PPK

GROUP LIMITED

# ANNUAL REPORT

# 2016

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## EXECUTIVE CHAIRMAN'S REPORT

The 2016 financial year continued to provide extremely difficult trading conditions for PPK Group Limited, particularly in the mining equipment division. With the depressed trading conditions in the mining sector and particularly the coal mining sector continuing on from FY2015, PPK determined there was a need to seek extended support for the ongoing viability of the group with reference to a prospective merger, sale or equity injection alternative in relation to its mining services businesses and/or PPK itself. Hence, on the 29th of September 2015 the Company applied for the Voluntary Suspension of its shares from quotation on the ASX, whilst negotiations with interested parties were undertaken. Further details of these events are available under the Strategy Direction section of this report.

Unfortunately, at the date of this report it is still not clear whether there will be a sale, merger or equity injection alternative of the PPK mining services businesses and/or PPK itself. Accordingly, the voluntary suspension of PPK's shares continues. However, the PPK Board is currently focussed on addressing the specific conditions to permit a resumption in trading of shares in the Company. Further, given the date of release of this 2016 Annual Report, it is recommended shareholders take time to also review the 2017 half year report, which is due for release on or before 30 June 2017.

## STRATEGY DIRECTION

As announced 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. While considerable progress was made against this strategy during the FY14 and FY15 years, the sustained downturn in the mining sector, and in particular the coal mining sector, have been well documented.

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.

In December 2015, PPK entered into a non-binding and conditional Letter of Intent (LOI) with a major State Owned Chinese mining equipment manufacturer (Counter Party) under which it is contemplated that the Counter Party will acquire a controlling interest in PPK through the placement of new shares. Pursuant to the terms of the LOI, PPK is not permitted to disclose the identity of the Counter Party.

During the 2016 financial year, the Counter Party appointed legal and accounting firms to undertake detailed due diligence on PPK generally and, in particular, the PPK mining services businesses. Subsequent to the FY2016 period, financial and legal due diligence was completed and a non-binding offer negotiated pending the Counter Party's rigorous internal and external approval process. However, at the date of this report a binding agreement (conditional or otherwise) is yet to be concluded.

In the meantime, the Mining Equipment division has continued to be supported by the sale of assets from PPK's Property and Investment divisions.

## FINANCIAL RESULTS

PPK Group Limited (PPK) reported a net loss after tax attributable to owners of PPK of $7.763M for the 12 months to 30 June 2016 (FY2015 $12.122M loss). Group revenue for the 12 months from mining equipment sales and mining services was $26.075M (FY2015 $29.577M), revenue from investment properties was $0.585M (FY2015 $1.778M) and interest received was $0.495M (FY2015 $1.587M).

The $7.763M net loss comprised a first half loss of $4.994M and second half loss of $2.769M. The considerable improvement in the second half result is largely reflecting a gain on partial sale of the company's ASX traded share portfolio ($1.5m) and PPK's cost saving initiatives as outlined further below.

Underpinning the disappointing PPK Group result, was a net loss of $6.699M from the Mining Equipment division, being $2.763M second half loss following a $3.936M first half loss. Further, the current year result was impacted by impairments, writedowns, provisions and redundancy costs totalling $0.5M (FY2015: $13.7M). Current year amounts include: available-for-sale investments $0.08M, inventory of $0.68M, redundancy costs of $0.11M less write-back of onerous lease provision of net $0.37M ($0.55M less associated interest of $0.18M).

The Financial Results outlined above are reflective of the continued downturn endured by the mining sector, in particular, underground coal mining. A number of Australian coal mines are currently operating in "care and maintenance" mode, while operating mines are experiencing both capital and operational expense constraints. Notably, PPK did not sell a single unit of its flagship Coaltram "Load, Haul, Dump" product domestically or internationally during the financial year. Further, an extremely competitive maintenance, service and rental/lease market resulted in varying degrees of margin suppression across PPK's mining equipment products and services range.

PPK did not acquire or merge any new businesses into the Group during FY2016, but rather focussed on operational stability and cost reduction. To this extent, PPK has targeted cost savings of $5M per annum from the Mining Equipment division, Corporate Head Office and Board. At 30 June 2016, costs exceeding $1.5M annualised had been removed from the business and a further $3M in opportunities identified, including $1.6M per annum in relation to an operating lease for 7 Coaltrams.

