. Committee structure and membership are reviewed on an annual basis following the AGM.

The Chief Executive Officer and senior executives participate in annual performance reviews. Performance is measured against key performance indicators relevant to the executive's role. A performance evaluation for senior executives took place for the current reporting period in accordance with the process.

ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

Each Director is able to seek independent professional advice at the Company's expense, with the prior approval of the Chairman. The Chairman is able to seek independent professional advice at the Company's expense. All advice received is made available to all members of the Board unless in the Chairman's case it is considered privileged.

The Board can conduct or direct any investigation to fulfil its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time to time to perform its duties.

THE BOARD PROMOTES ETHICAL AND RESPONSIBLE DECISION MAKING

The Board is required to follow the organisation's ethical guidelines. These guidelines apply to all employees and Directors of FSMA and are communicated via the Employee Handbook with the conduct of the Board and each Director also governed by the Board Charter.

The standards and guidelines in relation to ethical behaviour include:

- Financial integrity;
- Conflicts of interest;
- Use of Company resources;
- Data security;
- Interactions with the public or media;
- Equal opportunity and respect in the workplace;
- Health and safety; and
- Corporate social responsibility.

WHISTLEBLOWER PROTECTION

FSMA has a whistleblower protection program for confidential reporting of unacceptable or undesirable conduct. The system enables disclosure to be made to a protected disclosure officer by employees, or, where applicable, if the matter is highly sensitive and the employee believes it is more appropriate, directly to the Audit and Risk Committee or a designated independent third party. FSMA does not tolerate fraud, corrupt conduct, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing matters by its employees.

Accordingly there are established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.

Employees are also encouraged to escalate any issues they believe could have a material impact on FSMA's profitability, reputation, governance or compliance.

It is a responsibility of the Audit and Risk Committee to ensure that employees can make confidential, anonymous submissions regarding such matters.

FSMA will take all reasonable steps to protect a person who comes forward to disclose unacceptable or undesirable conduct, including disciplinary action potentially resulting in dismissal, of any person taking reprisals against them.

CONFLICTS OF INTEREST

Directors are required to avoid conflicts of interest and immediately inform their fellow Directors should a conflict of interest arise. Directors are also required to advise FSMA of any relevant interest that may result in a conflict.

Where a matter in which a Director has a material personal interest is being considered by the Board, that Director must not be present when the matter is being considered or vote on that matter, unless all of the other Directors have passed a resolution to enable that Director to do so or the matter comes within a category of exception under the Corporations Act 2001.

If a significant conflict of interest with a Director exists and cannot be resolved, the Director is expected to resign after consultation with the Chairman.

DIVERSITY AND INCLUSION

FSMA recognises that a diverse and inclusive workforce is not only good for our employees; it is also good for our business. It helps FSMA attract and retain talented people, create more innovative solutions, and be more flexible and responsive to our members' and consumers' needs.

In recognising the importance of diversity, the Board has approved a Diversity and Inclusion policy.

The proportion of women employees in the whole organisation is 85%, the proportion of women in management positions is 58% and the proportion of women on the board is 40%.

FSMA is a Relevant Employer as defined by the Workplace Gender Authority Agency and the Gender Equality Public Report for the Company is available on the National Pharmacies website.

CORPORATE SOCIAL RESPONSIBILITY

The Board has developed a Corporate Social Responsibility Statement which is available on the National Pharmacies website.

COMMUNICATION WITH MEMBERS

The Board has developed a Communications Statement which is available on the National Pharmacies website.

EXTERNAL AUDITOR

The Audit and Risk Committee is responsible for the selection, evaluation, compensation and, where appropriate, replacement of the external auditor, subject to member approval where required.

The Audit and Risk Committee ensures that the lead external partner rotates off the FSMA audit at least every five years and that they are not reassigned to the FSMA audit for a period of two years.

The Audit and Risk Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the effectiveness, performance and independence of the audit.

The Audit and Risk Committee receives assurances from the external auditor that they meet all applicable independence requirements in accordance with the Corporations Act 2001 (Cth) and the recommendations of the professional accounting bodies. This independence declaration forms part of the Directors' Report and is provided on page 26 of this Annual Report.

The external auditor attends the FSMA Annual General Meeting and is available to answer member questions regarding aspects of the external audit and their report.

RISK MANAGEMENT

FSMA is committed to the identification, monitoring and management of material business risks associated with its business activities.

The Board is responsible for reviewing, approving and monitoring systems of risk management. The Audit and Risk Committee oversees the internal controls, policies and procedures which the Company uses to identify business risks and ensure compliance with relevant regulatory and legal requirements.

FSMA has embedded in its management and reporting systems a number of overarching risk management controls which include:

- Strict guidelines and limits for approval of all expenditure inclusive of capital expenditure and investments;
- A compliance program supported by approved guidelines and standards covering safety, the environment, legal liability, risk identification, quantification and reporting, and financial controls;
- A comprehensive risk financing program, including risk transfer to external insurers and reinsurers;
- Policies and procedures for the management of financial risk and treasury operations, including exposures to movements in interest rates;
- A formal dynamic planning process of preparing five year strategic plans each year;
- Annual budgeting and monthly reporting systems, which enable the monitoring of progress against performance targets and the evaluation of trends;
- Appropriate due diligence and analysis procedures for acquisitions and divestments;
- Crisis management systems and procedures tested through exercises every second year;
- Protecting all internet facing information from threats and theft (cybersecurity);
- Detailed business continuity plans;
- A focus on security with regular reviews of location risks; and
- A strong commitment to privacy with policies and procedures in place developed in accordance with the Australian Privacy Principles set out in the Privacy Act 1988 of the Commonwealth of Australia.

A consolidated key risk report is provided to the Audit and Risk Committee for review at each meeting.

