ANNUAL REPORT 2019-20

PAVI SHOPPING COMPLEX QORMI

PAMA SHOPPING VILLAGE MOSTA

A member of PG Group

ZARA

ZARA HOME

PG plc

A member of PG Group

PG PLC
ANNUAL REPORT 2019-20

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CHAIRMAN'S STATEMENT

The PG Group attained a turnover of €120.0 million in the year ended 30 April 2020, representing a growth of 11.1% on the previous year, which had registered a turnover of €108.0 million. Operating profit amounted to €15.1 million, compared to €12.6 million in 2019.

The group performed particularly well in the first ten months of the financial year, bolstered by the successful operation of its Sliema Zara® outlet, a steady performance at Pama and sustained growth at Pavi, which has benefited from a substantial refurbishment programme that is now in its final stages. In the final two months of the financial year, however, the group's operations were inevitably materially impacted by the outbreak of COVID-19.

Our Pama and Pavi supermarket operations are an essential component of the food supply chain, and our first priority since the outbreak of the COVID-19 pandemic has been that of safeguarding continuity of service through ensuring the safety of our customers and staff. Various measures were and continue to be taken to ensure this continuity of service, in full co-operation with public health authorities, and to date our outlets have not been linked to any known cases of infection. This success has inevitably come at a cost – both in terms of higher operating expenses and, more importantly, in terms of an element of personal risk to our staff. We have taken prudent measures to protect all our employees but remain conscious that certain members of our staff, particularly our cashiers and shop staff, are in continual contact with large numbers of customers.

My board and I would like to extend a message of thanks to all our employees for their efforts during this difficult period. We also thank our employees, and our customers, for contributing, through their behaviour and the observance of the applicable safety rules, to sustain our uninterrupted continuity of operation.

COVID-19 inevitably impacted our results in March and April, particularly through the closure of our Zara® and Zara Home® operations, and the closure of retail operations at Pama and Pavi. Within the food supermarkets, an initial surge of panic buying quickly subsided as clients noted that the stores remained well supplied, and was inevitably followed by a quieter period, one that was characterised by a higher focus on basic commodities and less impulse buying.

In spite of these setbacks, the PG Group's overall performance in the second half of the financial year remained in line with that recorded a year earlier, and the improvement in results that we reported in the first half of the year has not been diluted. The group's net profit after taxation for the year ended 30 April 2020 amounted to €9.7million, compared to €8.9 million in 2019, representing an increase of 8%.

Net cash generated from operating activities totalled €15.5 million, compared to €10.0 million in 2019. Capital expenditure incurred during the period was relatively contained, and the opportunity was taken of accelerating the repayment of long term bank borrowings. Our net bank liabilities as at 30 April 2020 totalled €14.9m, compared to €22.0m in 2019, and are relatively contained in the context of our business activities. The group currently has no major capital commitments, and in the absence of unforeseen events would expect to effect further accelerated reductions in borrowings in the current financial year.

An interim net dividend of €2.0 million was distributed to shareholders in December 2019, while a second interim net dividend of €2.8 million was paid in July 2020. These two distributions, totalling €4.8 million, entail a growth of 6.7% over the dividends paid in respect of 2019.

Looking ahead, the group expects that COVID-19 will continue to impact its operations. It is inevitable that consumer confidence suffers in a period of high economic uncertainty. While Zara® and Zara Home® franchise operations resumed operations in May, the performance of the group's main outlet in Sliema has also been, as expected, adversely impacted by the downturn in tourism. Sales levels at retail and catering operations at Pama and Pavi remain below pre-pandemic levels. Unfortunately at the time of writing this report the Maltese islands are experiencing a significant surge in the number of reported COVID-19 cases, pointing to the possibility of the re-introduction of precautionary restrictions.

On the positive side, the current economic climate may also bring investment opportunities, and the group's operating cash flows and low borrowing levels would enable it to capitalise on such openings. We remain committed to pursue growth, particularly in the supermarket and associated retail sector.

We reported in 2019 that to attain this objective, we need to implement a modern multi-location retail and stock control system across all our outlets. A considerable amount of progress has been achieved over the past year in our project to upgrade the group's core supermarket systems. This project is now in its implementation stage, including an extensive testing and parallel running process, and the first phase is expected to go live by May 2021.

Our success in recent years was in part attributable to the economic conditions and the population growth being recorded in Malta. The COVID-19 outbreak has brought about a humbling reversal in fortunes, with severe unforeseeable consequences on certain sectors of the country's economy. The impact on this group has however been, and continues to be, much more contained, given the import of our food supermarket operations. Looking longer term, I am confident that the group will continue to enjoy the benefit of its key strengths - the quality of our physical facilities; the versatility of our management in coping with change; and the adequacy of our financial resources and resilience.

