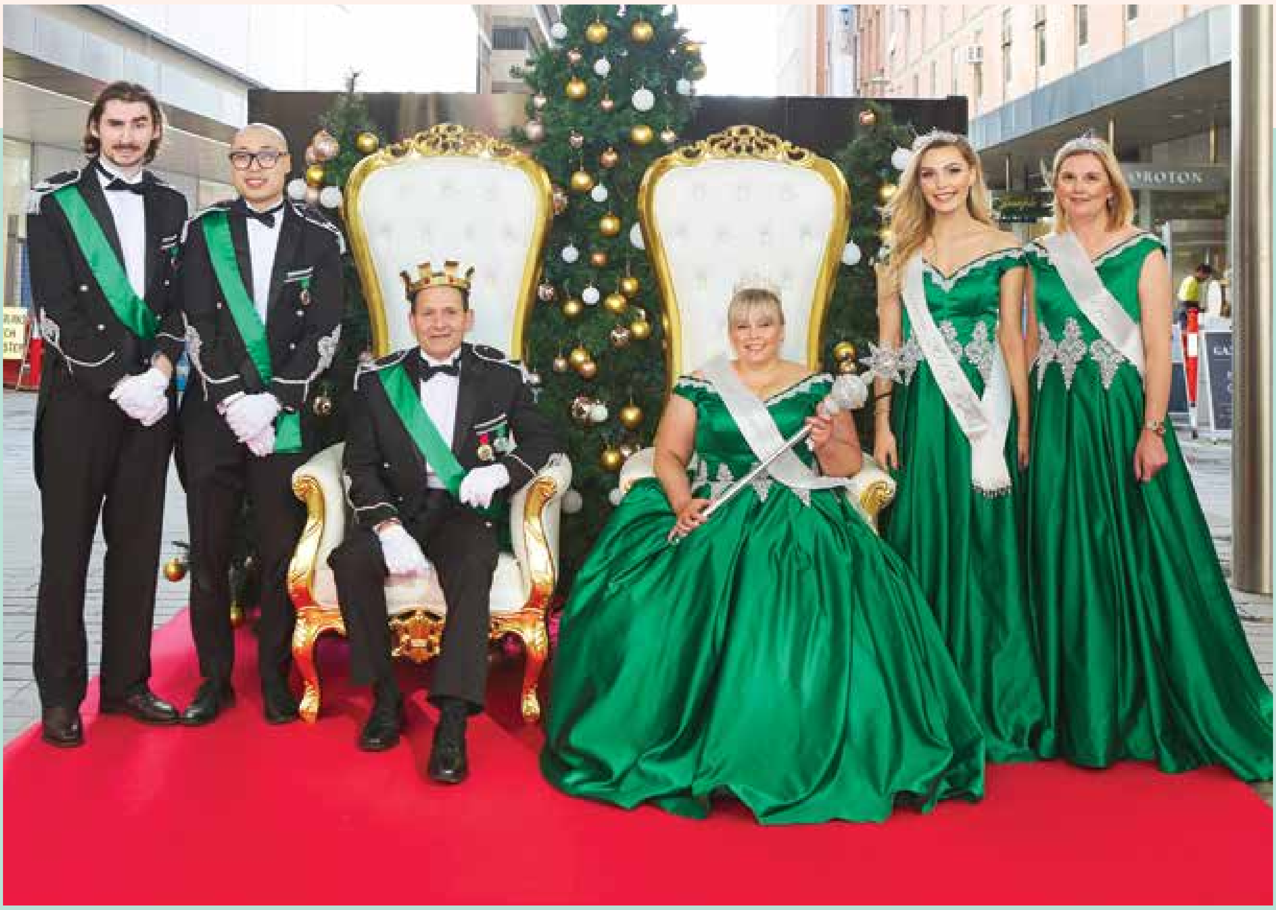
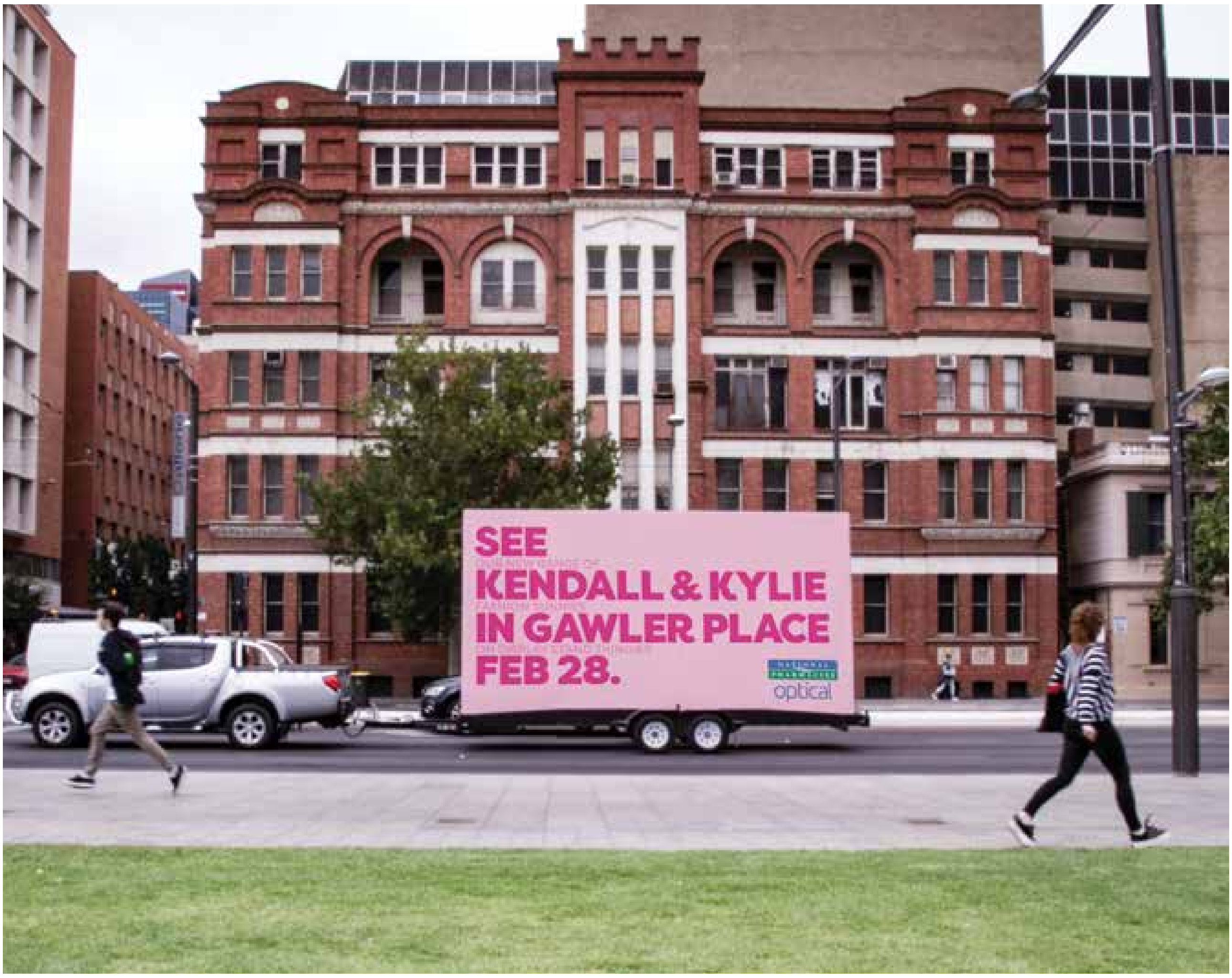
Annual Report 2020

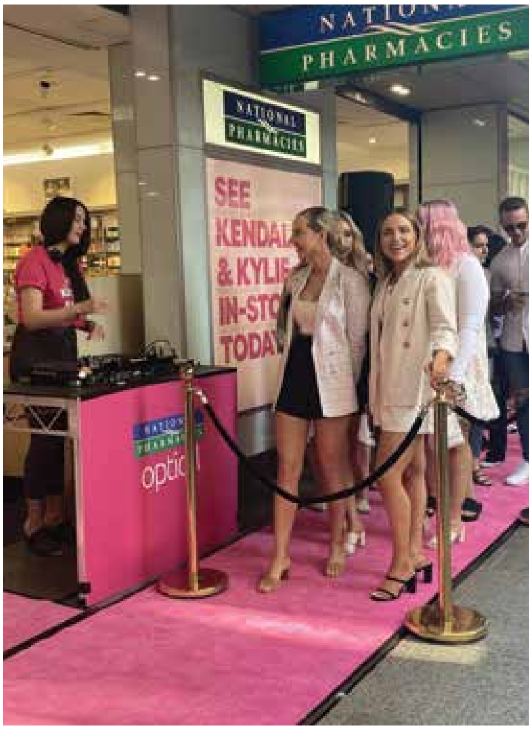
FRIENDLY SOCIETY MEDICAL ASSOCIATION LIMITED

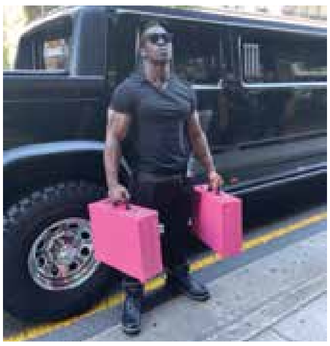


NATIONAL PHARMACIES

Where wonder meets wisdom.