**OPERATIONS**

Major operational highlights during the year under review were:

- Cost base removal of $1.5M annualised during the financial year, with a further $3M in opportunities identified and subsequent tangible progress already exceeding $1.6M.
- Successful completion of the Rambor / Firefly business merger announced in 2015, which saw the closure of the Rambor Nowra facility and integration of the business into Firefly's Mt Thorley facility.
- Completed the acquisition of the MONEx Electronic Engine Management System technology.
- Material progress on the COALTRAM engine management system upgrades.
- Material progress on other product development investments including automated mobile bolter upgrade, Alternator upgrade and hydraulic tensioner.

**PPK Mining Equipment Businesses**

As stated above, like many companies servicing the sector, PPK's mining equipment businesses have been materially impacted by the current market environment.

At the end of the financial year PPK's mining equipment and technology businesses comprised:

- Manufacture, service, support, and hire of the class leading COALTRAM underground transport utility vehicle;
- Manufacture and distribution of the global market leading flameproof alternator for use in methane gas prone underground mines;

- Design, manufacture and overhaul of Exlec hazardous area electrical equipment; and
- Manufacture, service, support and hire of Rambor and Firefly mining equipment.

COALTRAM

In the prior year, PPK announced the first sale of a COALTRAM into the Chinese market. Despite positive feedback following exhibition of the machine at the National China Coal Show in November 2015, no further orders have been received.

In the year in review, PPK did not sell or deliver any COALTRAMs to customers (FY2015: 3 COALTRAMs delivered). In the four years FY2011-2014 (prior to PPK ownership) the business delivered in excess of 100 units into the market. The current lack of machine sales is reflective of unprecedented levels of capital expenditure restrictions at a customer level both domestically and internationally.

MINING EQUIPMENT SERVICE FACILITIES

PPK successfully consolidated its Rambor operations at Nowra into both the Firefly Mt Thorley facility and PPK's Port Kembla centre. This process completed in early FY2016, which then resulted in the closure of the Nowra Facility. Accordingly, PPK now operates three facilities in NSW located at Tomago, Port Kembla and Mt Thorley.

**Property**

*Industrial Property*

As at June 2016, PPK's remaining industrial property at Seven Hills remains fully tenanted. As previously stated, PPK would consider selling the Seven Hills property at the appropriate time and subject to achieving an upper quartile sale price which provided full value for shareholders. This was achieved in January 2017 when the property was sold 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 which is scheduled to be complete within the first quarter of FY2017. By 30 June 2016, almost all construction of the final stages of the development had been completed with only final property sales, council approvals, 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.

The proceeds from realisations mentioned above, along with those arising in the future, will be used to fund a combination of debt reduction, new business acquisitions, select further property and other investment opportunities, and capital management strategies.

**Financial Investments**

During the year, PPK advanced $2.647M in mortgage secured loans to entities owning /operating the Couran Cove Resort based on South Stradbroke Island in Queensland. This investment was fully funded by non-bank borrowings and these borrowings were repaid in September 2016. PPK had one other short term mortgage secured loan totalling $0.4M that was repaid in full during the financial year.

In addition, the book value of PPK's share investment portfolio is approximately $2.076M at balance date.

## CORPORATE DEVELOPMENTS

### Key Leadership Changes

In January 2016, PPK announced the resignation of Chief Executive Officer Peter Barker. Accordingly, Robin Levison resumed the role of Executive Chairman.

## CAPITAL MANAGEMENT

While the board is committed to transforming the size, scope and profitability of PPK, it is equally intent on expanding the company in an ordered manner through maintaining a prudent and relatively conservative approach to debt and capital management. With the current challenges in our Mining business, this strategy is more important than ever.

Accordingly, as previously outlined, PPK is seeking to strengthen its balance sheet by continuing talks with interested parties and in particular the State Owned Chinese mining equipment manufacturer referred previously.

Further, the following debt re-structuring occurred during the year:

- Re-financing of $2.79M in Commonwealth Bank debt secured by the mining equipment businesses to be secured against the Seven Hills industrial property, thereby mitigating covenant compliance risk.
- Re-financing $2.3M in National Australia Bank debt to a non-bank lender, there by mitigating covenant compliance risk.

As such the potential capital cost of all future planned acquisitions will be carefully evaluated to ensure that they can be primarily funded internally, and that when required, additional funding via external debt or share issues, will not overly negatively impact on PPK's balance sheet or shareholder value.

## OUTLOOK

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

Our Customers

a) 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.
b) 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

c) Continue to be one of the few Australian original equipment makers (OEMs) incrementally investing in the continual development of their products.
d) Partner internationally for the sale of current products and new technologies to international markets.

Our Business

e) Recognising the well documented economic challenges in the underground coal mining industry, which we serve, leverage our resources and particularly our Board’s considerable experience to diversify our revenue streams through investment in appropriate attractive property and financial investments.
f) Continue to manage the company as leanly and efficiently as possible.