John B Zarb
Chairman

27 August 2020

BOARD OF DIRECTORS

JOHN B ZARB
Chairman

PAUL GAUCI
Executive Deputy Chairman

CHARLES BORG
Executive Director &
Chief Executive Officer

GIANLUCA BORG
Executive Director

CLAIRE ALEXIA BORG GAUCI
Non-Executive Director

LAWRENCE ZAMMIT
Non-Executive Director

WILLIAM SPITERI BAILEY
Non-Executive Director

DR EMMA GRECH
Company Secretary

SENIOR MANAGEMENT, GROUP SERVICES AND OPERATIONS

SENIOR MANAGEMENT

LEFT TO RIGHT

Gianluca Borg
Head Purchasing

Mark Seguna
Head Information Technology

Malcolm Camilleri
Deputy Chief Executive Officer

Charles Borg
Executive Director &
Chief Executive Officer

Kevin Azzopardi
Head Marketing

Ian Micallef
Chief Financial Officer

Silvio Carabott
Chief Operations Officer

OPERATIONS MANAGEMENT

LEFT TO RIGHT

Manuel Caruana General Manager - Pavi

Stephen Gauci General Manager - Pama

Adriana Cassar Camilleri Brand Manager - Zara

Jackie Micallef Brand Manager - Zara Home

ADMINISTRATION MANAGEMENT

LEFT TO RIGHT

Michelle-Marie Buttigieg Finance Manager – Pavi

Giannella Gauci Finance Manager – Zara® & Zara Home

Mark Mifsud Finance Manager – Pama

Michael Micallef – Purchasing Manager

Marthese Gatt Human Resources Manager

Claire Eddlestone Finance Manager

OPERATING REVIEW

Operations of the group

The outbreak of COVID-19 impacted the group's franchise and retail operations in the course of the financial year ended 30 April 2020. Sales levels at the group's Zara® and Zara Home® suffered a severe downturn as from the second week of March 2020. The stores were closed as from 23 March 2020, and remained inoperative for the remainder of the financial year. The outbreak also impacted the group's retail and catering clients at Pama and Pavi.

The group's flagship Zara® and Zara Home® retail outlet in Sliema was refurbished and significantly expanded in the course of 2018. As a result, operations at this outlet ceased between July and November 2018 and the income and cash flow statements for the comparable year accordingly do not reflect a full year's operations of this facility.

In other respects, the operations of the group were in all material respects unchanged during the two years ended 30 April 2020 and 2019 and consisted of supermarket and associated retail operations conducted at Pavi Shopping Complex and at Pama Shopping Village; and the operation of the Zara® and Zara Home® franchises.

Supermarket and associated retail operations

The strategy of the group with respect to the two supermarket complexes remains that of focusing its activities on areas closely aligned to its core expertise and to attain an adequate spread of risk. Revenue is generated from three types of activity, namely:

- the retailing of food and non-food products, directly procured by the business and carried at its own risk;
- rental arrangements with third party operators in respect of certain specialist activities carried out from designated areas within the supermarkets; and
- the management, operation and letting of other retail and commercial outlets within the two complexes.

The overall objective is that of creating destinations that cater for a number of the day-to-day needs of shoppers, going beyond a routine visit to a supermarket, albeit that the latter remains of fundamental importance to the group.

Super Prices Everyday ....

The supermarkets are the key anchors of each complex. In both cases, they are set out on one floor, employing a logical and customer-friendly layout that has proved popular with patrons, supported by numerous check-out points that facilitate customer flows and minimise queues during peak shopping hours. The overall shopping experience is accentuated by high levels of customer service, supported by continual staff training.

Conveniently accessible locations, coupled with extensive free car parking, characterise the shopping facilities available both at Pama and at Pavi, and have contributed to the consistent growth in footfall that has driven sales.

The group has continued to invest in upgrading its facilities both at Pama and at Pavi.

The refurbishment of the Pavi supermarket continued during late 2019 and in 2020 with the completion of the deli, Chinese and bakery areas.

Within the retail sector, Pavi benefited from the refurbishment of the main catering facility, which will shortly be extended to include the underground space occupied in the past by the wines and spirits section. New retail openings are expected at Pavi in coming months utilising new space made available on the first floor. In the meantime, an application has been lodged with the Planning Authority for the construction of an additional floor of car parking, which will increase our parking offer by 300 spaces.
The bakery refurbishment at Pavi included an on-site baking facility that

proved popular with customers and that has since been replicated at Pama.

Our offering at Pama was also recently enhanced with the opening of the Dr Juice outlet, which has quickly established itself with our clientele.