"Kendall & Kylie" Launch, Rundle Mall, Adelaide.

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Report of National Pharmacies' Operations for 2019/20

National Pharmacies' pharmaceutical leadership and experience served our members, our community and our staff well in this, the most confronting and challenging of our 109 years of service.

National Pharmacies' pharmaceutical leadership, experience and care has served our members, our community and our staff well in this, the most confronting and challenging of our 109 years of service.

Our frontline staff and support teams consistently put customers first and live National Pharmacies' vision of "adding value to members lives". Together, we maintained uninterrupted support and essential public services for our communities in a time of crisis that is without parallel.

Our outlook for the 2021 financial year is sound and positive even though COVID-19, along with legacy matters from previous years, combined to adversely affect our financial results for 2020.

WE CELEBRATE NATIONAL PHARMACIST DAY

Some of our dedicated
team of pharmacists

COVID-19 response "Sneeze Screens"

Ours was the first pharmacy group to install 'sneeze screen' acrylic customer shields in addition to the implementation of rigorous COVID-19 safe protocols

OPERATIONS

In 2019 the Board approved a dispensary pricing initiative to provide greater value to members and customers for everyday prescriptions. Significantly, this has stimulated growth in prescriptions for the first time in several years.

COVID-19

National Pharmacies provides an essential service to its members and customers. Ours is a prescribed essential public service in a pandemic. Staff commitment and leadership enabled National Pharmacies to maintain all of our services including optical without interruption.

National Pharmacies responded decisively and swiftly at the outset of the worldwide pandemic. Ours was the first pharmacy group Australia wide to install 'sneeze screen' acrylic customer shields in addition to implementing rigorous COVID-19 safe protocols in our stores to protect and assure our customers and employees.

When an employee of our Findon store contracted the virus through a link to the Adelaide Airport cluster of infections in March 2020, our timely responses protected the health and safety of employees, members and customers. Our rapid response and handling of the incident ensured there was no transmission of the virus from or within our Findon store and became a benchmark for others in the pharmacy sector.

At all our stores, our pharmacists and staff continue to provide an uninterrupted essential public service to members and the community.

Our Victorian teams have continued their valued support to their local communities throughout the stage 4 restrictions, by maintaining trading hours, completing home deliveries and telehealth consultations.

Top: COVID-19 response, Victoria
Below: Gawler Optical

PEOPLE AND CULTURE

National Pharmacies is committed to engendering a high-performance culture in a safe and healthy working environment for all employees. As a trusted community health provider we demand ethical decision-making at all levels across the organisation. We expect our leaders and employees to always give their best and make sound and informed decisions.

As an organisation, we continue to navigate the challenges emanating from COVID-19. During the year we did this without redundancies, stand-downs or pay cuts. Our employees continue to come to work with confidence, expertise and compassion for our members and customers to meet their health and wellbeing needs.

The implementation of our new employee engagement survey has given us important insights into the programs and initiatives that are most valued by our people. Investment will be made in the following three areas in the year ahead:

- Information Technology and service
- Developing people and improving performance
- Improving communication and information

National Pharmacies embraces diversity and proudly employs people from every continent in the world bar Antarctica. More than 83% of our employees believe that National Pharmacies is a culturally diverse and inclusive workplace.

The 2019 Workplace Gender Equity Authority assessment of National Pharmacies found the organisation to be compliant in all aspects of gender and pay equity and is leading the way with employee benefits such as 10 days paid domestic violence and two days paid wellbeing days per annum.

Gawler store 1st Birthday

Glenelg store team

Naturopaths, SA stores

Clarins, Semaphore Store

Top: KickStart For Kids

Above: Bruto Float at National Pharmacies Christmas Pageant 2019

Below: Clown at National Pharmacies Christmas Pageant 2019

SOCIAL CONTRIBUTION

Our community engagement has historically been deeply connected with grass roots junior sport and recreational wellbeing. We continue to value this involvement through the sponsorship of local clubs. It was extended this year with a strong alignment to SANFL junior boys' and girls' competitions in the SANFL National Pharmacies Juniors for season 2020. It has been a challenging season for all sports but, with National Pharmacies firmly behind them, the community club-based competition eventually got up and running with more than 600 clubs.

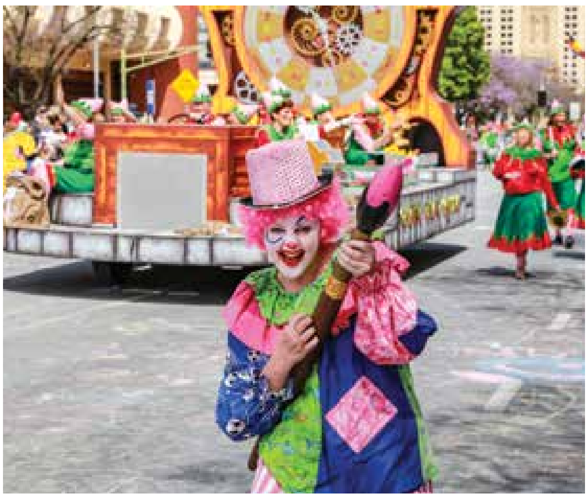
National Pharmacies financially supports over 70 local sporting clubs throughout South Australia, Victoria and New South Wales. These relationships are fostered and maintained at a local level by our store teams and are very much valued by the local community.

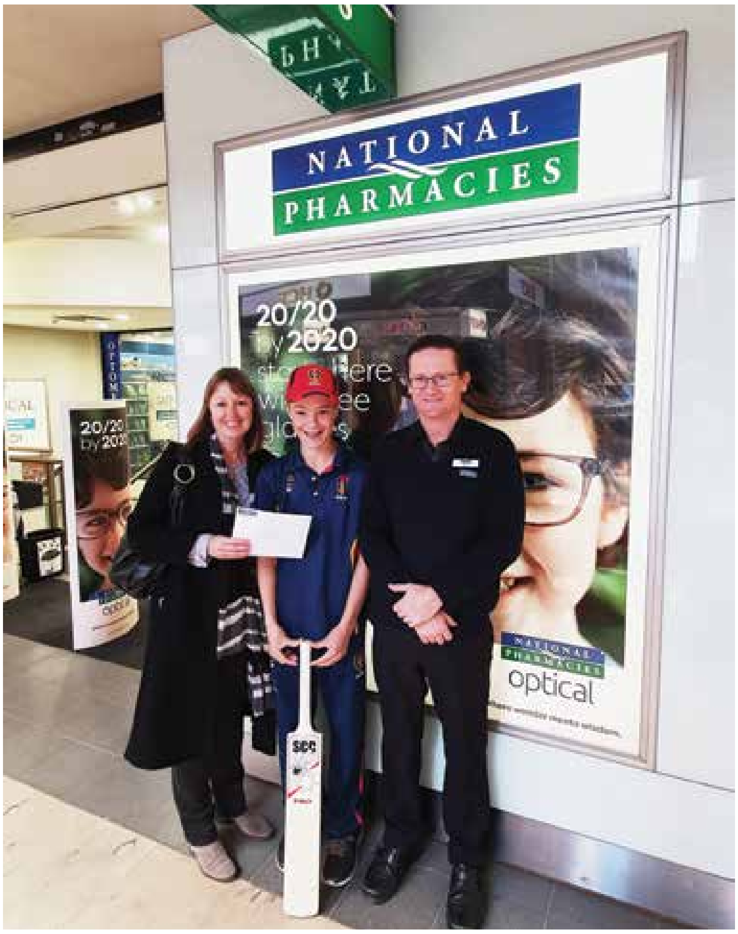
The inaugural National Pharmacies Christmas Pageant was a resounding success and gave unprecedented participation access to members and the public to join and be a part of it. Members were given this opportunity through their National Pharmacies membership, further reinforcing the value of being a member. They joined an exceptional group of employees to create a cast of 800 people who brought the event to life for 300,000 children and families. It is a great privilege to partner Events SA on this very special South Australian community event.