Our Group

g) Maintain a disciplined and prudent approach to capital management.
h) Continue to progress the proposed transaction with the State Owned Chinese mining equipment manufacturer, or should it not occur, pursue other merger or financing opportunities with interested parties.

Disappointingly, the depressed trading conditions in the mining sector and particularly the coal mining sector have remained. Whilst subsequently there are some very encouraging signs, picking any recovery in this industry is extremely difficult.

Accordingly, the board has determined that PPK should, for the sake of diversity, adopt a two-pronged approach of executing on the mining strategy as articulated, plus now continue to leverage its experience in commercial and residential property development to invest in appropriate attractive property and other financial investment opportunities with a number of potential transactions under active consideration.

Finally, based on the current trading performance and the continued focus on strong capital management, the company does not anticipate paying a dividend for the current financial year. The Board is committed to returning to dividend payments as soon as trading conditions allow.

**Robin Levison**
Executive Chairman

# 2016 FINANCIAL REPORT

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# DIRECTORS' REPORT

Your directors present their report together with the financial statements of the consolidated entity, being PPK Group Limited and its controlled entities ("PPK" or the "Group") for the financial year ended 30 June 2016.

## DIRECTORS

The names of directors in office at any time during or since the financial year are:

| | |
|---|---|
| Robin Levison | |
| Jury Ivan Wowk | (resigned 5 May 2017) |
| Glenn Robert Molloy | |
| Raymond Michael Beath | (resigned 7 March 2017) |
| Graeme Douglas Webb | |
| Dale William McNamara | |

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## INFORMATION ON DIRECTORS

Details of the current directors' qualifications, experience and special responsibilities are detailed below:

**Robin Levison** CA MBA F.A.I.C.D. (Age 59)
***Executive Chairman***

*Member of the PPK Group Limited Board since 22 October 2013*
*Non-Executive Chairman from 29 April 2015 to 28 February 2016*
*Executive Chairman from 22 October 2013 to 29 April 2015. Reappointed Executive Chairman from 28 February 2016.*

Robin Levison has 16 years of public company management and board experience. During this time he has served as Managing Director at Industrea Limited and Spectrum Resources Limited and has held senior roles at KPMG, Barclays Bank and Merrill Lynch.

Robin holds a Masters of Business Administration from the University of Queensland, is a Member of the Institute of Chartered Accountants Australia and NZ and is a Graduate and Fellow of Australian Institute of Company Directors. Robin is also Deputy Chair of the University of Queensland Business, Economics and Law Alumni Ambassador Council.

*Other listed public company directorships held in the last 3 years:*

► Eureka Group Holdings Limited, Non-executive Director & Chairman (Appointed: 24 December 2013)

**Jury Wowk** BA., LLB (Age 66)
***Non-Executive Deputy Chairman, Independent Director***

*Member of the PPK Group Limited Board since listing on 21 December 1994. Resigned 5 May 2017.*
*Chairman from 13 September 2011 to 22 October 2013.*
*Appointed Deputy Chairman 22 October 2013*
*Member of the Audit Committee*

Jury Wowk was a Partner of and is currently a consultant to HWL Ebsworth Lawyers and has provided legal services to the PPK Group since 1979. From 1987 to 1989, Jury performed the role of Operations Manager at Plaspak Pty Ltd.

Jury has a Bachelor of Arts Degree and a Bachelor of Laws Degree from the University of Sydney. He is also a Graduate Member of the Australian Institute of Company Directors.

*Other listed public company directorships held in the last 3 years: Nil*

## INFORMATION ON DIRECTORS (cont'd)

**Glenn Molloy (**Age 62)
***Executive Director***

*Member of the PPK Group Limited Board since listing on 21 December 1994.*
*Founder of the former entity Plaspak Pty Limited in 1979.*
*Appointed Executive Director in September 2009.*

Glenn Molloy founded the former entity Plaspak Pty Ltd in 1979 and has acted as a director of PPK since that time. He has extensive experience on public company boards, and in advising publicly listed and private entities on commercial aspects of mergers, acquisitions and divestment activities.

*Other listed public company directorships held in the last 3 years:*

► SubZero Group Limited, Non-executive Director (Appointed 10 April 2013; Ceased 25 November 2013), Chairman (Appointed 10 April 2013; ceased 31 July 2013)

**Raymond Beath** B.Com, F.C.A (Age 66)
***Non-Executive, Independent Director***

*Member of the PPK Group Limited Board since listing on 21 December 1994. Resigned 7 March 2017.*
*Chairman of the Audit Committee.*

Raymond Beath is a Director of Holden & Bolster Avenir Pty Limited, Chartered Accountants. He has a Bachelor of Commerce (Accounting) degree from the University of New South Wales and is a Fellow of the Institute of Chartered Accountants Australia and NZ. Raymond has advised the consolidated entity on taxation, corporate and financial management since 1984.