Turnover within the supermarket and associated retail operations segment increased by 8% when compared to the previous financial year, in spite of all catering and retail outlet rentals being waived by the group in March, April and May 2020. The total footfall within the two supermarkets totalled 4.8 million persons during the financial year (4.6 million in 2019).

The overall commercial strategy is for the supermarkets to carry a wide range of brands aimed at catering for different tastes and means of customers, without compromising the maintenance of margins, while offering patrons highly competitive prices.

Purchasing of stock directly procured by the business and carried at its own risk is closely controlled to safeguard the competitiveness of our consumer pricing. Procurement is based on supplier negotiations that take advantage of the purchase volumes of the group and of the optimum utilisation of shelf space, while benefiting suppliers through prompt settlement and, where feasible, through efficient logistical arrangements. To maximise efficiency and margins, the group imports certain products directly. The group took advantage of this also to increase stockholdings of various essential commodities as the COVID-19 threat materialised.

To further enhance operational efficiency and reduce operating risk, a number of specialist activities within the supermarkets are sub-contracted to such operators. These include, inter alia, the butcher shops, delicatessen counters, fruit and vegetable counters, pasta shops and fish section. The directors believe that such areas within a supermarket require particular attention to ensure varied, quality and fresh produce and that this focus is better attained through specialist and experienced operators with a known reputation in their markets. The group, therefore, does not operate these sections itself but sub-contracts them to experienced operators. This approach is believed to better ensure the success of the retail food sector and operates to improve overall customer satisfaction, whilst insulating the group from the particular stock expiry and control risks associated with fresh and perishable foods generally.

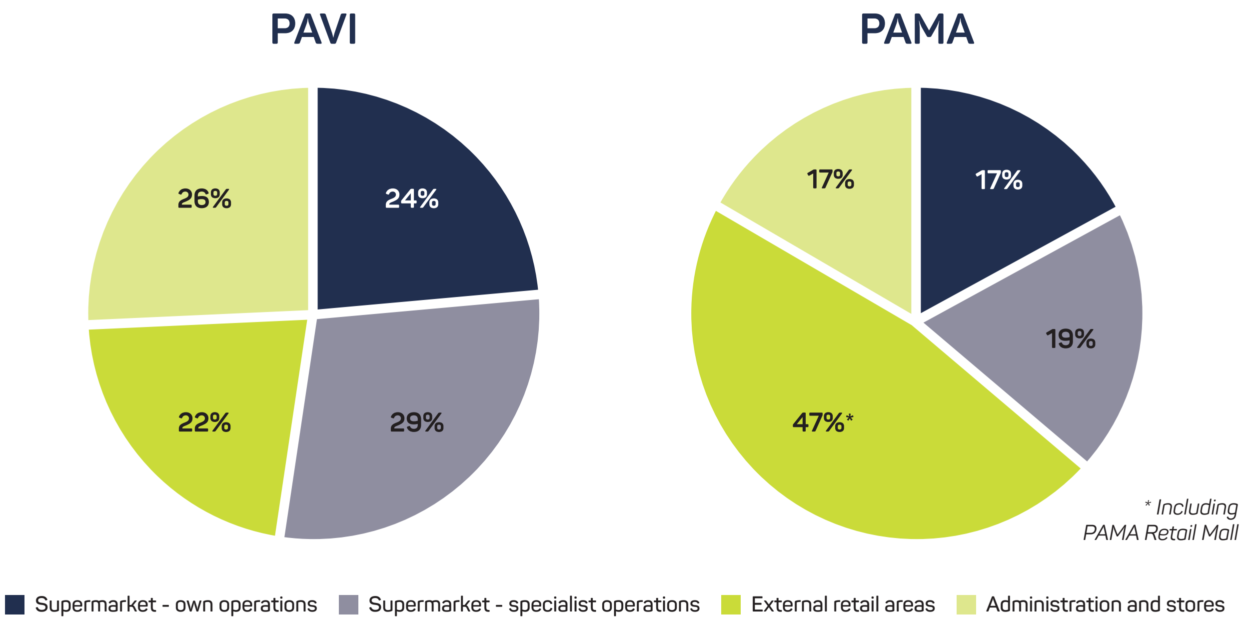
The group makes retail and storage space available to the third party operators and enters into rental arrangements with them in respect of these facilities. The sales of such operators are invoiced to customers by the supermarkets and are hence included within the group's turnover, with the relative proceeds being passed on to the operators concerned in settlement for the goods acquired, after deducting rents and a margin retained to cover, inter alia, the costs of check out, security, cleaning and other services provided.

The group closely monitors the performance of third party operators to ensure the quality and freshness of all products sold, and to ensure price competitiveness.