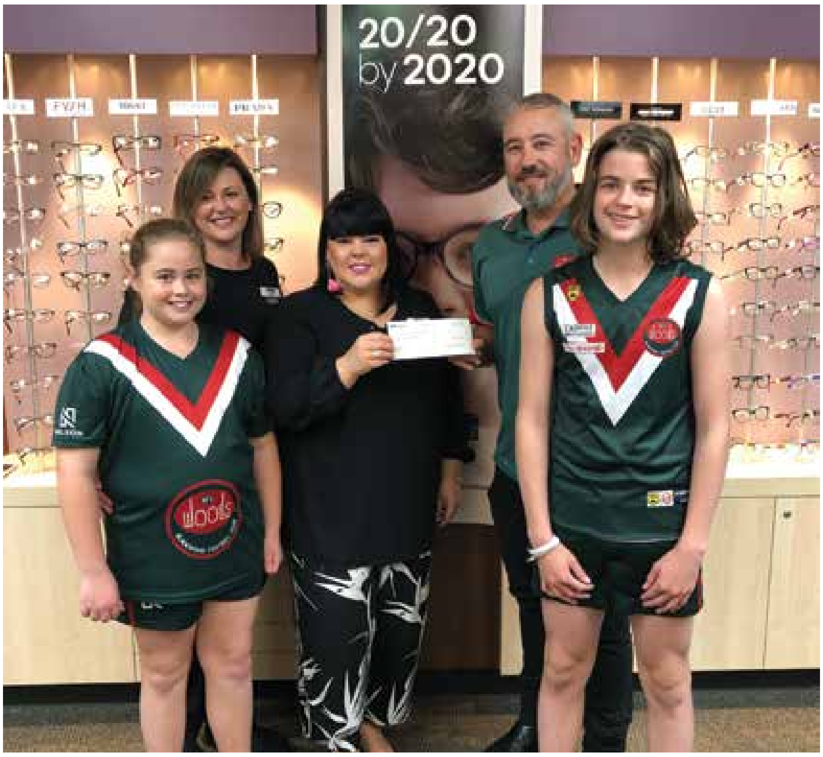
As a foundation partner and sponsor of the South Australian Children's charity "KickStart For Kids" National Pharmacies once again collected and pledged donations of over $20,000 in 2019/20.

Throughout the year we also raised funds for the Royal Children's Hospital charity through collections in our Victorian stores.

The inaugural National Pharmacies Christmas Pageant was a resounding success and gave unprecedented participation access to members and the public to join and be a part of it.







Local store sponsorships

TRADING RESULTS

National Pharmacies continues to focus on providing value to our members. As part of this we have invested more than $4 million into a dispensary pricing strategy to reduce the cost of precriptions for the top 350 dispensed items.

During the year, the COVID-19 pandemic resulted in widespread Government restrictions and social changes from March 2020 onwards. The Group experienced some operational adjustments as a result of the pandemic, including a temporary but significant reduction in optical activity and the requirement for certain staff to work from home to reduce exposure risk. In addition to optical sales, dispensary and Government funded services were adversely impacted by the COVID-19 pandemic.

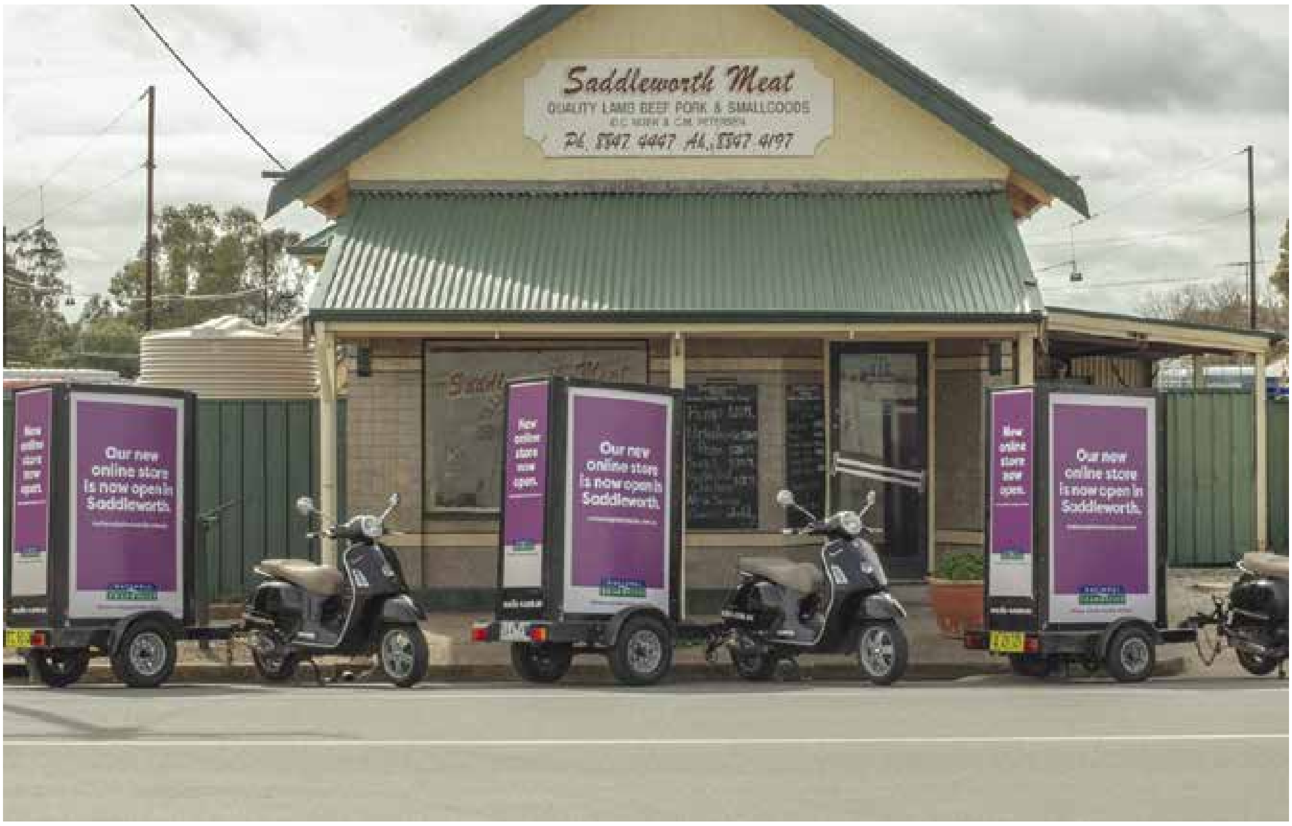
Revenue during 2019/20 was $252.1 million, which was a 0.9% decrease on the previous year. Reported underlying earnings from operations was a loss of $7.9 million with a corresponding EBIT loss of $5.2 million and EBITDA of $6.2 million. Benefits provided to members over this period were $24.7 million.

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 expectation that over the five-year forecasted period we will realise growth in prescription numbers and retail and optical sales. The result is that an impairment of $1.8 million (nil in 2019) is required to reduce the carrying value of Goodwill and Intangible Assets held on the Balance Sheet as at 30 June 2020.

PBS price disclosure reform in the last five to seven years has significantly impacted Community Pharmacy earnings. National Pharmacies has continued to implement various strategic and operational sales growth initiatives, cost reduction measures and margin enhancement activities to mitigate a proportion of that impact. The result is a leaner, more efficient and effective business, underpinned with a strong Balance Sheet, in a favourable position to grow in a post COVID-19 environment.

National Pharmacies is a mutual organisation focused on providing value to its members. We achieve this by reinvesting a significant proportion of earnings back into the business in the form of additional Member Benefits, services and capital improvement projects. As such, reported profits will remain marginal.