CEO/CFO DECLARATION

As required by Section 295A of the Corporations Act, the CEO and CFO have declared that:

"In our opinion

a. the financial records of FSMA and its controlled entities for the financial year ended 30 June 2019 (Financial Period) have been properly maintained in accordance with section 286 of the Corporations Act;

b. the financial statements and the notes referred to in section 295(3)(b) of the Corporations Act for the Financial Period comply with the accounting standards and other mandatory professional reporting requirements; and

c. the financial statements and notes for the Financial Period give a true and fair view of the financial position and performance of FSMA in accordance with section 297 of the Corporations Act."

In addition, the CEO and CFO also state to the Board that, in respect of FSMA for the Financial Period:

a. "The declaration given in accordance with section 295A is founded on a sound system of risk management and internal compliance and control and the system is operating effectively in all material respects in relation to financial reporting risks; and

b. The statement given regarding the risk management and internal compliance and control systems provides a reasonable, but not absolute level of assurance and does not imply a guarantee against adverse events or more volatile outcomes arising in the future."

Directors' Report

For the Financial Year Ended 30 June 2019

The Directors of Friendly Society Medical Association Limited submit herewith the annual financial report for the financial year ended 30 June 2019

In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

All Directors are members of Friendly Society Medical Association Limited.

The names and particulars of the Directors of the Company during or since the end of the financial year are:

NAME	PARTICULARS
Pauline Fay Carr Non-Executive Chairman BEc, MBA, FAICD, FGIA, FCIS	**Experience and Expertise** Ms Carr is an experienced director and senior executive with extensive commercial, management, compliance and governance expertise acquired over 30 years with international organisations in a range of sectors. She joined the Board of FSMA on 23 September 2013 and was appointed Chairman on 26 March 2018. **Current and Former Directorships in the last 3 Years** Ms Carr is Chancellor of the of the University of South Australia. She chaired the University's Audit and Risk Management Committee and was a member of its Finance Committee for several years and presently chairs its Senior Remuneration Committee and Governance and Nomination Committee. Ms Carr is also currently Chairman of the South Australian Government's Minerals and Energy Advisory Council and was for many years a member of the South Australian Minerals and Petroleum Expert Group. She is also a director of ASX listed potash development company, Highfield Resources Limited and chairs its Audit, Business Risk and Compliance Committee and its Remuneration and Nomination Committee. **Responsibilities** Ms Carr is Chairman of the Executive Committee and a member of the People, Culture and Rewards Committee and the Corporate Governance Committee.
Gregory John Connor BEd, SF Fin, FAICD, Life Member and FAIM	**Experience and Expertise** Mr Connor is a Management Consultant. He joined the Board on 29 March 2010 as a Non-Executive Director and was appointed Deputy Chairman on 26 March 2018. He has extensive experience in Financial Services and Human Resource Management. **Current and Former Directorships in the Last 3 Years** Current Deputy Chairman of Bedford Industries, Director of VUCA Pty Ltd and Auburn & Lidcombe United Friendly Society Pharmacy Board Limited. Formerly Chairman of Abacus Australian Mutuals and a director of AIM Australia. **Responsibilities** Mr Connor's special responsibilities include Chairmanship of the Corporate Governance Committee and Deputy Chairman of the Executive Committee. He is also a member of the Audit Committee.

NAME	PARTICULARS
Anthony Edward Wojciechowski	**Experience and Expertise** Mr Wojciechowski is the Managing Director of Friendly Society Medical Association Limited and was appointed as a Board member on 26 August 2013. He has a retailing career spanning 40 years having worked for one of the country's largest retailing organisations for over 20 years and has also worked abroad in South East Asia. He has worked for National Pharmacies since July 2003. **Current and Former Directorships in the Last 3 Years** Managing Director of Auburn & Lidcombe United Friendly Society Pharmacy Board Limited. Director of National Pharmaceutical Services Association. Vice President of the Australian Friendly Societies Pharmacies Association (until 31 July 2018). **Responsibilities** Mr Wojciechowski is a member of the Executive Committee and an attendee at all Board Committee meetings.
Ian Roy Witton ASAIT, FCPA, FAICD	**Experience and Expertise** Mr Witton is an accountant with audit and corporate governance experience. He was Grand Secretary/Managing Director of IOOF Friendly Society SA for 27 years. He is a non-executive director of FSMA and served as President/Chairman from 1986-1991. Mr Witton brings his extensive experience in risk management and evaluating sustainable business strategies. As a Fellow of CPA Australia since 1973 and the AICD since 1984 Mr Witton has since completed the AICD Master of the Boardroom level and attends accounting, company director and pharmacy industry seminars and conferences each year. **Current and Former Directorships in the Last 3 Years** Chairman of Auburn and Lidcombe United Friendly Society Pharmacy Board Limited (since 2009). An independent non-executive alternate director of ASX-listed Tychean Resources Ltd (2009-2017). **Responsibilities** Mr Witton's special responsibilities include Chairmanship of the Audit Committee, member of the People, Culture and Rewards Committee and he attends meetings of the Corporate Governance Committee.

NAME	PARTICULARS
Linda Maree Heron GAICD, MAHRI, MContempLdship	**Experience and Expertise** Mrs Heron is an experienced senior executive with expert knowledge of strategic human resource management applied across a number of industries including retail, water utilities, property development, financial services and the government sector. She joined FSMA on 29 March 2010 as a Non-Executive Director. She has extensive experience in retail operations including store standards, store design, customer service and human resources including change management, leadership development and executive coaching. Mrs Heron is currently the General Manager People and Capability at Melbourne Water, including human resources, legal and corporate governance. **Current and Former Directorships in the Last 3 Years** Current director of the Army and Airforce Canteen Services. Formerly a director of Heron Human Resources, Strive Business Coaching Pty Ltd, Australian Vocational Training Assessments Pty Ltd and Seawinds Vineyard Pty Ltd. **Responsibilities** Mrs Heron is Chairman of the People, Culture and Rewards Committee and a member of the Audit and Corporate Governance Committees.

COMPANY SECRETARY

The name and particulars of the Company Secretary are:

Jennifer Ellen Taylor	Appointed Company Secretary on 10 April 2017.