*Other listed public company directorships held in the last 3 years:* Nil

**Graeme Webb** (Age 67)
***Non-Executive Director***

*Member of the PPK Group Limited Board since 1 August 2011.*

Graeme Webb is a substantial shareholder of PPK Group Limited.

Graeme is Chairman of EDG Capital Limited and has over 40 years of experience in building, construction and property development undertaking over $200 million of projects during his career to date.

In addition, Graeme has a broad range of business experience having acted as a director and/or chairman of a number of private and public companies engaged in a range of industries including plastics packaging, merchant banking, aluminium fabrication, glazing and glass toughening.

*Other listed public company directorships held in the last 3 years:* Nil

**Dale McNamara** (Age 58)
***Executive Director***

*Member of the PPK Group Limited Board since 30 April 2015.*

Dale McNamara first joined PPK in an executive capacity in late 2013. Dale has more than 30 years of experience in operational and management roles in the coal mining industry in Australia and China.

Dale founded Wadam Industries, a subsidiary of Industrea Ltd and served as its Managing Director since 1993. Dale was then appointed as Deputy Chief Executive Officer of Industrea in 2009. Following the takeover of Industrea in November 2012 Dale assumed the position of Global Director, Mining with the new owner.

*Other listed public company directorships in the last 3 years:* Nil

## INFORMATION ON COMPANY SECRETARY

**Andrew J. Cooke** (Age 56) LL.B, FCIS
***Group Company Secretary***

Andrew Cooke was appointed as Group Company Secretary on 9 May 2012.

Andrew has extensive experience in law, corporate finance and is the Company Secretary of a number of ASX listed companies. He is responsible for corporate administration together with stock exchange and regulatory compliance.

## PRINCIPAL ACTIVITIES

The principal activities of PPK during the financial year were the:

- design, manufacture, distribution and servicing of underground mining equipment;
- property ownership and management; and
- investment in publicly listed and privately held businesses.

There were no other significant changes in the nature of PPK's principal activities during the financial year.

## OPERATING RESULTS

PPK Group Limited (PPK) reported a net loss after tax attributable to owners of PPK of $7.763M for the 12 months to 30 June 2016 (2015 $12.122M loss). Group revenue for the 12 months from mining equipment sales and mining services was $26.075M (2015 $29.577M), revenue from investment properties was $0.585M (2015: $1.778M) and interest received was $0.495M (2015 $1.587M). The current year result included impairments and provisions totalling $0.505M (2015: $13.670M).

## DIVIDENDS PAID OR RECOMMENDED

Dividends paid or recommended for payment are as follows:

No dividends were declared or paid during the year.

A final dividend has not been declared.

## REVIEW OF OPERATIONS

The review of operations is outlined in the Executive Chairman's Report set out on pages 1 to 5 and which forms part of this report.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

- *Winding up and deconsolidation of SLOT Loan Trust*
  In September 2015, Supported Living on Tweed Pty Ltd (borrower) repaid $3.235M in loans payable to the SLOT Loan Trust. In turn the SLOT Loan Trust repaid $1.684M to external lenders. These comprised the primary assets and liabilities of the trust, accordingly, the SLOT loan trust has been wound up during the year and accordingly been deconsolidated from the Group.

- *Debt Restructure*
  During the year, PPK borrowed $2.550M from Neruj Pty Ltd ATF Wemole Funding Trust. The loan attracts interest at 15% per annum, has an initial 12 month term and is secured by second mortgage over the property located at 13A Stanton Road, Seven Hills. PPK Directors Glenn Molloy, Graeme Webb and Robin Levison share beneficial ownership and control of the trust. Proceeds from this loan were primarily used to fully repay the existing National Australia Bank commercial bill facility of $2.210M. In January 2017, upon sale of the Seven Hills Industrial property, the Neruj loan was repaid in full.

  In October 2015, the Commonwealth Bank market rate loan of $2.729M owed by PPK Mining Equipment Pty Ltd (wholly owned PPK subsidiary) was assigned to Seven Hills Property Holdings Pty Ltd (wholly owned PPK subsidiary) along with all the associated security interests. The assignment was funded by Seven Hills Property Holdings Pty Ltd borrowing an equivalent amount from the Commonwealth Bank under market rate loan facilities secured by first registered mortgage of the property located at 13A Stanton Road, Seven Hills. The term of the Commonwealth Bank loan is 3 years, maturing on the 19th October 2018. In January 2017, upon sale of the Seven Hills Industrial property, the CBA loan was repaid in full.