These factors influenced this year's reported net profit after tax, which was a loss of $8.2 million.



National Pharmacies Online Store Launch in Saddleworth

Above: Vito Borrello, joined by Jolly, Jingles and Christmas elves, to announce the 2020 National Pharmacies Christmas Pageant at Adelaide Oval

NEW LEADERSHIP

Vito Borrello took up his appointment as our new Chief Executive Officer in October 2019, replacing long serving Tony Wojciechowski who retired in early 2020.

Over the next few years, the focus will be to grow the organisation for its members, customers and employees. The foundations are being laid for this new phase with a management structure that focusses on addressing legacy issues, innovating for the long term, completing foundation work on customer facing systems implementation and reviewing product and service offerings to customers.

Most of Vito's time as CEO has been spent stabilising and successfully leading the organisation through the COVID-19 pandemic, while minimising the impact on customers and employees. Early signs in the new financial year are positive with a much stronger trading performance.

OUR FUTURE

As a member-based organisation, we strive to improve and increase the value that a National Pharmacies membership delivers to each of our members and our communities.

We will continue to invest in our people and adapt to the everchanging landscape in which we operate. All our effort is devoted to ensuring that we continually meet our members' and customers' expectations, providing comprehensive product ranges and health services at competitive prices with reliable, friendly, efficient and expert service.

We are embarking on an exciting journey with a focus on growth and innovation to create even more value for our members.

The FSMA Board and Management are proud and extremely grateful for the tremendous effort put in by our teams throughout a very challenging 12 months. We commend them for their uninterrupted and high quality of care and service to our members and customers. We thank our members for their loyalty and continued patronage.

P F CARR
Chairman

V. BORRELLO
Chief Executive Officer

Directors' Report

For the Financial Year Ended 30 June 2020

The Directors of Friendly Society Medical Association Limited (the Company) and its controlled entities (the Group) submit herewith their report, together with the annual financial report for the financial year ended 30 June 2020 and the Independent Auditor's Report thereon. 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 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 in addition to chairing the University Council she also 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.
Gregory John Connor BEd, SF Fin, FAICD, Life Member and FAIM	**Experience and Expertise** Mr Connor is a Management Consultant and founding Director of VUCA Pty Ltd. 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 Mutual Organisations, Financial Services, Corporate Governance 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 is Deputy Chairman of the Executive Committee. He is also a member of the Audit and Risk Committee.

NAME	PARTICULARS
Richard Anthony Fountayne England FCA, MAICD	**Experience and Expertise** Mr England has over 25 years' experience as a non-executive director and Chairman of numerous listed and unlisted companies encompassing Financial Services, Banking, Insurance, Healthcare, Innovation, Agribusiness and Infrastructure. Mr England joined the Board on 1 January 2020. **Current and Former Directorships in the Last 3 Years** Currently, Chairman of QANTM Intellectual Property Limited and Hobart International Airport Pty Ltd and a director of HBF Health Limited and Indigenous Art Code Limited. His former directorships include Japara Healthcare Limited, Bingo Industries Limited, Nanosonics Limited and Atlas Arteria Limited. **Responsibilities** Mr England is Chairman of the Audit and Risk Committee.
Linda Maree Heron GAICD, MAHRI, MContempLdship	**Experience and Expertise** Mrs Heron has over 10 year's experience as a non-executive director across the private and public sectors. Linda has also held several senior executive roles including managing the Human Resources, corporate governance and legal counsel functions at Melbourne Water, leading very large operational teams in the Coles Supermarket business and establishing and leading the Organisational Development function within the corporate Human Resources division of ColesMyer. She joined FSMA on 29 March 2010 as a Non-Executive Director. **Current and Former Directorships in the Last 3 Years** Current Non-Executive Director of the Army and Airforce Canteen Service and Chairman of the Audit Committee. Mrs Heron is also the Director of Heron Human Resources, a business she established to provide expert advice to businesses on strategic Human Resources issues including change management, leadership and talent development. **Responsibilities** Mrs Heron is Chairman of the People, Culture and Rewards Committee and a member of the Audit and Risk Committee.

NAME	PARTICULARS
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 is a member of the Audit and Risk Committee and the People, Culture and Rewards Committee.
Anthony Edward Wojciechowski Retired 30 September 2019	**Experience and Expertise** Mr Wojciechowski was the Managing Director of Friendly Society Medical Association Limited from 26 August 2013 until his retirement from the Board on 30 September 2019.

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

The Group continues to focus on member value, investing $4.0 million into a dispense pricing strategy to reduce the cost of precriptions for the top 350 dispensed items. During the year the COVID-19 pandemic resulted in widespread Government restrictions and social changes from March 2020 onwards. The Group experienced some operational adjustments as a result of the pandemic, including a temporary but significant reduction in optical activity and the requirement for certain staff to work from home to reduce exposure risk. In addition to optical sales, dispensary and Government funded services were adversely impacted by the COVID-19 pandemic. Subsequently, trading activities have returned to budgeted levels and the business has transitioned back to office-based operations.

Revenue during 2019/20 was $252.1 million which was a 0.9% decrease on the previous year. Reported underlying earnings from operations was a loss of $7.9 million with a corresponding EBIT loss of $5.2 million and EBITDA of $6.2 million. Benefits to members over this period were $24.7 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 expectation that over the five year forecasted period we will realise growth in prescription numbers, and retail and optical sales. The result is that an impairment of $1.8 million (2019: $nil) is required to reduce the carrying value of Goodwill and Intangible Assets held on the Balance Sheet as at the 30 June 2020.

The factors outlined above influenced this year's reported net profit after tax, which was a loss of $8.2 million.

CHANGES IN STATE OF AFFAIRS

Mr Vito Borrello was appointed as Chief Executive Officer on 1 October 2019, replacing Mr Tony Wojciechowski who retired as Managing Director. Mr Richard England joined the Board of Directors on 1 January 2020.

SUBSEQUENT EVENTS

As a result of the evolving nature of the COVID-19 pandemic and the rapidly evolving Government policies of restrictive measures put in place to contain it, as at the date of these financial statements the Group is not in a position to reasonably estimate the financial effects of the COVID-19 pandemic on the future financial performance and financial position of the Group.

Other than the current disclosures, there have been no events subsequent to the reporting date which would have a material impact on the Group's 30 June 2020 financial statements.

FUTURE DEVELOPMENTS

National Pharmacies will continue to focus on member value and providing quality services by refining and developing the capabilities of its people and technology systems. We will further advance operational productivity, build upon new pharmacy and optical initiatives and take advantage of emerging growth 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 17 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, 1 Corporate Governance Committee meeting (following a review of the Committees undertaken during 2019 the Board resolved to reallocate the tasks of the Corporate Governance Committee between the other Committees and the Board. The Committee was dissolved on 26 August 2019), 3 Audit and Risk 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	1	1	3	#3	3	3
G J Connor	13	13	1	1	3	3	3	^2
R A F England	6	6			2	2		
L M Heron	13	13	1	1	3	2	3	3
I R Witton	13	13	1	#1	3	3	3	3
A Wojciechowski	3	3	1	*1	1	*1	1	*1

* 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

R A F England
Director

Adelaide, 28 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 2020 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

28 September 2020

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 2020 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 2020;
- 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 Friendly Society Medical Association Limited (the Company) and the entities it controlled at the 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 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 (including Independence Standards) (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
28 September 2020

DIRECTORS' DECLARATION

The Directors of Friendly Society Medical Association Limited (the Company) declare that in their opinion:

a) the Company is not publicly accountable;

b) the attached consolidated 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 Group as at 30 June 2020 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

R A F England
Director

Adelaide, 28 September 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Revenue	4(a)	252,094	254,437
Other income	4(b)	1,447	2,232
Finance costs	4(b)	(2,963)	(402)
Other expenses	4(b)	(258,746)	(258,000)
Loss before income tax (expense) / benefit		**(8,168)**	**(1,733)**
Income tax (expense) / benefit	5(a)	64	92
Profit/(Loss) for the period		**(8,104)**	**(1,641)**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:			
(Loss) / Gain on property revaluation		72	(238)
Income tax on items taken directly to or transferred from equity		(64)	(92)
Other comprehensive (loss) / gain for the year		8	(330)
Total comprehensive profit/(loss) for the year		**(8,096)**	**(1,971)**
Profit/(Loss) for the period attributable to:			
Owners of the Company		(8,104)	(1,632)
Non-controlling interests		-	(9)
		(8,104)	**(1,641)**
Total comprehensive profit/(loss) attributable to:			
Owners of the Company		(8,096)	(1,962)
Non-controlling interests		-	(9)
		(8,096)	**(1,971)**

Notes to the financial statements are included as pages 25 to 53.