PRINCIPAL ACTIVITIES AND CHANGES

The Group's principal activities in the course of the financial year were those of Retail Community Pharmacy, Community Service Obligation (CSO) Wholesaler and Optical Dispenser. During or since the financial year there were no significant changes to the principal activities of the Group.

REVIEW OF OPERATIONS

Economic uncertainty and the gradual decline in consumer confidence experienced across Australia in recent years, combined with low wages growth and falling property prices, all impacted on National Pharmacies in the 2019 Financial Year. Additionally, a number of one time costs including redundancies, expenses associated with store openings, sponsorship costs and a market competitive prescription pricing strategy reduced reported EBIT by $1.9 million. Revenue during 2018/19 was $254.4 million which was a 7.0% decrease on the previous year. Reported underlying earnings from operations was a loss of $0.1 million with a corresponding EBIT loss of $1.4 million and EBITDA of $4.5 million. Benefits to members over this period were $25 million.

The carrying value of goodwill and intangible assets takes into consideration the future profitability of individual pharmacies. The basis for the calculation this year included the impact from our revised dispensary pricing strategy and the expectation that over the five year forecasted period we will realise growth in prescription numbers, and retail and optical sales. No assumptions have been made in regard to the Seventh Community Pharmacy Agreement. The result is that no impairment adjustment is required to reduce the carrying value of Goodwill and Intangible Assets held on the Balance Sheet as at the 30 June 2019.

The factors outlined above influenced this year's reported net profit after tax which was a loss of $1.6 million. However, strategic initiatives implemented towards the end of last financial year, are already returning favourable results with prescription numbers, optical sales and retail sales favourable versus the recent trend.

CHANGES IN STATE OF AFFAIRS

There was no significant change in the state of affairs of the Group during the financial year.

SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

FUTURE DEVELOPMENTS

National Pharmacies' revenues are driven by retail activities in the pharmacy and optical markets. Ongoing PBS pricing reforms coupled with low levels of consumer confidence means that the organisation will continue to focus on disciplined operations and business activities combined with rigorous oversight.

The organisation will continue to refine and develop the capabilities of its new technology systems to further advance operational productivity, build upon its new dispensary and optical initiatives and investigate business development opportunities.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year the Company paid a premium in respect of a contract insuring the Directors of the Company (as named above), the Company Secretary, Ms J E Taylor, and all executive officers of the Company and any related body corporate against a liability incurred as such a Director, Secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability cover and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer (other than Directors) or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is made on page 26 and forms part of this Directors' Report.

ROUNDING OFF OF AMOUNTS

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191 and in accordance with that Instrument amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise stated.

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (whilst in their capacity as a director or committee member). During the financial year, 13 Board meetings, 3 Corporate Governance Committee meetings, 3 Audit Committee meetings and 3 People, Culture and Rewards Committee meetings were held.

DIRECTORS	BOARD OF DIRECTORS		CORPORATE GOVERNANCE COMMITTEE		AUDIT COMMITTEE		PEOPLE, CULTURE AND REWARDS COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
P F Carr	13	13	3	3	3	#3	3	3
G J Connor	13	12	3	3	3	3	3	^3
L M Heron	13	11	3	3	3	2	3	3
I R Witton	13	12	3	#3	3	3	3	3
A Wojciechowski	13	11	3	*3	3	*3	3	*3

* Indicates attendance at a Committee meeting in the capacity of Managing Director
\# Indicates ex officio attendance at a Committee meeting
^ Indicates attendance at a Committee meeting although not a member of that Committee

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors

P F Carr
Chairman

G J Connor
Director

Adelaide, 30 September 2019

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Friendly Society Medical Association Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Friendly Society Medical Association Limited for the financial year ended 30 June 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Darren Ball
Partner

Adelaide

30 September 2019

Independent Auditor's Report

To the shareholders of Friendly Society Medical Association Limited

Opinion

We have audited the ***Financial Report*** of Friendly Society Medical Association Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards - Reduced Disclosure Requirements* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Consolidated statement of financial position as at 30 June 2019;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The Group consists of the Company and the entities it controlled at year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Company and the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Friendly Society Medical Association Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards - Reduced Disclosure Requirements* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Darren Ball
Partner

Adelaide

30 September 2019

DIRECTORS' DECLARATION

The Directors declare that in their opinion:

a) the company is not publicly accountable;

b) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the Company as at 30 June 2019 and of its performance for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Regulations 2001; and

c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors

P F Carr
Chairman

G J Connor
Director

Adelaide, 30 September 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Financial Year Ended 30 June 2019

	Note	2019 $'000	2018 $'000
Revenue	4(a)	254,437	273,442
Other income	4(b)	2,232	379
Finance costs	4(b)	(402)	(495)
Other expenses	4(b)	(258,000)	(275,132)
Loss before income tax (expense) / benefit		**(1,733)**	**(1,806)**
Income tax (expense) / benefit	5(a)	92	220
Profit/(Loss) for the period		**(1,641)**	**(1,586)**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:			
(Loss) / Gain on property revaluation		(238)	726
Income tax on items taken directly to or transferred from equity		(92)	(220)
Other comprehensive (loss) / gain for the year		(330)	506
Total comprehensive profit/(loss) for the year		**(1,971)**	**(1,080)**
Profit/(Loss) for the period attributable to:			
Owners of the Company		(1,632)	(1,575)
Non-controlling interests		(9)	(11)
		(1,641)	**(1,586)**
Total comprehensive profit/(loss) attributable to:			
Owners of the Company		(1,962)	(1,069)
Non-controlling interests		(9)	(11)
		(1,971)	**(1,080)**

Notes to the financial statements are included as pages 34 to 59.