- *Other loans receivable and payable*
  In October 2015, PPK (CC) Pty Ltd (wholly owned subsidiary) acquired loans receivable totalling $2.647M owed by Couran Cove Holdings Pty Ltd ATF CCH trust and secured by real property located at Couran Cove Resort, South Stradbroke Island. There are multiple loan agreements comprising the loans receivable with interest of 14 per cent per annum. These loans were repaid in full in September 2016, with principal and interest proceeds totalling $2.905M.

  As funding for the transaction above, PPK borrowed $2.000m and $1.000m from Atkone Pty Ltd and Contemplator Pty Ltd, respectively, at 10% interest per annum on 2 year terms expiring September 2017. The loans are secured by General Security Agreements over the assets of PPK (CC) Pty Ltd and PPK Investment Holdings Pty Ltd, together with a Guarantee & Indemnity from PPK Group Limited and PPK Investment Holdings Pty Ltd. During the year a further $0.450M was borrowed and $2.225M was repaid leaving outstanding borrowings of $1.225M at 30 June 2016. A further $0.275M was advanced post year end and in September 2016 these loans were repaid in full.

- *Nowra facility closure*
  In December 2014, PPK completed the acquisition of the Firefly business. Operating from a base at Mt Thorley, Firefly sells, services and hires a range of mobile pneumatic (air) powered products for the mining industry. The Firefly business compliments PPK's existing Rambor pneumatic products business. Post-acquisition, PPK consolidated Rambor's operations at Nowra into both the Firefly Mt Thorley facility and PPK's Port Kembla centre. This process was completed in early FY 2016 and the Nowra facility was closed generating considerable cost savings across the combined businesses.

- *Leased Coaltrams*
  On 27 June 2016, Glegra Pty Ltd ATF The Coaltram Trust (TCT) being a PPK director related entity (refer related party disclosures within the Remuneration Report, page 18) acquired the rights and obligations of the lessor on arms-length commercial terms. At 30 June 2016, total liabilities recognised in relation to the lease were $2.840M comprising $1.210M unpaid lease payments (rental arrears) and $1.630M onerous lease provision.

There have been no other significant changes in the state of affairs during the 2016 financial year or existing at the time of this report.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Refer note 31 to the financial statements.

## FUTURE DEVELOPMENTS

The likely developments in the operations of PPK and the expected results of those operations in financial years subsequent to the year ended 30 June 2016 are included in the Executive Chairman's Report set out on pages 1 to 5 and which forms part of this report.

## ENVIRONMENTAL ISSUES

PPK remains committed to:

- the effective management of environmental issues having the potential to impact on its remaining business; and
- minimising the consumption of resources utilised by its operations.

The Company has otherwise complied with all government legislation and regulations with respect to disposal of waste and other materials and has not received any notices of breach of environmental laws and/or regulations. The Company's approach to environmental sustainability is outlined in its Environmental Policy at www.ppkgroup.com.au.

## PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## REMUNERATION REPORT (audited)

The Directors of PPK present the Remuneration Report for non-executive directors, executive directors and other key management personnel, prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

**Remuneration Policy**

The remuneration policy of the Company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short-term incentives based on key performance areas affecting the Group's financial results.

The PPK Board believes the remuneration policy to be appropriate and effective in its ability to attract, retain and motivate directors and executives of high quality and standard to manage the affairs of the Group, as well as, create goal congruence between directors, executives and shareholders.

The remuneration policy, setting the terms and conditions for directors, executives and management was developed by the Board. The policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated entity is detailed in the paragraphs which follow.

Remuneration of non-executive directors is determined by the Board from the maximum amount available for distribution to the non-executive directors as approved by shareholders. Currently this amount is set at $0.275M per annum in aggregate as approved by shareholders at the 2003 Annual General Meeting.

In determining the appropriate level of directors' fees, data from surveys undertaken of other public companies similar in size or market section to the Company is taken into account.

Non-executive directors are remunerated by means of cash benefits. They are not entitled to participate in performance based remuneration practices unless approved by shareholders. The Company will not generally use options as a means of remuneration for non-executive directors and will continue to remunerate those directors by means of cash benefits.

PPK does not provide retirement benefits for its non-executive directors. Executive directors do not receive director's fees.

The Board of Directors is responsible for approving remuneration policies and packages applicable to senior executives of the Company. The broad remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating people of high quality and standard.