Consolidated Statement of Financial Position as at 30 June 2020

	Note	2020 $'000	2019 $'000
Current Assets			
Cash and cash equivalents	22(a)	891	6,985
Trade and other receivables	7	3,267	4,609
Inventories	8	40,470	37,647
Prepayments		985	1,330
Assets held for sale		2,737	925
Total Current Assets		**48,350**	**51,496**
Non-Current Assets			
Property, plant and equipment	9	85,843	52,035
Goodwill	10	3,596	4,695
Other intangible assets	11	6,243	8,124
Other non current assets		71	99
Deferred tax assets	5(b)	-	-
Total Non-Current Assets		**95,753**	**64,953**
Total Assets		**144,103**	**116,449**
Current Liabilities			
Bank overdraft	22(a)	2,785	-
Trade and other payables	12	30,072	23,635
Borrowings	15	7,400	1,500
Other financial liabilities	13	27	55
Provisions	14	7,069	6,375
Total Current Liabilities		**47,353**	**31,565**
Non-Current Liabilities			
Borrowings	15	32,793	7,500
Provisions	14	1,734	889
Total Non-Current Liabilities		**34,527**	**8,389**
Total Liabilities		**81,880**	**39,954**
Net Assets		**62,223**	**76,495**
Equity			
Issued capital	16	-	-
Asset Revaluation Reserves	17	10,344	10,336
Retained earnings		51,879	66,159
Parent entity interest		62,223	76,495
Non-controlling interests	24	-	-
Total Equity		**62,223**	**76,495**

Notes to the financial statements are included as pages 25 to 53.

Consolidated Statement of Changes in Equity for the Financial Year Ended 30 June 2020

	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 2018	-	10,666	68,154	78,820	(354)	78,466
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**
Balance at 1 July 2019	-	10,336	66,159	76,495	-	76,495
Impact of transition to AASB 16	-	-	(6,176)	(6,176)	-	(6,176)
Profit/(Loss) for the period	-	-	(8,104)	(8,104)	-	(8,104)
Other comprehensive income for the year:						
Loss on property revaluation	-	72	-	72	-	72
Tax consequences	-	(64)	-	(64)	-	(64)
Total comprehensive (loss)/income for the year	-	8	(14,280)	(14,272)	-	(14,272)
Balance at 30 June 2020	**-**	**10,344**	**51,879**	**62,223**	**-**	**62,223**

Notes to the financial statements are included as pages 25 to 53.

Consolidated Statement of Cash Flows for the Financial Year Ended 30 June 2020

	Note	Inflows/ (Outflows) 2020 $'000	2019 $'000
Cash Flows from Operating Activities			
Receipts from customers		254,689	256,347
Payments to suppliers and employees		(252,055)	(255,546)
Member contributions received		8,124	8,404
Interest paid		(262)	(301)
Net Cash used in Operating Activities		**10,496**	**8,904**
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(3,151)	(4,848)
Payments for licences		(641)	-
Proceeds from sale of business	22(c)	1,463	1,892
Proceeds from sale of assets		-	2,486
Interest received		24	27
Net Cash used in Investing Activities		**(2,305)**	**(443)**
Cash Flows from Financing Activities			
Repayment of borrowings		(9,000)	(1,500)
Payment of lease liabilities		(8,070)	-
Net Cash used in Financing Activities		**(17,070)**	**(1,500)**
Net increase/(decrease) in cash and cash equivalents held		(8,879)	6,961
Cash and cash equivalents at the beginning of the Financial Year		6,985	24
(Bank overdraft) / Cash and cash equivalents at the end of the Financial Year	22(a)	**(1,894)**	**6,985**

Notes to the financial statements are included as pages 25 to 53.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

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 (iii) 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.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

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 law.

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 28 September 2020.

(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 otherwise noted.

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 2020 was $3,596,000 (30 June 2019: $4,695,000). An impairment loss of $1,099,000 was recognised during 2020 (2019: Nil).

The financial year end for the Group is 28 June 2020 and comprises 52 weeks (2019: 30 June 2019 and comprising 52 weeks).

(iii) *Changes in Accounting Policies from 2019*

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3(iv) to all periods presented in these consolidated financial statements.

The Group has mandatorily adopted AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-profit Entities and AASB 16 Leases with a date of initial application of 1 July 2019. A number of other new standards are also effective from 1 July 2019 but they do not have a material effect on the Group's financial statements.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(iii) *Changes in Accounting Policies from 2019 (cont'd)*

(a) AASB 15 Revenue from Contracts with Customers & AASB 1058 *Income of Not-for-profit Entities*

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 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 not-for-profit entities and is applied in conjunction with AASB 15.

The Group has applied AASB 15 and AASB 1058 using the cumulative effect method – ie. by recognising the cumulative effect of initially applying AASB 15 and AASB 1058 as an adjustment to the opening balance of equity at 1 July 2019. Therefore the comparative information has not been restated and continues to be reported under AASB 118 Revenue and AASB 1004 Contributions.

The details of the impact of AASB 15 and AASB 1058 and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below

Type of product or service	**Nature, timing of satisfaction of performance obligations**	**Nature of change in accounting policy**
Sale of goods	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 and is recognised when: - the Group has transferred to the buyer control 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.	AASB 15 and AASB 1058 did not have a significant impact on the Group's accounting policies.
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.	AASB 15 and AASB 1058 did not have a significant impact on the Group's accounting policies.
Member contributions	Revenue from members' contributions is recognised on an accrual basis.	AASB 15 and AASB 1058 did not have a significant impact on the Group's accounting policies.

The Group also receives rental revenue and other revenue; however, the aggregate amount of these types of revenue is not material to the Group and AASB 15 and AASB 1058 did not have a significant impact on the Group's accounting policies.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(iii) *Changes in Accounting Policies from 2019 (cont'd)*

(b) AASB 16 Leases

The Group applied AASB 16 Leases from 1 July 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for the year ended 30 June 2019 is not restated - i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in AASB 16 have not generally applied to comparative information.

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under AASB Interpretation 4 *Determining whether an Arrangement contains a Lease* . The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3 (iv)(j).

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and AASB Interpretation 4 were not reassessed for whether there is a lease under AASB 16. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

(ii) As a lessee

As a lessee, the Group leases many assets including property, production equipment and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

(a) Leases classified as operating leases under AASB 117

Previously, the Group classified property leases as operating leases under AASB 117. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019 (see Note 3(iii)(b)(iii)) Right-of-use assets are measured at either:

- their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the initial application: the Group applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all other leases.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(iii) *Changes in Accounting Policies from 2019 (cont'd)*

(b) AASB 16 Leases (cont'd)

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease; and
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

(iii) Impact of transition on financial statements

On transition to AASB16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

In $'000s	**1 July 2019**
Right-of-use assets - property, plant and equipment	38,785
Deferred tax asset	-
Lease liabilities - future lease payments	(43,617)
Provisions - make-good	(1,344)
Retained earnings	(6,176)

(iii) Impact of transition on financial statements (cont'd)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowings rate at 1 July 2019. The incremental borrowing rate ranges between 4.0% - 7.2% dependent on the remaining lease term.

In $'000s	**1 July 2019**
Operating lease commitments at 30 June 2019 as disclosed under AASB 117 in the Group's consolidated financial statements	32,277
Discounted using the incremental borrowing rate at 1 July 2019	(5,406)
Finance lease liabilities recognised as at 30 June 2019	26,871
- Recognition exemption for leases with less than 12 months of lease term at transition	(1,154)
- Extension options reasonably certain to be exercised	17,900
Lease liabilities recognised at 1 July 2019	**43,617**

(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

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.

(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.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(b) Property Plant and Equipment (cont'd)

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

(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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(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 2020 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 2020 was based on the consolidated entities WACC being 10.66% (2019: 10.72%).

(g) Income Tax

<u>Current tax</u>
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).

<u>Deferred tax</u>
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.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(g) Income Tax (cont'd)

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

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.