The success of the group's supermarkets and the high level of footfall they generate has in turn enabled the group to maximise its rental income from other retail outlets situated within the complexes. The presence of these outlets is an added convenience to shoppers and serves to enhance the attraction of the complexes as a whole, providing customers with a more comprehensive selection of outlets.

Rentals from the outlets operated by third parties within the complexes is generally set on an income-sharing basis, subject to an appropriate minimum annual rent depending on the size, location and nature of the outlet. Rental income from such outlets was waived for March, April and May 2020 to help tenants cope with the impact of COVID-19, in line with the long term relationships that the group seeks to foster with all its stakeholders. Such income nevertheless totalled €3.63 million during the financial year ended 30 April 2020, only marginally down from the €3.95 million registered in 2019.

The relative importance of the different sub-segments comprising the group's supermarket and associated retail activity is best illustrated by how space is utilised within the two complexes:



The group's procurement relationships are geared towards enabling Pama and Pavi to offer a varied but price competitive product offering to their customers. Regular market surveys are held to test the group's positioning on this topic, and action is taken, as necessary, in response to the findings of this research.

In addition to its focus on competitive pricing, the group places its customers at the centre of its marketing and communication strategies and a large part of its marketing investment is directly targeted towards them.

This investment comes in the form of free loyalty scheme points, free cash vouchers and heavily discounted prices on specific items. Other incentives are made available on specific days of the week and can be availed of depending on the customers' value of purchase.

These incentives are complemented by other regular special offers which are available at specific times throughout the year. Such offers are accentuated further during seasonal festivities such as Easter and Christmas.

Most of these offers feature on the group's fortnightly magazine, which is today distributed door-to-door. During the COVID-19 shutdown, the two supermarkets relied extensively on communications via messaging or email.

The group continues to offer an entitlement of free mineral water to customers whose purchase exceed a certain value. This remains a popular measure and the group distributed 14.6 million litres of free mineral water during the financial year ended 30 April 2020, an increase of 1.0% over 2019.

The group's supermarket loyalty points scheme is also being sustained as one of the most advantageous in the industry. It remains the only loyalty scheme which gives customers the opportunity to redeem loyalty points for cash as well as free mineral water. The group has currently over 100,000 loyalty card holders.

This year the group also invested comprehensively to develop its digital communication channels. Particular attention was given to the content on the group's social media platform which is now providing more added value as well as being more engaging.

The Zara® and Zara Home® franchise operations

The Zara® and Zara Home® brands belong to the Spanish firm Industria de Diseño Textil, S.A., better known as Inditex S.A., one of the world's largest clothes retailers, which reported sales of €28.3 billion in 2019. The Zara® business model is based on organising processes that ensure fast-to-market, quality fashion wear at affordable prices.

Zara® opened its first store in the coastal town of A Coruña in the northwest of Spain in 1975. Zara® today has 2,264 stores strategically located in leading cities in 96 countries, together with an on-line sales presence reaching 202 markets. Zara®'s designers and customers are inextricably linked. Specialist teams receive constant feedback on the decisions its customers are making at every Zara® store. This feedback inspires Zara®'s creative team which is made up of over 200 professionals.

Zara Home® was created in 2003 and specialises in the latest designs for the home. Its textile ranges, which include bedding and bed linen, tableware and bath linen, are complemented by dishware, cutlery, glassware and home decoration objects and accessories. Zara Home® is constantly refreshing its product range throughout the year. Today Zara Home® runs 587 stores in 70 markets.

The PG Group's Zara® franchise operations were initiated in 2001 at the Alhambra store in Tower Road, Sliema. The outlet is owned on a freehold basis and is situated in what is possibly Malta's prime retail location, attracting a high footfall. This outlet was significantly expanded in the course of 2018 through the construction of five additional levels on the back of the building, where the former cinema was situated. The project, which was successfully completed in late November 2018, served to increase the retail space within the building from 1,711 to 3,311 sqm, apart from supporting staff and storage facilities. The enlarged outlet houses one of the largest Zara® department stores in Europe. It also includes one floor dedicated completely to Zara Home®.

A second Zara Home® outlet was opened within the Pama retail mall in November 2016. This second store measures 880 sqm and is an ideal size to exhibit a substantial range of products available from this brand. A third outlet, measuring 480 sqm, was opened at Pavi in May 2018.

As the franchisee for Zara® and Zara Home®, the group is responsible, inter alia, for staff recruitment and management, accounting, stock control as well as the security and upkeep of the premises. Operations within the two stores are at the same time conducted in close liaison with the brands' owners, Inditex, which is closely involved in the placement of orders for stock, seeking to ensure that the range of merchandise retailed in Malta at all times represents the current offerings of the two brands.