A review of the compensation arrangements for executive directors and senior executives is conducted by the full Board at a duly constituted Directors' meeting.

The Board conducts its review annually based on established criteria which includes:

- the individual's performance;
- reference to market data for broadly comparable positions or skill sets in similar organisations or industry;
- the performance of the Company or consolidated entity during the relevant period; and
- the broad remuneration policy of the consolidated entity.

Senior executives and executive directors may receive bonuses based on the achievement of specific goals of the consolidated entity.

**Company Performance, Shareholder Wealth and Directors and Executives Remuneration**

The Remuneration Policy has been designed to achieve the goal congruence between shareholders, directors and executives.

The two methods employed in achieving this aim are:

- a performance based bonus for executives based on key performance indicators (KPI's) which include a combination of short-term financial and non-financial indicators; and/or
- the issue of shares or options to executives as a means of long-term incentive to encourage the alignment of personal and shareholder interests.

*Shares or Options*

No shares or options were issued to executives in the current financial year.

PPK Group Ltd has a share and loan plan in place with certain key executives. During the 2014 year, they were issued with 15.500M shares in the Group at an issue price of $0.70 per share.

The Group provided the executives with a non-recourse loan to pay for the shares, which expired 27 April 2017. The terms of the non-recourse loan provide no obligation on the senior executive to repay the full amount of the outstanding loan balance and the Group has the option to sell or buy-back the plan shares as full satisfaction of the outstanding loan balance. Each share held in the share and loan plan is entitled to dividends declared on ordinary shares. These dividends are not paid in cash to the executives but they are credited against their respective share loans and reduce the amounts of interest and/or principle outstanding to the Group.

The plan is treated as an option for accounting purposes and a one-off share based payment was recognised during the 2014 financial year for these share plans. There are no further share based payments expected to arise from this plan. The repayment of loans by way of dividend or cash repayment is treated as an increase to issued capital for accounting purposes, which during the current financial year was nil (2015: $0.542M).

The Board considers that the existing remuneration arrangements regarding executives are appropriate in the Company's prevailing circumstances to achieve the desired objectives of its Remuneration Policy.

These policy measures are chosen as they directly align the individual's reward to the KPI's of the consolidated entity and to its strategy and performance.

The Company considers this policy is an effective means of maintaining shareholder wealth and in retaining quality employees committed to the long term objectives of the Company.

*Consequences of company performance on shareholder wealth*

The following table outlines the impact of company performance on shareholder wealth:

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Earnings per share (cents) | (13.4) | (21.2) | 4.8 | 4.7 | 2.9 |
| Full year ordinary dividends (cents) per share | - | 1.5 | 3.5 | 3.5 | 1.0 |
| Year-end share price | $0.20 | $0.40 | $0.66 | $0.44 | $0.38 |
| Shareholder return (annual) | (50%) | (37%) | 58% | 25% | 30% |

The above table shows the annual returns to shareholders calculated to include the difference in percentage terms between the dividend yield for the year (based on the average share price during the period) and changes in the price at which shares in the Company are traded between the beginning and the end of the relevant financial year.

The share price for 2016 is the last traded price as at 29th September 2015, when the Group voluntarily suspended trading on the ASX.

## REMUNERATION REPORT (audited) (cont.)

### Details of Remuneration for the year ended 30 June 2016

#### DIRECTORS' AND OTHER KEY MANAGEMENT PERSONNEL REMUNERATION

Details of the nature and amount of each element of the remuneration of each key management personnel ('KMP") of PPK Group Limited are shown in the table below:

| 2016 | SHORT TERM INCENTIVES | | | POST-EMPLOYMENT | LONG TERM INCENTIVES/BENEFITS | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Salary& Fees ($)** [3] | **Short Term Incentive Cash Bonus ($)** | **Non-Cash Benefits ($)** | **Superannu-ation ($)** | **Long Service Leave** | **Post Employ-ment Benefits ($)** | **Share based payments ($)** | **Total ($)** | **Proportion of Remuneration Performance Related (%)** |
| **Directors** | | | | | | | | | |
| *Non –Executive* | | | | | | | | | |
| **J I Wowk** | 110,222 | - | - | - | - | - | - | 110,222 | - |
| **R M Beath** | 24,000 | - | - | - | - | - | - | 24,000 | - |
| **GD Webb** | 24,000 | - | - | - | - | - | - | 24,000 | - |
| *Executive* | | | | | | | | | |
| **R Levison** [1] | 234,329 | - | - | 4,750 | - | - | - | 239,079 | - |
| **G R Molloy** | 162,400 | - | - | - | - | - | - | 162,400 | - |
| **D McNamara** | 163,482 | - | - | 4,750 | - | - | - | 168,232 | - |
| ***Total Directors*** | 718,433 | - | - | 9,500 | - | - | - | 727,933 | - |
| **Other Key Management Personnel** | | | | | | | | | |
| **P Barker** [2] | 121,561 | - | - | 12,667 | - | - | - | 134,228 | - |
| **J Beddow** | 199,463 | - | - | 18,208 | - | - | - | 217,671 | - |
| **Z Jinping** | 203,482 | - | - | 4,750 | - | - | - | 208,232 | - |
| ***Total other*** | 524,506 | - | - | 35,625 | - | - | - | 560,131 | - |
| ***Total Key Management Personnel*** | | | | | | | | | |
| | **1,242,939** | - | - | **45,125** | - | - | **-** | **1,288,064** | - |