Consolidated Statement of Financial Position as at 30 June 2019

	Note	2019 $'000	2018 $'000
Current Assets			
Cash and cash equivalents	22(a)	6,985	24
Trade and other receivables	7	4,609	5,258
Inventories	8	37,647	36,650
Prepayments		1,330	1,959
Land & Building held for sale		925	1,328
Total Current Assets		**51,496**	**45,219**
Non-Current Assets			
Property, plant and equipment	9	52,035	53,449
Goodwill	10	4,695	4,695
Other intangible assets	11	8,124	11,565
Other non current assets		99	129
Deferred tax assets	5(b)	-	-
Total Non-Current Assets		**64,953**	**69,838**
Total Assets		**116,449**	**115,057**
Current Liabilities			
Trade and other payables	12	23,635	17,085
Borrowings	15	1,500	1,500
Other financial liabilities	13	55	1,099
Provisions	14	6,375	7,264
Total Current Liabilities		**31,565**	**26,948**
Non-Current Liabilities			
Borrowings	15	7,500	9,000
Provisions	14	889	643
Total Non-Current Liabilities		**8,389**	**9,643**
Total Liabilities		**39,954**	**36,591**
Net Assets		**76,495**	**78,466**
Equity			
Issued capital	16	-	-
Asset Revaluation Reserves	17	10,336	10,666
Retained earnings		66,159	68,154
Parent entity interest		76,495	78,820
Non-controlling interests	24	-	(354)
Total Equity		**76,495**	**78,466**

Notes to the financial statements are included as pages 34 to 59.

Consolidated Statement of Changes in Equity for the Financial Year Ended 30 June 2019

	Fully paid ordinary shares $'000	Asset Revaluation Reserve $'000	Retained Earnings $'000	Attributable to owners of the parent $'000	Non-controlling Interests $'000	Total $'000
Balance at 1 July 2017	-	10,160	69,729	79,889	(343)	79,546
Profit/(Loss) for the period	-	-	(1,575)	(1,575)	(11)	(1,586)
Other comprehensive income for the year:						
Gain on property revaluation	-	726	-	726	-	726
Tax consequences	-	(220)	-	(220)	-	(220)
Total comprehensive (loss)/income for the year	-	506	(1,575)	(1,069)	(11)	(1,080)
Balance at 30 June 2018	**-**	**10,666**	**68,154**	**78,820**	**(354)**	**78,466**
Balance at 1 July 2018	-	10,666	68,154	78,820	(354)	78,466
Impact of transition to AASB9	-	-	-	-	-	-
Profit/(Loss) for the period	-	-	(1,632)	(1,632)	(9)	(1,641)
Other comprehensive income for the year:						
Loss on property revaluation	-	(238)	-	(238)	-	(238)
Tax consequences	-	(92)	-	(92)	-	(92)
Total comprehensive (loss)/income for the year	-	(330)	(1,632)	(1,962)	(9)	(1,971)
Transactions with owners of the Company:						
Disposal of NCI without a change in control	-	-	(363)	(363)	363	-
Total changes in ownership interests	-	-	(363)	(363)	363	-
Balance at 30 June 2019	**-**	**10,336**	**66,159**	**76,495**	**-**	**76,495**

Notes to the financial statements are included as pages 34 to 59.

Consolidated Statement of Cash Flows for the Financial Year Ended 30 June 2019

	Note	Inflows/ (Outflows) 2019 $'000	2018 $'000
Cash Flows from Operating Activities			
Receipts from customers		256,347	288,240
Payments to suppliers and employees		(255,546)	(291,908)
Member contributions received		8,404	8,709
Interest paid		(301)	(278)
Net Cash used in Operating Activities		**8,904**	**4,764**
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(4,848)	(4,470)
Proceeds from sale of business	22(c)	1,892	(129)
Proceeds from sale of assets		2,486	598
Interest received		27	30
Net Cash used in Investing Activities		**(443)**	**(3,971)**
Cash Flows from Financing Activities			
Repayment of borrowings		(1,500)	(1,125)
Net Cash used in Financing Activities		**(1,500)**	**(1,125)**
Net increase/(decrease) in cash and cash equivalents held		6,961	(332)
Cash and cash equivalents at the beginning of the Financial Year		24	356
Cash and cash equivalents at the end of the Financial Year	22(a)	**6,985**	**24**

Notes to the financial statements are included as pages 34 to 59.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

1. Additional Information

Friendly Society Medical Association Limited (the Company) is a public company, incorporated and operating in Australia.

Registered office and principal place of business

52 Gawler Place
Adelaide SA 5000

2. Adoption of New and Revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period. Refer to Note 3 (c) for details of changes in accounting policies.

Various other Standards and Interpretations were on issue but were not yet effective at the date of authorisation of the financial report. The issue of these Standards and Interpretations do not affect the Group's present policies and operations. The directors anticipate that the adoption of these Standards and Interpretations in future periods will not materially affect the amounts recognised in the financial statements of the Group but may change the disclosure presently made in the financial statements of the Group.

AASB 15 Revenue from contracts with customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. AASB 15 is effective for not-for-profit entities for annual reporting periods beginning on or after 1 January 2019. The Group is assessing the potential impact on its financial statements resulting from the application of AASB 15.

AASB 1058 Income for Not-for-profit Entities

AASB 1058 replaces the income recognition requirements relating to private sector and majority of public sector not-for-profit (NFP) entities in AASB 1004 Contributions. AASB 1058 simplifies the income recognition requirements applicable to NFP entities and is applied in conjunction with AASB 15.

AASB 1058 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The Group is assessing the potential impact on its financial statements resulting from the application of AASB 1058.

AASB 16 Leases

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 Leases. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group is assessing the potential impact on its financial statements resulting from the application of AASB 16.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies

(i) *Statement of Compliance*

The financial report is a general purpose financial report comprising the Company and its subsidiaries (together referred to as the Group) which has been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards – Reduced Disclosure Regime, and complies with other requirements of

The financial report comprises the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a not-for-profit entity.

The financial statements were authorised for issue by the directors on 30 September 2019.

(ii) *Basis of Preparation*

The financial report has been prepared on the basis of historical cost, except for the revaluation of freehold land and buildings and derivative financial instruments (interest rate cap). Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial / Directors Reports) Instrument 2016/191, and in accordance with the Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

In the application of the Group's accounting policies, as set out below, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Determining whether goodwill is impaired requires an estimation of the higher of fair value less costs to sell or the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset the Group takes into account the characteristics of the asset if market participants would take those characteristics into account when pricing the asset at the measurement date.

