



## **ASX ANNOUNCEMENT**

### **FOR IMMEDIATE RELEASE TO THE MARKET**

**PPK Group Limited – ASX Code: PPK  
Monday 14 August 2017**

#### **Market Update**

#### **BACKGROUND**

In 2013, PPK embarked on a growth strategy that was predicated on the view that the mining cycle was approaching its bottom and there was an opportunity to create value by acquiring assets which would generate consistent, increasing revenue streams and demonstrate significant growth in asset value as the mining equipment and technology cycle rebounded and strengthened. However, throughout 2014 and 2015 the sustained downturn in the mining sector, and in particular the coal mining sector, impacted on the Company's performance.

In September 2015, PPK announced a review of its mining services businesses including a prospective merger, sale or equity injection alternatives in relation to its mining services businesses and/or PPK itself. Since mid-2015, PPK Group Limited ("PPK" or the "Company") has been in discussions with Shandong Energy Heavy Mining Equipment Manufacturing Group Co Ltd (SEHEMG) (a subsidiary of the state owned Shandong Energy Group) regarding a potential corporate transaction which would result in a recapitalisation and change of control of the Company. In December 2015, PPK entered into a non-binding and conditional Letter of Intent (LOI) with SEHEMG.

Subsequently SEHEMG has been unable to secure the necessary approvals from Chinese stakeholders and regulatory authorities in a timeframe acceptable to PPK. While PPK has removed exclusive negotiation rights it remains supportive of the proposed transaction and hopeful that the necessary approvals will be forthcoming.

In the meantime, PPK has opened a dialogue with a number of other interested parties in relation to possible merger, acquisition or investment opportunities.

Whilst trading conditions in the mining services businesses remain challenging, ongoing improved performance has been achieved consistent with indicators of a coal mining sector recovery and PPK's ongoing cost reduction efforts.

Income and capital gains generated by the PPK property and investment division have continued to support the mining services businesses.

#### **COALTRAM**

In recent years, a number of Australian coal mines have been operating on a "care and maintenance" basis, while operating mines have restricted both capital and operational expenses.

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As a result, PPK has not achieved the anticipated sales volume of its flagship Coaltram “Load, Haul, Dump” product domestically or internationally. In addition, an extremely competitive maintenance, service and rental/lease market has resulted in a degree of margin suppression in this sector.

PPK has delivered on its engine management system upgrade for its Coaltrams and believes that the Coaltram product is well positioned to meet emerging demand, particularly in the underground coal market.

#### MINING EQUIPMENT SERVICE FACILITIES

Depressed trading conditions in the mining sector and particularly the coal mining sector have had an adverse impact on the Company’s mining equipment services business. Whilst there are some encouraging signs, picking any recovery in this industry is extremely difficult.

In this context, PPK has successfully consolidated its Rambor operations at Nowra into both the Firefly Mt Thorley facility and PPK’s Port Kembla centre. Accordingly, PPK now operates three facilities in NSW located at Tomago, Port Kembla and Mt Thorley.

PPK continues to manufacture, service, support and hire the Rambor and Firefly ranges of mining equipment and to manufacture its upgraded flameproof alternator for use in methane gas prone underground mines.

Material progress has also been achieved in the development/upgrade of the automated mobile bolter and hydraulic tensioner products which form part of PPK’s product expansion strategy.

#### PROPERTY

##### Industrial Property:

As previously reported, PPK sold its sole remaining industrial property at Seven Hills in January 2017 for \$7.875M resulting in a profit on sale of \$4.433M.

##### Property Development:

PPK continues to hold 22.86% interest in the Kiah Willoughby residential development. The final stages of construction have now been completed with only final property sales, customer settlements and a number of legal matters to be resolved.

PPK also has an 18.75% stake in the Nerang Street Southport Project Trust (Trust), which owns an 11,000 square metre development site at Southport, on the Gold Coast. The Trust is currently marketing this site for sale to capitalise on the strengthening Gold Coast property market.

#### OUTLOOK

Whilst the mining and general business environment remains challenging, the PPK focus continues to be:

##### Our Customers:

- Support our current and seek new underground coal mining customers through the sales, service, provision of parts and leasing of our market leading Coaltram, Rambor and Firefly product lines, both domestically and internationally;
- Utilise our significant industry experience, connections and supply chain to provide high quality low cost mining and drilling consumables and underground diesel parts, thus assisting our customers in lowering their ongoing operational costs.

##### Our Products:

- Continue to be one of the few Australian original equipment makers (OEMs) incrementally investing in the continual development of their products;

- Partner internationally for the sale of current products and new technologies to international markets.

Our Business:

- Recognising the economic challenges in the underground coal mining industry which we serve, leverage our resources and experience to diversify our revenue streams through investment in appropriately attractive property and financial investments;
- Continue to manage the company as leanly and efficiently as possible.

ANNUAL GENERAL MEETINGS

The Company held both its 2015 and 2016 Annual General Meetings on Monday 14 August 2017.

The Company's 2017 AGM is to be expected to be held on Friday 24 November 2017.

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