[1] Robin Levison resumed the role of Executive Chairman on 28 February 2016 upon the resignation of Peter Barker, see [2] below.

[2] Peter Barker (Chief Executive Officer) resigned effective 28 February 2016.

[3] Amounts reported above include both paid and unpaid entitlements. A number of PPK directors have voluntarily elected to temporarily defer payment of their consulting fee entitlements. Refer further to details on page 19. Further, in February 2017 Robin Levison forgave $0.215M in unpaid consulting fees, of which $0.062M was earned in the 2016 financial year and is included in the amounts above.

## REMUNERATION REPORT (audited) (cont.)

| 2015 | SHORT TERM INCENTIVES | | | POST-EMPLOYMENT | LONG TERM INCENTIVES/BENEFITS | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary& Fees ($) [5] | Short Term Incentive Cash Bonus ($) | Non-Cash Benefits ($) | Superannuation ($) | Long Service Leave | Post Employment Benefits ($) | Share based payments ($) | Total ($) | Proportion of Remuneration Performance Related (%) |
| **Directors** | | | | | | | | | |
| *Non –Executive* | | | | | | | | | |
| **R Levison** [1] | 254,392 | - | - | 4,750 | - | - | - | 259,142 | - |
| **J I Wowk** | 138,492 | - | - | - | - | - | - | 138,492 | - |
| **R M Beath** | 26,000 | - | - | - | - | - | - | 26,000 | - |
| **GD Webb** | 26,000 | - | - | - | - | - | - | 26,000 | - |
| *Executive* | | | | | | | | | |
| **G R Molloy** | 113,700 | - | - | - | - | - | - | 113,700 | - |
| **D McNamara** [2] | 176,276 | - | - | 4,750 | - | - | - | 181,026 | - |
| ***Total Directors*** | 734,860 | - | - | 9,500 | - | - | - | 744,360 | - |
| **Other Key Management Personnel** | | | | | | | | | |
| **P Barker** [3] | 228,439 | - | - | 20,583 | - | - | - | 249,022 | - |
| **J Beddow** [4] | 33,692 | - | - | 2,982 | - | - | - | 36,674 | - |
| **Z Jinping** | 202,943 | - | - | 4,750 | - | - | - | 207,693 | - |
| ***Total other*** | 465,074 | - | - | 28,315 | - | - | - | 493,389 | - |
| ***Total Key Management Personnel*** | | | | | | | | | |
| | **1,199,934** | - | - | **37,815** | - | - | **-** | **1,237,749** | - |

[1] Whilst remaining Chairman, Robin Levison passed his executive responsibilities to Peter Barker from 30 April 2015 to 28 Feb 2016, see [3] below. Robin Levison resumed his executive responsibilities on 28 Feb 2016.

[2] Dale McNamara was appointed as an executive director on 30 April 2015.

[3] Peter Barker was appointed Chief Executive Officer on 30 April 2015. Previously Chief Financial Officer from 1 July 2014 to 29 April 2015. Subsequently, Peter Barker resigned effective on 28 Feb 2016.

[4] Jason Beddow was appointed as Chief Financial Officer on 30 April 2015.

[5] Amounts reported above include both paid and unpaid entitlements. A number of PPK directors have voluntarily elected to temporarily defer payment of their consulting fee entitlements. Refer further to details on page 19. Further, in February 2017 Robin Levison forgave $0.215M in unpaid consulting fees, of which $0.081M was earned in the 2015 financial year and is included in the amounts above.

### Performance Income as a Proportion of Total Remuneration

No bonuses were paid to Key Management Personnel during the year.

No performance criteria or bonuses have been set by the Board for Key Management Personnel for future financial years.