ZARA
ZARA HOME
ZARA


ZARA HOME

Coping with COVID-19

The group's supermarket activities are an essential component of the food supply chain. Ensuring continuity in these operations in a safe and sustainable manner was a key objective of the group in recent months, one that went beyond pursuing our business objectives.

Health and safety

The group's priority was that of protecting customers and staff, particularly cashiers and other shop staff who are directly client facing. The group's Management Committee monitored events closely, with regular board oversight, evaluating the impacts and designing appropriate response strategies. Business continuity and crisis management plans were mobilised in all parts of the group and additional social distancing measures have been implemented, abiding and where appropriate going beyond the guidance issued by the Ministry of Health.

The measures adopted included floor marking to maintain safe flow and queuing distances; hand sanitizers installed in every instore entrance, monitored to ensure that all customers and staff sanitize their hands prior to entrance and supplemented by temperature readings; ensuring that customers and staff always wear a face mask or face visor whilst in instore; strict hygiene routines in the stores, with thorough daily cleaning, supplemented by the regular fumigation of trolleys and cash desks; the cessation of any food sampling instore; together with added precautions at cash tills, including the installation of protective screens at our checkouts and encouraging customers to pay at checkout by card. The number of cashiers was also increased, to reduce the incidence of queues.

In line with many other business, home working was adopted for duties not requiring a physical presence, supported by remote meeting facilities. Measures were also taken to segregate middle and top management into teams that avoided unnecessary contact both to minimise any cross-contamination and to help ensure business continuity in the event of any adverse incident.

The precautions taken have inevitably impacted our operating costs, but have served to reassure customers and staff. To date our outlets have not been linked to any known cases of infection.

Procurement

A second plank of our continuity strategy was ensuring that the group carried ample supplies of stock. Orders of directly sourced items were increased as soon as the spread of the pandemic was noted in Italy and the group entered the initial lock down period carrying an enhanced level of stock.

As expected, the COVID-19 outbreak was initially accompanied by panic buying as consumers sought to stock up on more essential commodities; often in reaction to unfounded rumours of perceived shortages. Our immediate priority was that of reassuring customers, and of building upon this trust by ensuring the continued availability of food supplies throughout the crisis.

The group was pleased to note that the initial panic buying was of short duration as the Maltese food importation and retail sector responded efficiently and responsibly to the crisis. Stock replenishment from our local suppliers were uninterrupted and to our knowledge no food retailer was caught unawares, in spite of the rapidity with which events unfolded in mid-March.

Operational and financial impacts of the pandemic

As may be expected, the outbreak has impacted the group, even if it has had a less marked effect on our supermarket

operations than it had on other aspects of the business. The closure of bars and restaurants may have been expected to add to the demand for home supplies, but in the event this impact was in part offset by the reduction in overseas workers resident in Malta and by changes in consumer behaviour. The latter may in part have been attributable to economic uncertainty, but health concerns were clearly a major consideration.

Buying patterns accordingly changed. Home working and closed schools resulted in shoppers' visits being more evenly spread, avoiding the usual peak periods. Customers sought to limit the number of times that they visited a supermarket. The average chit size was for a period significantly higher than the norm, and this was offset by a reduction in the number of visits. Demand for basic necessities with a long shelf life, such as pasta and canned foods, grew substantially. On the other hand there was for a period a reduction in the sales of fresh produce and, understandingly, less impulse buying. In this respect, our experience during the lock-down period was similar to that reported by large supermarkets in other countries.

The self-isolation necessitated by COVID-19 resulted in a sharp increase in the demand for on-line shopping. It soon proved impractical to handle this demand across the 55,000 different stock items sold in our stores. A separate store was accordingly set up with a limited selection of 2,000 basic items that cater for most shoppers' needs, and the picking and delivery of on-line items was limited to this selection.

An on-line offering that permits picking and delivery costs not to be charged to customers may be a viable proposition when these costs can be offset by a reduced store operating cost. This was clearly not the case in the environment we were operating in, and the higher incidence of on-line shopping resulted in an additional unavoidable operating cost, albeit a contained one. It was an expense that nevertheless had to be incurred to support both our customers and the efforts of the Health Authorities to promote the practice.

The COVID-19 pandemic had a severe impact on the non-food retail and catering sectors.