(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

The Group has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117 and AASB Interpretation 4. The details of accounting policies under AASB 117 and AASB Interpretation 4 are disclosed separately.

Policy applicable before 1 July 2019

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.

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.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(j) Leased Assets (cont'd)

Policy applicable from 1 July 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in AASB 16.

This policy is applied to contracts entered into, on or after 1 July 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments; and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured where there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(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.

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 3(b)).

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(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 control 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.

(o) Financial Instruments

(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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(o) Financial Instruments (cont'd)

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.

(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.

(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.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

3. Summary of Accounting Policies (cont'd)

(q) Business Combinations (cont'd)

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 2020

4. Profit from Operations

	2020 $'000	2019 $'000
(a) Revenue		
Revenue from continuing operations consisted of the following items:		
Revenue from the sale of goods	210,949	214,111
Revenue from the rendering of services	30,174	29,992
Member contributions	7,365	7,648
Rental revenue	665	588
Interest revenue:		
Bank deposits	-	-
Loan	24	27
Other revenue	2,917	2,071
	252,094	254,437
(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	152	431
Profit on disposal of stores	1,295	1,748
Change in fair value of interest rate caps	-	53
	1,447	2,232
Loss before income tax has been arrived at after charging the following expenses:		
Finance costs:		
Interest on bank loan	281	294
Lease interest expense	2,663	-
Other finance costs	19	108
	2,963	402

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

4. Profit from Operations (cont'd)

	2020 $'000	2019 $'000
(b) Loss before income tax (cont'd)		
Loss before income tax has been arrived at after charging the following expenses:		
Cost of sales	175,772	173,524
Retail expenses	42,210	38,878
Administration expenses	15,155	18,560
Occupancy expenses	17,393	19,686
Marketing expenses	4,827	4,604
Loss on disposal of property, plant and equipment (excluding plant and equipment disposed included in above disposal of stores)	-	178
Other expenses	3,389	2,569
	258,746	258,000
Employee benefit expense:		
Wages and salaries	44,403	44,673
Contributions to superannuation funds	4,247	4,223
Decrease in employee benefits provision	195	(643)
	48,845	48,253
Depreciation of non-current assets	9,758	4,075
Impairment of non current assets	1,754	44
Amortisation of customer lists	1,632	1,801

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

5. Income Taxes

	2020 $'000	2019 $'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	(64)	(92)
Total tax expense/(income)	(64)	(92)
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	(8,168)	(1,733)
Income tax revenue calculated at 30% (2019: 30%)	(2,450)	(520)
Non-deductible expenses – other	1,437	205
Non-deductible expenses – non current assets impairment and amortisation	1,016	540
Current year capital losses utilised / (net capital losses recognised)	203	(1,185)
Current year capital loss not recognised	225	1,010
Current year revenue loss not recognised	1,326	-
Non taxable income	(1,328)	(265)
Prior year derecognition of revenue and capital losses	521	704
Adjustments recognised in the current year in relation to prior years	(1,014)	(582)
Income tax expense/(income)	(64)	(92)

The tax rate used in the above reconciliation is the corporate tax rate of 30% (2019: 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 2020

5. Income Taxes (con't)

	2020 $'000	2019 $'000
(b) Recognised deferred tax asset		
The deferred tax asset is attributable to the following:		
Trade and other receivables	3	3
Inventories	55	39
Property, plant and equipment	(3,310)	(2,781)
Intangible assets	(2,140)	(2,437)
AASB 16 - Lease Asset	(5,931)	-
AASB 16 - Lease Liability and make-good provision	6,942	-
Other financial assets	-	3
Trade and other payables	101	86
Employee benefits	1,204	1,178
Other items	39	39
Net deferred tax liability on temporary differences	(3,037)	(3,870)
Tax losses:		
Revenue	5,607	4,154
Capital	4,284	4,496
Total deferred tax on tax losses	9,891	8,650
Total temporary differences on tax losses	6,854	4,780
Revenue losses not recognised	(5,607)	(3,760)
Capital losses not recognised	(1,247)	(1,019)
Net deferred tax asset	-	-
(c) Movement in deferred tax asset		
Opening balance	-	-
Recognised in income	64	92
Recognised in equity (property)	(64)	(92)
Closing balance	-	-

6. Key Management Personnel Remuneration

	2020 $	2019 $
Compensation to directors and other members of Key Management Personnel of the Company and the Group (i)	2,612,427	2,428,527

(i) 2020 includes transition costs associated with the retirement of the outgoing Managing Director, appointment of a Chief Executive Officer and restructure of the Executive team.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

7. Trade and Other Receivables

	2020 $'000	2019 $'000
Current		
Trade receivables (i)	2,557	3,743
Allowance for doubtful debts	(15)	(15)
	2,542	3,728
Net GST receivable from Australian Taxation Office	725	881
	3,267	4,609
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 on the trade receivables. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

8. Current Inventories

	2020 $'000	2019 $'000
Inventories at cost	40,931	38,121
Provision	(461)	(474)
Total Closing Inventories	40,470	37,647

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

9. Non-Current Property, Plant and Equipment

	Freehold Land and Buildings at fair value $'000 (i)	Right-of-use Property at cost $'000	Leasehold Improvements at cost $'000	Plant and Equipment at cost $'000	Total $'000
Gross carrying amount					
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
Recognition of right-of-use asset on initial application of AASB16	-	38,785	-	-	38,785
Additions	-	3,198	533	2,618	6,349
Disposals	-	-	(3)	(119)	(122)
Assets held for Sale	(20)	(1,581)	(492)	(1,875)	(3,968)
Net revaluation increments/(decrements)	224	-	-	-	224
Balance at 30 June 2020	38,074	40,402	9,750	55,805	144,031
Accumulated depreciation/amortisation and impairment					
Balance at 30 June 2018	(298)	-	(6,004)	(41,076)	(47,377)
Disposals	19	-	120	585	724
Depreciation expense	(292)	-	(627)	(3,156)	(4,075)
Balance at 30 June 2019	(571)	-	(6,511)	(43,646)	(50,728)
Disposals	-	-	2	93	95
Depreciation expense	(312)	(5,614)	(663)	(3,169)	(9,758)
Impairment of non-current assets	-	-	-	(12)	(12)
Assets held for Sale	26	445	276	1,468	2,215
Balance at 30 June 2020	(857)	(5,169)	(6,896)	(45,266)	(58,188)
Net book value					
As at 30 June 2019	37,299	-	3,201	11,535	52,035
As at 30 June 2020	37,217	35,233	2,854	10,539	85,843

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 (2019: 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 28 June 2020 (2019: 30 June 2019).

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

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

As a result of the revaluation, land and buildings increased by $224,000 (2019: increased by $150,000). Of this $72,000 increased the asset revaluation reserve (2019: $237,000 decreased the asset revaluation reserve) and $152,000 was recognised as a reversal of a prior year impairment loss (2019: $44,000 as an impairment loss and $431,000 as a reversal of a prior year impairment loss) in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

10. Goodwill

	Note	2020 $'000	2019 $'000
Gross carrying amount			
Balance at beginning of the year		35,194	38,938
Disposals on sale		(517)	(3,744)
Balance at beginning of the year (restated)		34,677	35,194
Balance at the end of the year		34,677	35,194
Accumulated impairments			
Balance at beginning of the year		(30,499)	(34,243)
Impairments		(1,099)	-
Disposals on sale		517	3,744
Balance at the end of the year		(31,081)	(30,499)
Net book value			
At the beginning of the financial year		4,695	4,695
At the end of the financial year		3,596	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 2020 was determined based on the higher of fair value or 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 2020 was based on the Group's WACC being 10.66% (2019: 10.72%).