The carrying amount of goodwill at 30 June 2019 was $4,695,000 (30 June 2018: $4,695,000). No impairment was recognised during 2019 (2018: $704,000).

The financial year end for the Group is 30 June 2019 and comprises 52 weeks (2018: 1 July 2018 and comprising 52 weeks).

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies (cont'd)

(iii) *Change in Accounting Policy from 2018*

AASB 9 Financial instruments (2014)

AASB 9 sets out requirements for classifying and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB9 contains three principal classification categories of financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. AASB 9 eliminates the previous AASB 139 categories of held to maturity, loans and receivables and available for sale. Under AASB 9 derivatives embedded in contracts, where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities.

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' ('ECL') model. The new impairment model applies to financial assets measured at amortised cost which include trade receivables, contract assets and cash and cash equivalents. Under AASB 9 the Company will measure loss allowances for trade receivables based on lifetime ECL's.

The adoption of AASB 9 has not had a significant effect on the Company's accounting policies related to financial assets or liabilities or on the financial position as at 30 June 2019.

The following table explains the original measurement categories under AASB 139 and new measurement categories under AASB 9 for each class of the Company's financial assets and financial liabilities as at 30 June 2019.

	Original classification under AASB 139	**New classification under AASB 9**
Financial Assets		
Trade and other receivables	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade and other payables	Other financial liabilities	Other financial liabilities
Financial Liability		
Interest Rate Caps used for Hedging	Fair Value - Hedging Instrument	Fair Value - Hedging Instrument
Loan from Associate	Other financial liabilities	Other financial liabilities
Trade Payables	Other financial liabilities	Other financial liabilities

Adoption of AASB 9 had no effect on carrying amounts of financial assets or liabilities as at 30 June 2019.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies (cont'd)

(iv) *Significant Accounting Policies*

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Trade and Other Payables

Policy applicable from 1 July 2018
Trade and other accounts payable are stated at amortised cost and are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

Policy applicable prior to 1 July 2018
Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

(b) Property Plant and Equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of an annual independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in the financial statements of the Group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the Consolidated Statement of Profit or Loss and Other Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis or by diminishing value method, so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following estimated useful lives are used in the calculation of depreciation for the current and comparative period are as follows:

- Buildings — 30 years
- Leasehold improvements — 2-15 years
- Plant and equipment — 2.5-33 years

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies (cont'd)

(c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(d) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, time in lieu, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions to accumulated benefit superannuation benefit plans are expensed when incurred.

(e) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables, which are recognised inclusive of GST.

The net amount of GST recoverable from the taxation authority is included as part of receivables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financial activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(f) Goodwill

Under AASB 136 intangibles with indefinite useful lives must be tested annually for impairment.

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the business combination. CGUs to which goodwill has been allocated are tested for impairment annually.

The recoverable amount of the CGU at 30 June 2019 was determined based on a value in use calculation. Value in use was determined using cash flow projections based on financial forecasts approved by the Board.

The discount rate applied to the cash flow projections at 30 June 2019 was based on the consolidated entities WACC being 10.72% (2018: 11.64%).

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies (cont'd)

(g) Income Tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

(h) Debt and Equity Instruments

Policy applicable to both the period from 1 July 2018 and the period prior to 1 July 2018 following the transition to AASB 9 Financial instruments

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies (cont'd)

(i) Inventories

Inventories on hand consist of finished goods. Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(j) Leased Assets

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(k) Principles of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the effective date of acquisition or up to the effective date of disposal as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(l) Provisions

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(m) Impairment of non-financial Assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies (cont'd)

(m) Impairment of non-financial Assets (cont'd)

Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired. Any impairment of goodwill is not subsequently reversed.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase (refer Note

(n) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income

Revenue from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Contributions

Revenue from members' contributions is recognised on an accrual basis.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies (cont'd)

(o) Financial Instruments

Policy applicable after 1 July 2018

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

1) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Trade receivables are to be settled within agreed trading terms, typically less than 60 days, and are initially recognised at fair value and then subsequently at amortised cost, less any expected credit loss allowances. Under the “expected credit loss” model, the allowance for credit losses is calculated by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability weighted outcomes. Significant receivables are individually assessed. Non-significant receivables are not individually assessed; instead, credit loss testing is performed by considering the risk profile of that group of receivables. All allowances for credit losses are recognised in the income statement.

Financial assets that are subject to credit risk are assigned to one of three stages and could be reassigned based on changes in asset quality:
- Stage 1 are performing and/or newly originated assets. Provisions for financial assets in stage 1 are established to provide for ECL for a period of 12 months;
- Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised;
- Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised.

The Group holds derivative financial instruments to hedge interest rate risk exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

Policy applicable prior to 1 July 2018

The Group enters into interest rate caps. Further details are disclosed in Note 23 to the financial statements. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately as they do apply hedge accounting.

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies (cont'd)

(o) Financial Instruments (cont'd)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

Interest income is recognised by applying the effective interest rate method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

(p) Intangible Assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

3. Summary of Accounting Policies (cont'd)

(q) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of their fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, in any, is recognised in profit or loss. Amounts arising from interest in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.
The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 (2008) are recognised at their fair value at the acquisition date, except that assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(r) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

4. Profit from Operations

	2019 $'000	2018 $'000
(a) Revenue		
Revenue from continuing operations consisted of the following items:		
Revenue from the sale of goods	214,111	228,427
Revenue from the rendering of services	29,992	34,619
Member contributions	7,648	7,879
Rental revenue	588	708
Interest revenue:		
Bank deposits	-	1
Loan	27	29
Other revenue	2,071	1,779
	254,437	273,442
(b) Loss before income tax		
Loss before income tax has been arrived at after crediting the following gains:		
Other Income:		
Reversal of previous impairment loss	431	214
Profit on disposal of stores	1,748	-
Change in fair value of interest rate caps	53	165
	2,232	379
Loss before income tax has been arrived at after charging the following expenses:		
Finance costs:		
Interest on bank loan	294	315
Interest on loan to Key Management Personnel Related Entities	-	26
Other finance costs	108	154
	402	495