Sales levels at the group's Zara® and Zara Home® outlets suffered a severe downturn from the second week of March 2020. The stores were closed as from 23 March 2020, and remained inoperative for the remainder of the financial year. Steps were taken to reduce costs during this enforced shutdown. The group benefited from the wage cost relief measures implemented by Government. At the same time, a number of our expatriate staff working within these outlets chose to return to their home country. The net earnings shortfall at our Zara® and Zara Home® outlets during March and April 2020 amounted to circa €0.6 million

The outbreak impacted in a similar manner the group's retail and catering clients at Pama and Pavi. The group has a long term interest in the well being of these strategic partners and, as already noted, has responded to their needs by waiving all rents due in March, April and May 2020. Waived rentals for March and April 2020 are estimated at €0.5 million. Rentals have since resumed on a percentage of sales basis, but waiving the contracted minimum rent terms.

Positioning ourselves for growth

The group continues to work on pursuing potential opportunities for future growth. These could entail the expansion of existing sites; or the acquisition and development of new sites similar to Pama and Pavi. The group is currently working on both these scenarios, and has lodged applications with the Planning Authority on a potential extension to the Pama site, which would house additional retail, storage and car parking facilities.

A robust IT platform is key to our ability to manage growth in a controlled manner. As we reported last year, the current core supermarket systems we utilise at Pama and Pavi are nearing the end of their useful life. The group therefore initiated in 2019 a project aimed at implementing a more modern, multi-store retailing system. This core systems upgrade project has been entrusted to a dedicated IT Project Committee, and is subject to regular monitoring by the board.

The project was launched through the issue of a call for offers following a process of defining the business's requirements; of identifying the leading market packages that are more likely to meet these requirements; and the suppliers who are hence of more interest to the group. A number of detailed proposals were received, and a final software and hardware selection was made in late 2019 after a process of evaluation, shortlisting and final adjudication.

The system selected offers a proven multi-location solution specialised on the supermarket industry, with a strong client base. Significant work has been performed in the first months of 2020 on parameterisation, implementation, testing and data transfer, including an ongoing period of parallel running, working to a detailed project plan. Inevitably, the onset of COVID-19 has impacted on timelines, but this impact has been very contained and both the group and the contracted suppliers have committed the resources necessitated by the project.

The target date of Phase 1 to go live is May 2021. Phase 1 will cater for all core processing and will also target a number of innovations aimed at enhancing our customer service. New point-of-sale systems will be installed which will offer an improved cash out experience, together with a loyalty scheme which will enable member recognition at all our supermarkets.

Future phases will see us embark, amongst other things, on integrating our online product offering with the main stream platform and on improving our in-store experience, e.g., through facilities aimed at assisting customers in locating goods within the stores, and of continuing shopping while queueing at specialised counters such as the butcher or deli. We will also be looking at introducing concepts which will enable us to bring latest technologies available to our supermarket offering.

Apart from the current emphasis on the IT project, the group continues to attach importance to the continued development of its human resources at all levels, including top management. The group today has an experienced and stable management team, and believes that its internal control environment is strong one that can cope effectively with the challenges posed by future growth.

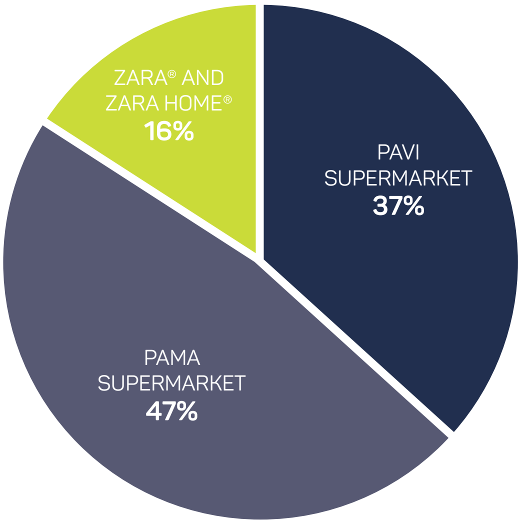
Review of operating performance

The group's operating performance for the year ended 30 April 2020 is summarised below:

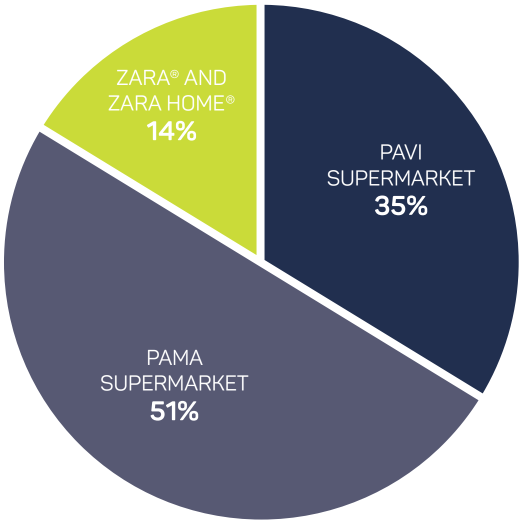
€'000	**Year ended 30 April 2020**	**Year ended 30 April 2019**
Turnover	119,997	107,977
Cost of sales	(101,201)	(91,589)
Gross profit	**18,796**	**16,388**
Gross profit percentage	**15.7%**	**15.2%**
Selling and marketing costs	(865)	(1,042)
Administrative expenses	(3,539)	(3,627)
Other income	726	886
Operating profit	**15,118**	**12,605**
Operating profit percentage	**12.6%**	**11.7%**
Share of results of associates	(94)	10