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 2020

11. Other Intangible Assets

	2020 $'000	2019 $'000
Licences	2,676	2,385
Customer lists	3,567	5,739
	6,243	8,124

(a) Licences

	2020 $'000	2019 $'000
Gross carrying amount		
Balance at beginning of the year	3,178	3,793
Additions	641	-
Disposals on sale	-	(615)
Balance at the end of the year	3,819	3,178
Accumulated amortisation/impairments		
Balance at beginning of the year	(793)	(1,408)
Impairment	(350)	-
Disposals on sale	-	615
Balance at the end of the year	(1,143)	(793)
Net book value		
At the beginning of the financial year	2,385	2,385
At the end of the financial year	2,676	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

	2020 $'000	2019 $'000
Gross carrying amount		
Balance at beginning of the year	22,728	22,743
Additions	-	10
Disposals	(517)	(25)
Reclassified to held-for-sale	(715)	-
Balance at the end of the year	21,496	22,728
Accumulated amortisation/impairments		
Balance at beginning of the year	(16,989)	(15,213)
Amortisation	(1,632)	(1,801)
Disposals	517	25
Impairment	(293)	-
Reclassified to held-for-sale	468	-
Balance at the end of the year	(17,929)	(16,989)
Net book value		
At the beginning of the financial year	5,739	7,530
At the end of the financial year	3,567	5,739

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 2020

12. Current Trade and Other Payables

	2020 $'000	2019 $'000
Trade payables (i)	25,637	19,931
Prepaid membership fees	1,313	1,184
Other payables and accruals	3,122	2,520
	30,072	23,635

(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

	2020 $'000	2019 $'000
Interest rate caps at fair value	-	18
Interest bearing loan from Key Management Personnel Related Entity (i)	27	37
	27	55

(i) The current effective interest rate on the loan is 4% (2019: 4%)

14. Current and Non-Current Provisions

	2020 $'000	2019 $'000
Current		
Employee Benefits	6,910	6,375
Site restoration	159	-
	7,069	6,375
Non-Current		
Employee Benefits	549	889
Site restoration	1,185	-
	1,734	889

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

15. Current and Non-Current Borrowings

	2020 $'000	2019 $'000
Current		
Current portion of lease liabilities (i)	7,400	-
Secured bank loans (ii)(iii)(iv)	-	1,500
Balance at end of the year	7,400	1,500
Non-Current		
Non-current portion of lease liabilities	32,793	-
Secured bank loans (ii)(iii)(iv)	-	7,500
Balance at end of the year	32,793	7,500

(i) The lease liabilities are discounted at an interest rate ranging between 4.0% to 7.2% dependent on the remaining lease term (2019: N/A).

(ii) Secured by a Registered Mortgage Debenture over the assets of the Group.

(iii) The current effective interest rate of the loan is nil% (2019: 2.27%) - refer Note 15 (iv) below.
In accordance with the security arrangement of liabilities, all assets of the Group have been effectively pledged as security.

(iv) On 1 July 2019, the secured bank loan of $9,000,000 was converted into a net overdraft facility. As per Note 22(b) as at 30 June 2020 the Group has a $16,626,000 overdraft facility available. On 19 August 2020, the overdraft facility was closed and replaced by new facilities comprising a $13,000,000 working capital facility and $4,000,000 loan facility with the following key terms:

- The effective interest rate of the loan facility is 1.34%; and
- All assets of the Group have effectively been pledged as security.

16. Issued Capital

The Company is limited by Shares and Guarantee. At 30 June 2020 and at 30 June 2019, the Company had no issued shares.

The Company is limited by a guarantee of $1 per Member. At 30 June 2020, the Company had 146,821 Members (2019: 148,575).

17. Asset Revaluation Reserve

	2020 $'000	2019 $'000
Balance at the beginning of the year	10,336	10,666
(Decrease) / Increase arising on revaluation of properties	72	(238)
Tax consequences	(64)	(92)
Balance at end of the year	10,344	10,336

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.

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

18. Commitments for Capital Expenditure

	2020 $'000	2019 $'000
Leasehold improvements	-	500
Plant & Equipment	715	-
Balance at end of the year	715	500

19. Contingent Liabilities and Assets

The Group has given bank guarantees of $792,000 (2019: $751,000) in relation to leasehold properties. There are no other contingent liabilities or assets as at 30 June 2020 (2019: $nil).

20. Leases

(a) Right-of-use assets
Right of use assets related to leased properties are presented as property, plant and equipment (Note 9)

	2020 $'000
Balance at the start of the year	38,785
Depreciation charge for the year	(5,614)
Additions to right-of-use assets	2,992
Modifications to right-of-use assets - annual indexation	206
Balance at the end of the year	36,369

(b) Amounts recognised in profit or loss

	2020 $'000	2019 $'000
Interest on lease liabilities - AASB 16	2,663	-
Depreciation relating to right-of-use assets - AASB 16	5,614	-
Expenses relating to short-term leases - AASB 16	1,010	-
Lease expense - Operating leases under AASB 117	-	8,661
Balance at the end of the year	9,287	8,661

(c) Amounts recognised in statement of cash flows

	2020 $'000
Total cash outflow for leases	8,070

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

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 (2019: $Nil) were paid to Australian Friendly Society Pharmacies Association.

(iv) Subscriptions of $43,731 (2019: $42,877) were paid to National Pharmaceutical Services Association.

(v) Consultancy Fees of $74,876 (2019: $15,370) were paid to National Pharmaceutical Services Association.

(vi) Interest of $Nil (2019: $26,076) 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 United 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.

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:

	2020 $'000	2019 $'000
Cash	891	6,985
Bank overdraft	(2,785)	-
(Bank overdraft) / Cash	(1,894)	6,985

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

22. Notes to the Statement of Cash Flows (cont'd)

	2020 $'000	2019 $'000
(b) Financing Facilities		
Overdraft facility		
Facility Limit	16,626	-
Amount Drawn	(2,785)	-
Amount Available	13,841	-
Secured bank loan facility		
Facility Limit	-	19,000
Amount Drawn	-	(9,000)
Amount Available	-	10,000
Secured Bank Guarantee		
Facility Limit	792	750
Amount Drawn	(792)	(750)
Amount Available	-	-

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

	2020 $'000	2019 $'000
(c) Businesses Disposed		

During the financial year, 1 store was sold by the Group (2019: 3)
Details of the disposals are as follows:

	2020 $'000	2019 $'000
Consideration		
Cash	1,502	1,892
Carrying Value of Net Assets Disposed		
Current Assets:		
Cash Floats	39	6
Inventories	141	156
Non-current Assets:		
Property, plant and equipment	27	75
Current Liabilities	-	(93)
Net Assets Disposed	207	144
Gain on disposal recognised through other income	1,295	1,748

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

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

	2020 $'000	2019 $'000
Financial assets		
Loans and Receivables	3,267	4,609
Cash and cash equivalents	891	6,985
Financial liabilities		
Amortised cost	73,077	32,672
Interest rate cap contracts	-	18

(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.

There were no interest rate cap contracts outstanding as at 30 June 2020, accordingly the fair value of interest rate cap contracts designated as cash flow hedges outstanding at the end of the reporting period is $nil (2019: $18,000).

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.

<u>Derivatives</u>
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 2020

24. Non-Controlling Interests

	2020 $'000	2019 $'000
Balance at the beginning of the year	-	354
Share of loss for the year	-	9
Disposal of A&L minority interest (refer Note 21 (b) (vii))	-	(363)
Balance at end of the year	-	-

25. Acquisition of Businesses

During the year, no businesses were acquired by the Group (2019: none).

26. Parent Entity Information

	2020 $'000	2019 $'000
(a) Financial Position		
Assets		
Current Assets	48,350	51,496
Non-Current Assets	95,753	64,953
Total Assets	144,103	116,450
Liabilities		
Current Liabilities	47,353	31,565
Non-Current Liabilities	34,527	8,389
Total Liabilities	81,880	39,954
Equity		
Issued Capital	-	-
Retained Earnings	51,879	66,159
Asset Revaluation	10,344	10,336
Total Equity	62,223	76,495

Notes to the Financial Statements
for the Financial Year Ended 30 June 2020

26. Parent Entity Information (cont'd)

	2020 $'000	2019 $'000
(b) Financial Performance		
Profit/(Loss) for the year	(8,104)	(1,641)
Other comprehensive income	8	(330)
Other comprehensive loss	(8,096)	(1,971)
(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 $792,000 (2019: $751,000) in relation to leasehold properties.

27. Controlled Entities

	Country of Incorporation	Ownership Interest 2020 %	Ownership Interest 2019 %
Parent Entity			
Friendly Society Medical Association Limited	Australia		
Controlled Entities			
National Pharmacies Australia Pty Ltd	Australia	100	100
National Pharmacies Victoria Partnership	Australia	N/A	100

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.

As per Note 21(b)(vii) National Pharmacies Victoria was wound up on 30 June 2019.