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

4. Profit from Operations (cont'd)

	2019 $'000	2018 $'000
(b) Loss before income tax (cont'd)		
Loss before income tax has been arrived at after charging the following expenses:		
Cost of sales	173,524	188,494
Retail expenses	38,878	39,235
Administration expenses	18,560	21,883
Occupancy expenses	19,686	19,073
Marketing expenses	4,604	3,685
Loss on disposal of property, plant and equipment (excluding plant and equipment disposed included in above disposal of stores)	178	23
Other expenses	2,569	2,739
	258,000	275,132
Employee benefit expense:		
Wages and salaries	44,673	47,258
Contributions to superannuation funds	4,223	4,436
Decrease in employee benefits	(643)	(877)
	48,253	50,817
Depreciation of non-current assets	4,075	4,097
Operating lease rental expenses:		
Minimum lease payments	8,661	8,600
Impairment of non current assets	44	837
Amortisation of customer lists	1,801	1,802

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

5. Income Taxes

	2019 $'000	2018 $'000
(a) Income tax recognised in profit or loss		
Tax expense/(income) comprises:		
Current and deferred tax expense/(income) relating to the origination and reversal of temporary differences and tax losses	(92)	(220)
Total tax expense/(income)	(92)	(220)
The prima facie income tax expense/(income) on pre-tax accounting loss from operations reconciles to the income tax expense/(income) in the financial statements as follows:		
Loss from continuing operations	(1,733)	(1,806)
Income tax revenue calculated at 30%	(520)	(492)
Non-deductible expenses – other	205	39
Non-deductible expenses – non current assets impairment and amortisation	540	752
Current year capital losses utilised / (net capital losses recognised)	(1,185)	(3)
Current year capital loss not recognised	1,010	-
Current year revenue loss not recognised	-	905
Non taxable income	(265)	(1,204)
Prior year derecognition of revenue and capital losses	704	(217)
Adjustments recognised in the current year in relation to prior years	(582)	(0)
Income tax expense/(income)	(92)	(220)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

5. Income Taxes (con't)

	2019 $'000	2018 $'000
(b) Recognised deferred tax asset		
The deferred tax asset is attributable to the following:		
Trade and other receivables	3	3
Inventories	39	37
Prepayments	(2,781)	(2,654)
Property, plant and equipment	(2,437)	(3,469)
Intangible assets	3	13
Other financial assets	86	117
Trade and other payables	1,178	1,351
Employee benefits	39	74
Net deferred tax liability on temporary differences	(3,870)	(4,528)
Tax losses:		
Revenue	4,154	4,215
Capital	4,496	3,279
Total deferred tax on tax losses	8,650	7,494
Total temporary differences on tax losses	4,780	2,966
Revenue losses not recognised	(3,760)	(2,957)
Capital losses not recognised	(1,019)	(9)
Net deferred tax asset	-	-
(c) Movement in deferred tax asset		
Opening balance	-	-
Recognised in income	92	220
Recognised in equity (property)	(92)	(220)
Closing balance	-	-

6. Key Management Personnel Remuneration

	2019 $	2018 $
Compensation to directors and other members of Key Management Personnel of the company and the Group	2,428,527	2,718,039

Notes to the Financial Statements
for the Financial Year Ended 30 June 2019

7. Trade and Other Receivables

	2019 $'000	2018 $'000
Current		
Trade receivables (i)	3,743	4,882
Allowance for doubtful debts	(15)	(15)
	3,728	4,867
Net GST receivable from Australian Taxation Office	881	391
	4,609	5,258
Movement in the allowance for doubtful debts		
Balance at the beginning of the year	15	15
Amounts written off as uncollectible	-	-
Balance at the end of the year	15	15

(i) The average credit period of sales of goods and rendering of services is 30 days. No interest is charged

8. Current Inventories

	2019 $'000	2018 $'000
Inventories at cost	38,121	37,253
Provision	(474)	(603)
Total Closing Inventories	37,647	36,650

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

9. Non-Current Property, Plant and Equipment

	Freehold Land and Buildings at fair value $'000 (i)	Leasehold Improvements at cost $'000	Plant and Equipment at cost $'000	Total $'000
Gross carrying amount				
Balance at 30 June 2017	39,929	7,790	50,305	98,024
Additions	393	125	3,950	4,470
Disposals	-	(55)	(1,091)	(1,147)
Assets held for Sale	(1,328)	-	-	(1,328)
Net revaluation increments/(decrements)	807	-	-	807
Balance at 30 June 2018	39,801	7,860	53,164	100,826
Additions	196	1,972	2,673	4,841
Disposals	(1,352)	(120)	(656)	(2,129)
Assets held for Sale	(925)	-	-	(925)
Net revaluation increments/(decrements)	150	-	-	150
Balance at 30 June 2019	37,870	9,712	55,181	102,763
Accumulated depreciation/amortisation and impairment				
Balance at 30 June 2017	-	(5,511)	(38,893)	(44,404)
Disposals	2	47	1,075	1,124
Disposals on sale of businesses	-	-	-	-
Net adjustments from revaluation increments/(decrements)	-	-	-	-
Depreciation expense	(299)	(540)	(3,257)	(4,097)
Balance at 30 June 2018	(298)	(6,004)	(41,076)	(47,377)
Disposals	19	120	585	724
Assets held for Sale	-	-	-	-
Net adjustments from revaluation increments/(decrements)	-	-	-	-
Depreciation expense	(292)	(627)	(3,156)	(4,075)
Balance at 30 June 2019	(571)	(6,511)	(43,646)	(50,728)
Net book value				
As at 30 June 2018	39,503	1,856	12,088	53,449
As at 30 June 2019	37,299	3,201	11,535	52,035

There was no depreciation capitalised as part of the cost of other assets.