The group's turnover increased by 11.1% during the year. Both Pama and Pavi performed strongly, increasing sales by 3% and 16% respectively, notwithstanding the rental income waived in March and April. Our Zara® and Zara Home® sales recorded a growth of 30%, again notwithstanding the severe COVID-19 impacts registered in March and April 2020, reflecting the positive impact of the enlarged Sliema outlet in the first ten months of the financial year.

Turnover analysis



Year ended April 2020



Year ended April 2019

During the financial year, overall gross profit percentages increased slightly from 15.2% to 15.7% when compared to 2019. This improvement was in part the result of changes in sales mix. It was also attributable, in part, to new accounting rules.

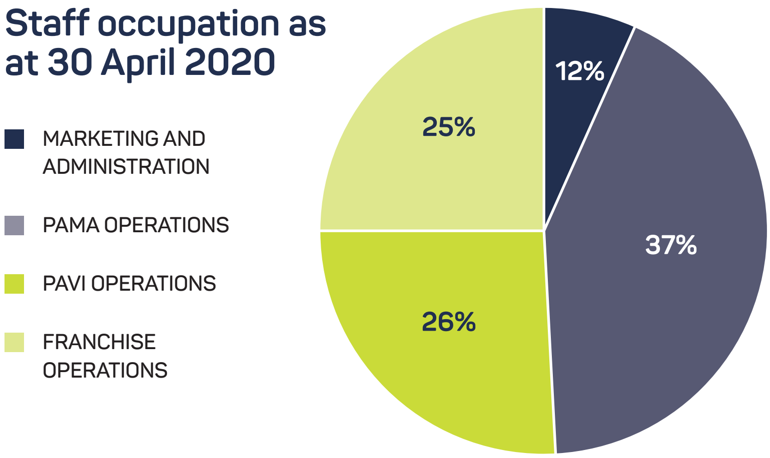
The group's financial statements have this year been materially impacted by International Financial Reporting Standard (IFRS) 16, which deals with operating leases such as that enjoyed by the group on the Pama site. In terms of this new standard, a new liability is recognised in the group's balance sheet, representing the discounted value of all future rental payments due on this site; while that a new equivalent asset has also been recognised to reflect the right of use of the site.

IFRS 16 does not impact the ultimate economic results yielded from a lease, but impacts how these results are reported over the years – typically increasing costs in the early years, with a corresponding benefit later in the lease period. The new standard has in fact negatively impacted the group's results by €380,000 in the financial year ended 30 April 2020. This impact is in part reflected in a reduction in cost of sales, and hence an increase in gross profit, of €625,000; while that the group's finance costs during the period have been increased by €1,007,000.

Marketing and administration costs amounted to 0.7% and 2.9% of turnover respectively (1.0% and 3.4% in 2019). A higher proportion of our marketing spend continues to be directed at customers in terms of discounted or free goods, and these are reflected within cost of sales. Administration costs were largely static during the two financial years, and were better contained in relation to turnover.

The group's overall employment cost increased from €8.0 million in 2019 to €8.4 million in the year ended 30 April 2020. The staff complement increased from 377 to 383 persons, with the average cost per employee increasing by 2.5%.

Staff occupation as at 30 April 2020



Some staff facts and numbers:

- 58% of employees are female
- 29% of employees are under the age of 30
- 24% of our employees are non-Maltese, up from 16% a year earlier
- Our employees hail from 34 countries

Finance costs and cash flow

Excluding the finance cost adjustment arising from the implementation of IFRS 16 (see above), net finance costs amounted to €586,000 in the year ended 30 April 2020, compared to €632,000 in the previous financial year. Taxation amounted to €3.8 million, representing an effective tax charge of 28.2% (25.4% in 2019), with the group benefiting from the 15% final taxation on rental income on part of its earnings. After deduction of taxation, the PG Group attained a profit for the year of €9.65 million, compared to €8.94 million in 2019, an increase of 8.0%.

The group generated a net cash flow from operating activities amounting to €15.5 million (€10.0 million in 2019). This cash flow was in large part applied towards the payment of dividends and towards the reduction in bank liabilities.

Dr Ramona Piscopo, an independent non-executive director, resigned from the group's board on 31 January 2020, having served as a director since 2017. The management and board of PG plc would like to place on record their appreciation for the valuable contribution made by Dr Piscopo during her period in office.