28. Subsequent Events

As a result of the evolving nature of the COVID-19 pandemic and the rapidly evolving Government policies of restrictive measures put in place to contain it, as at the date of these financial statements the Group is not in a position to reasonably estimate the financial effects of the COVID-19 pandemic on the future financial performance and financial position of the Group. Other than the current disclosures, there have been no events subsequent to the reporting date which would have a material impact on the Group's 30 June 2020 financial statements.

EXECUTIVE LEADERSHIP TEAM

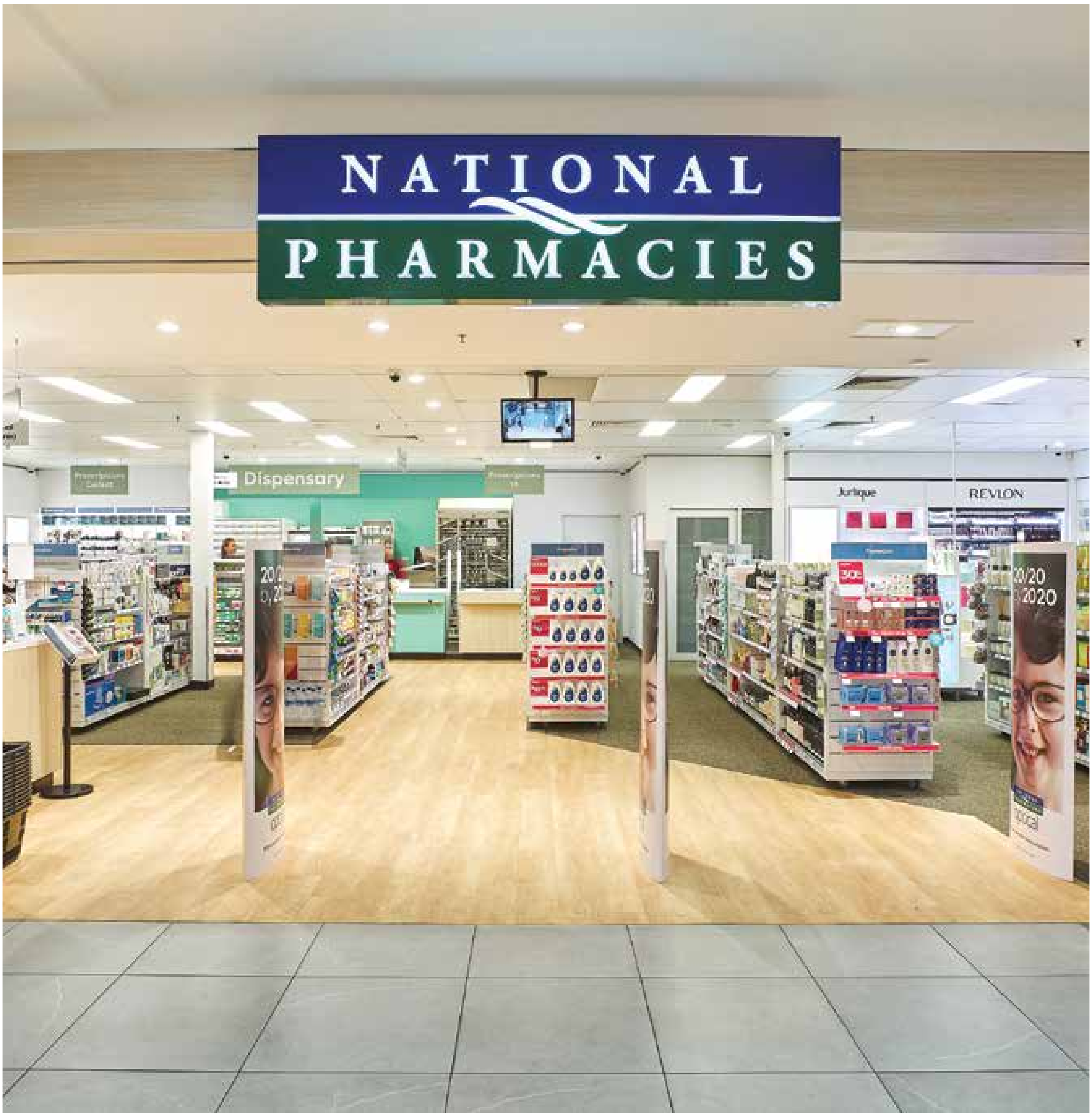
Vito Borrello
Chief Executive Officer

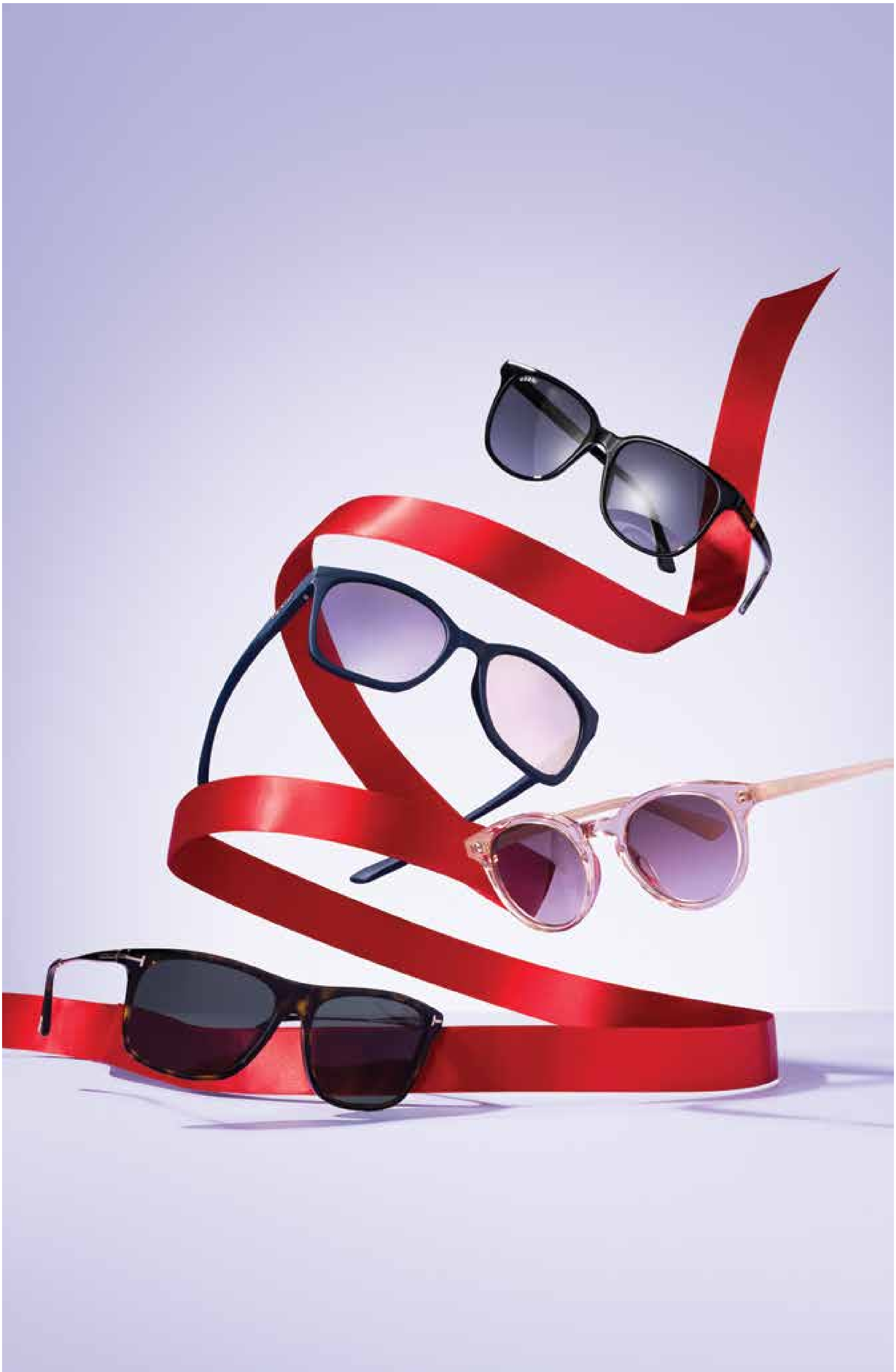
Rob Quinton
General Manager Finance

Ryan Klose
General Manager Corporate

Jeri Tsoukalas
General Manager Operations

Brad Mills
General Manager Support





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