(i) Land and buildings are revalued to their fair value, based on independent market valuations performed by M3property (2018: M3property), with valuations on one third of the properties each year. The valuations are based on recent sale transactions and other relevant market data. The effective date of revaluation is 30 June 2019 (2018: 30 June 2018).

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

9. Non-Current Property, Plant and Equipment (cont'd)

As a result of the revaluation, land and buildings increased by $150,000 (2018: increased by $807,000). Of this $237,000 decreased the asset revaluation reserve (2018: $726,000 increased the asset revaluation reserve), $44,000 as an impairment loss and $431,000 as a reversal of a prior year impairment loss (2018: $133,000 as an impairment loss and $214,000 as a reversal of a prior year impairment loss) were included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

10. Goodwill

	Note	2019 $'000	2018 $'000
Gross carrying amount			
Balance at beginning of the year		38,938	38,938
Disposals on sale		(3,744)	-
Balance at beginning of the year (restated)		35,194	38,938
Balance at the end of the year		35,194	38,938
Accumulated impairments			
Balance at beginning of the year		(34,243)	(33,539)
Impairments		-	(704)
Disposals on sale		3,744	-
Balance at the end of the year		(30,499)	(34,243)
Net book value			
At the beginning of the financial year		4,695	5,399
At the end of the financial year		4,695	4,695

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the business combination. CGUs to which goodwill has been allocated are tested for impairment annually.

An EBITDA financial forecast for each CGU has been determined using the Group sales growth expectations, approved by the Board, applied to Income and Expense rates.

The recoverable amount of the CGU at 30 June 2019 was determined based on a value in use calculation. Value in use was determined using cash flow projections based on EBITDA financial forecasts.

The discount rate applied to the cash flow projections at 30 June 2019 was based on the consolidated entities WACC being 10.72% (2018: 11.64%).

The terminal value of each CGU has been calculated using the perpetual growth method. This method assumes the CGU will continue to generate Free Cash Flow at a normalised state in perpetuity. A perpetual growth rate based on an assumed CPI of 2% has been applied.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

11. Other Intangible Assets

	2019 $'000	2018 $'000
Licences	2,385	2,385
Customer lists	5,739	7,530
Rights	-	1,650
	8,124	11,565

(a) Licences

Gross carrying amount		
Balance at beginning of the year	3,793	3,793
Disposals on sale	(615)	-
Balance at the end of the year	3,178	3,793
Accumulated amortisation/impairments		
Balance at beginning of the year	(1,408)	(1,408)
Disposals on sale	615	-
Balance at the end of the year	(793)	(1,408)
Net book value		
At the beginning of the financial year	2,385	2,385
At the end of the financial year	2,385	2,385

The above relate to pharmacy licences which are considered to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash in-flows for the Group given the indefinite legal right to renew the licences for an insignificant cost.

(b) Customer Lists

	2019 $'000	2018 $'000
Gross carrying amount		
Balance at beginning of the year	22,743	22,743
Additions	10	-
Disposals	(25)	
Balance at the end of the year	22,728	22,743
Accumulated amortisation/impairments		
Balance at beginning of the year	(15,213)	(13,411)
Amortisation	(1,801)	(1,802)
Disposals	25	-
Balance at the end of the year	(16,989)	(15,213)
Net book value		
At the beginning of the financial year	7,530	9,332
At the end of the financial year	5,739	7,530

The useful life used in the above calculation of amortisation is 10 years.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

11. Other Intangible Assets (cont'd)

	2019 $'000	2018 $'000
(c) Rights		
Franchising right (i)	-	1,650
	-	1,650

(i) Franchising agreement with a Key Management Personnel related entity (KMP related entity) was cancelled as at 30 June 2019.

12. Current Trade and Other Payables

	2019 $'000	2018 $'000
Trade payables (i)	19,931	13,420
Prepaid membership fees	1,184	1,328
Other payables and accruals	2,520	2,337
	23,635	17,085

(i) The average credit period on purchases is 30 days. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

13. Current Other Financial Liabilities

	2019 $'000	2018 $'000
Interest rate caps at fair value	18	71
Interest bearing loan from Key Management Personnel Related Entity (i)	37	1,028
	55	1,099

(i) The current effective interest rate on the loan is 4% (2018: 4%)

14. Current and Non-Current Provisions

	2019 $'000	2018 $'000
Current		
Employee Benefits (i)	6,375	7,264
	6,375	7,264
Non-Current		
Employee Benefits	889	643

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

15. Current and Non-Current Borrowings

	2019 $'000	2018 $'000
Current		
Secured		
At amortised cost		
Bank loan (i)(ii)	1,500	1,500
Non-Current		
Secured		
At amortised cost		
Bank loan (i)(ii)	7,500	9,000

(i) Secured by a Registered Mortgage Debenture over the assets of the Group.
(ii) The current effective interest rate of the loan is 2.27% (2018: 2.80%).
In accordance with the security arrangement of liabilities, as disclosed in Note 15, all assets of the Group have been effectively pledged as security.

16. Issued Capital

The Company is limited by Shares and Guarantee. At 30 June 2019 and at 30 June 2018, the Company had no issued shares.

The Company is limited by a guarantee of $1 per Member. At 30 June 2019, the Company had 148,575 Members (2018: 152,895).

17. Asset Revaluation Reserve

	2019 $'000	2018 $'000
Balance at the beginning of the year	10,666	10,160
(Decrease) / Increase arising on revaluation of properties	(238)	726
Tax consequences	(92)	(220)
Balance at end of the year	10,336	10,666

The asset revaluation reserve arises on the revaluation of land and buildings. Where a revalued land or building is sold the portion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred directly to retained profits.

18. Commitments for Capital Expenditure

	2019 $'000	2018 $'000
Leasehold improvements	500	1,743
Balance at end of the year	500	1,743

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

19. Contingent Liabilities and Assets

The Group has given bank guarantees of $751,000 (2018: $613,000) in relation to leasehold properties. There are no other contingent liabilities or assets as at 30 June 2019 and 30 June 2018.