Mr Gianluca Borg, an executive of the group, was appointed to the board on 31 January 2020.

The group wishes to strengthen the board through the appointment of another non-executive director, and for this purpose an extraordinary resolution will be proposed at the next annual general meeting to increase the number of directors by one person.

As at 30 April 2020, the group had bank borrowings, net of cash in hand, of €14.9 million (2019 - €22.0m), including term loans on which it bears a servicing obligation, inclusive of interest and capital repayments, of €2.6 million per annum. The group does not envisage any major cash outflows in the current financial year, and in the absence of unforeseen events would expect to effect further accelerated reductions in borrowings.

Dividends

An interim net dividend of €2.0 million was distributed to shareholders in December 2019, while a second interim net dividend of €2.8 million was distributed in July 2020. These two distributions, totalling €4.8 million, represent 50% of the consolidated net profit for the year and are in line with the group's policy of targeting an annual distribution of not less than half of its post tax earnings. They represent a gross yield of 3.7% on the market value of the company's shares at 30 April 2020.

Current year prospects

The COVID-19 pandemic has inevitably brought to an abrupt end the cycle of economic growth that Malta has enjoyed in recent years. At the time of writing this report, the country is experiencing a surge in the number of infections, adversely impacting travel and tourism and resulting in a material degree of economic uncertainty. There are positive developments that hold out the promise of effective vaccines being developed, and these could in due course herald a rapid return to normality. Having said this, the economic outlook for the rest of 2020 is not a positive one.

The food supermarket business of the group, the popularity of Pama as a destination not limited to food shopping, and the strength of the Zara® and Zara Home® brands help to mitigate the adverse impact of the above.

The group's target for the current financial year is that of attaining a net result that is comparable to that reported for the financial year ended 30 April 2020. In the first quarter that ended on 31 July, the group's results are ahead of target, and this is a promising development.

It would nevertheless be imprudent to reach any conclusions from these initial observations. All economic operations currently remain subject to an uncontrollable degree of uncertainty. In addition, the COVID-19 pandemic will have longer term impacts on consumer behaviour that the market has yet to understand and react to. The group's success in the longer term will in part depend on its ability to cope with these challenges.

Caring for our community

This has again been a busy twelve months for our corporate social responsibility endeavours in the community, marketplace and workplace, with the group demonstrating a continued determination to be part of the solution to provide a better future for people in need. Our latest CSR initiatives are evidence of this commitment which shows developments in the strengthening of the communities where we live and there is now also a renewed interest in our CSR and social impact work from investors, customers, current and prospective employees.

The group ensures to assist organised and well-established not-for-profit organisations, of which the company helped around 15 entities this year. Driven by the extraordinary circumstances created by COVID-19, the group decided to assist entities directly offering support to families with the most urgent needs such as St. Jeanne Antide Foundation and the Jesuit Refugee Services. These where both given vouchers redeemable at the supermarkets to eventually directly distribute within the community. Other entities which the group assisted this year where Puttinu Cares, Dar Bjorn, Fondazzjoni Sebh, Malta Trust Foundation, Ursuline Homes, Food Bank and the Health Promotion and Disease Prevention department. The group also ensures that good approaching the optimum sell-by-date are distributed to homes and other institutes that require food stuff on a regular basis.

Apart from our now customary participation during L-Istrina, the group has also actively participated in two telethons organized by Inspire and Missio while contributing with donations to both. Several employees also registered to donate blood as PAMA Shopping Village, in collaboration with the National Blood Transfusion Service, hosted the Mobile Blood Donation Unit for three separate blood donation drives.

The group also extended its support for another year to the Sliema Local Council in offering their cab service which provides free transportation to elderly residents who require travel for their errands but do not own the means or do not have the physical ability to do so.

The need for businesses, government and social organizations to work together to tackle the most pressing societal challenges has never been clearer than today and this was the reason why the group took a holistic approach where CSR and social impact have been integrated to the extent that its now part of our culture and at the center of everything we do.

Apart from the CSR activities described above, the majority shareholder in the group, Mr. Paul Gauci, acting in a personal capacity, in January 2020 donated a number of shares to five foundations - Puttinu Cares, Dar Bjorn, Ursuline Sisters Homes, Fondazzjoni Sebh and The Malta Trust Foundation. These five charitable foundations received in total 2.25 million shares in the listed company PG plc with a current value of €4.05 million. As part of this shareholding, these five foundations will receive revenue from the dividends distributed by the company twice a year.

This follows a similar gesture made by Mr Gauci in 2019 in favour of Caritas and Dar tal-Providenza.