20. Leases

	2019 $'000	2018 $'000
Operating Leases		
Non-cancellable operating leases		
Contracted for:		
Not longer than 1 year	8,122	8,111
Longer than 1 year and not longer than 5 years	18,914	17,497
Longer than 5 years	5,241	3,321
	32,277	28,929

Operating leases relate to retail outlets with lease terms of between 0 to 30 years with an option to extend some for a further 1 to 15 years. Most operating lease contracts contain market review clauses in the event that the leases are renewed. There is no option to purchase the leased assets at the expiry of the lease periods.

21. Related Party Disclosures

(a) Transactions with Key Management Personnel

Where Key Management Personnel are members of the Group they pay contributions at normal member rates.

(b) Transactions with Related Parties

(i) No revenue was received from Key Management Personnel Related Entities.

(ii) Aggregate amounts payable to Key Management Personnel Related Entities have been disclosed in Note 13.

(iii) Subscriptions of $Nil (2018: $35,887) were paid to Australian Friendly Society Pharmacies Association.

(iv) Subscriptions of $42,877 (2018: $51,365) were paid to National Pharmaceutical Services Association.

(v) Consultancy Fees of $15,370 (2018: $Nil) were paid to National Pharmaceutical Services Association.

(vi) Interest of $26,076 (2018: $25,954) was paid to a Key Management Personnel Related Entity in respect of a loan.

(vii) As at 30 June 2019 the partnership between the Company and Auburn and Lidcombe Friendly Society Pharmacy Board Ltd (A&L) was wound up. The Company paid an amount of $36,524 as consideration for the 1% ownership A&L had in the entity known as National Pharmacies Victoria (NPV). This resulted in the disposal of the non-controlling interest of $362,784 (Note 24), repayment of the interest bearing loan from A&L of $925,000 (Note 13) and derecognition of the franchising right of $1,650,000 (Note 11), resulting in a net loss on disposal recognised within Note 4(b) of $725,000.

The above transactions are between Key Management Personnel Related Entities and the Group and occur under normal terms and conditions.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2019

22. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2019 $'000	2018 $'000
Cash	6,985	24

(b) Financing Facilities

Secured bank loan facility

Facility Limit	19,000	20,500
Amount Drawn	(9,000)	(10,500)
Amount Available	10,000	10,000

Secured Bank Guarantee

Facility Limit	750	750
Amount Drawn	(750)	(613)
Amount Available	-	137

The above facilities are subject to annual review and are secured by a Registered Mortgage Debenture over the assets of the Group.

(c) Businesses Disposed

During the financial year, 3 stores were sold by the Group (2018: nil)
Details of the disposals are as follows:

	2019 $'000	2018 $'000
Consideration		
Cash	1,892	-
Carrying Value of Net Assets Disposed		
Current Assets:	7	
Inventories	156	-
Non-current Assets:		
Property, plant and equipment	75	-
Current Liabilities	(93)	
Net Assets Disposed	144	-
Gain of disposal recognised through other income	1,748	-

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

23. Financial Instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in Note 3.

(b) Categories of financial instruments

	2019 $'000	2018 $'000
Financial assets		
Loans and Receivables	4,609	5,258
Cash and cash equivalents	6,985	24
Financial liabilities		
Amortised cost	32,672	28,613
Interest rate cap contracts	18	71

(c) Interest rate cap contracts

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate cap contracts and is limited up to the value of the Group's secured bank loan facility.

Under interest rate cap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate caps at the reporting date is determined by discounting the future cash flows using the applicable yield curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The fair value of interest rate cap contracts designated as cash flow hedges outstanding at the end of the reporting period is $18,000 (2018: $71,000).

All interest rate cap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group’s cash flow exposure resulting from variable interest rates on borrowings. The interest rate caps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments on debt impact profit or loss.

(d) Fair value of financial instruments

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Derivatives
Interest rate caps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

24. Non-Controlling Interests

	2019 $'000	2018 $'000
Balance at the beginning of the year	354	343
Share of loss for the year	9	11
Disposal of A&L minority interest (refer Note21 (b) (vii))	(363)	-
Balance at end of the year	-	354

25. Acquisition of Businesses

During the year, no businesses were acquired.

No businesses were acquired during the 2019 financial year.

26. Parent Entity Information

	2019 $'000	2018 $'000
(a) Financial Position		
Assets		
Current Assets	51,496	43,480
Non-Current Assets	64,953	67,281
Total Assets	116,450	110,761
Liabilities		
Current Liabilities	31,565	31,705
Non-Current Liabilities	8,389	643
Total Liabilities	39,954	32,348
Equity		
Issued Capital	-	-
Retained Earnings	66,159	67,748
Asset Revaluation	10,336	10,685
Total Equity	76,495	78,413

Notes to the Financial Statements for the Financial Year Ended 30 June 2019

26. Parent Entity Information (cont'd)

	2019 $'000	2018 $'000
(b) Financial Performance		
Profit/(Loss) for the year	(1,641)	(1,586)
Other comprehensive income	(330)	506
Other comprehensive loss	(1,971)	(1,080)
(c) Commitments for the acquisition of property, plant and equipment by the parent entity		
Plant & Equipment	-	-

(d) Contingent Liabilities

The Company has given bank guarantees of $750,547 (2018: $613,000) in relation to leasehold properties.

27. Controlled Entities

	Country of Incorporation	Ownership Interest 2019 %	Ownership Interest 2018 %
Parent Entity			
Friendly Society Medical Association Limited	Australia		
Controlled Entities			
National Pharmacies Australia Pty Ltd	Australia	100	100
National Pharmacies Victoria Partnership	Australia	100	99

National Pharmacies Australia Pty Ltd has not prepared an audited financial report as the entity is classified as a small proprietary company under the Corporations Act 2001.

GENERAL MANAGERS

Tony Wojciechowski
Managing Director

Vito Borrello
General Manager Operations

Ryan Klose
General Manager Corporate

Brad Mills
General Manager Support

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NATIONAL PHARMACIES