### Options issued as part of remuneration for the year ended 30 June 2016

Options may be issued to executives as part of their remuneration. The options are issued to encourage goal alignment between executives, directors and shareholders.

No options were issued to, or exercised by, directors or other Key Management Personnel during the year.

### Employment Contracts

Notwithstanding the entitlements outlined in the following, a number of PPK directors have voluntarily elected to defer payment of their consulting fee entitlements, refer page 19 for further details.

## REMUNERATION REPORT (cont'd)

**Employment Contracts (cont'd)**

*Mr. Robin Levison*

Employment and consultancy agreements are in place between the parties on terms as follows:

Term: Commencing on 1 October 2013 – no fixed term.

Remuneration: Base remuneration under the agreements $0.290M per annum. Mr Levison's remuneration is currently reduced by 20% reflecting the challenging industry conditions.

Duties: Executive Chairman.

Termination: The consultancy agreement may be terminated with no cause at any time by PPK Group Limited by giving not less than 12 months written notice or by Mr Levison giving not less than 6 months written notice.

*Mr. Dale McNamara*

Employment and consultancy agreements are in place between the parties on terms as follows:

Term: Commencing on 1 April 2014 – no fixed term.

Remuneration: Base remuneration under the agreements $0.200M per annum. Mr McNamara's remuneration is currently reduced by 20%, reflecting the challenging industry conditions.

Duties: PPK's director of Global Mining.

Termination: The consultancy agreement may be terminated with no cause at any time by PPK Group Limited by giving not less than 12 months written notice or by Mr McNamara giving not less than 6 months written notice.

*Mr. Zhang Jinping*

Employment and consultancy agreements are in place between the parties on terms as follows:

Term: Commencing on 1 April 2014 – no fixed term.

Remuneration: Base remuneration under the agreements $0.200M per annum.

Duties: President – PPK China Operations.

Termination: The consultancy agreement may be terminated with no cause at any time by PPK Group Limited by giving not less than 12 months written notice or by Mr Zhang giving not less than 6 months written notice.

*Mr. Glenn Molloy*

Glenn Molloy was appointed an Executive Director on 7 September 2009.

The remuneration and other terms of Mr Molloy's employment have been approved by the Board and include payment of the amount of $3,500 per day worked for PPK plus reasonable out of pocket expenses and the provision of a mobile phone and laptop for business use.

Jason Beddow

Employment agreements are in place with the parties on terms as follows:

Term: Commencing 30 April 2015 – no fixed term.

Remuneration: Fixed at $0.250M per annum (from May 2016, previously $0.180M) plus superannuation.

In addition:
(i) a potential short term incentive of up to a maximum of 25% of total fixed remuneration is subject to meeting Board approved targets.
(ii) a potential long term incentive is subject to the achievement of financial and shareholder return measures and hurdles set by the Board.

Duties: Chief Financial Officer

Termination: Either Mr Beddow or PPK may terminate his employment by giving three months' notice.

## SHARES HELD BY DIRECTORS AND KEY MANAGEMENT PERSONNEL

The number of ordinary shares held by directors and Key Management Personnel during the 2016 reporting period is set out below:

| Directors | Balance at Start of year | Net change Other | Shares Purchased | New Share Issue | Share and Loan Plan Issue | Held at the End of the Reporting Period |
|---|---|---|---|---|---|---|
| R Levison | 11,766,667 | - | - | - | - | 11,766,667 |
| G Molloy | 13,524,519 | - | - | - | - | 13,524,519 |
| R Beath | 300,000 | - | - | - | - | 300,000 |
| J Wowk | 650,000 | - | - | - | - | 650,000 |
| G Webb | 9,460,000 | - | - | - | - | 9,460,000 |
| D McNamara | 4,132,500 | - | - | - | - | 4,132,500 |
| | 39,833,686 | - | - | - | - | 39,833,686 |
| **Key Management Personnel** | | | | | | |
| P Barker | - | - | - | - | - | - |
| J Beddow | - | - | - | - | - | - |
| Z Jinping | 4,000,000 | - | - | - | - | 4,000,000 |
| | 4,000,000 | - | - | - | - | 4,000,000 |
| Total | 43,833,686 | - | - | - | - | 43,833,686 |

## OPTIONS

Apart from the Share Loan Plans as discussed above there were no options outstanding as at the date of this report.

## OTHER INTERESTS IN RELATED PARTIES OF THE GROUP

In addition the following Directors of PPK have an interest in various unit trusts, the trustees of which are subsidiaries of the PPK Group. As unit holders, the Directors have advanced, or agreed to advance loan funds, to the trustees in proportion to the number of units held by them on usual commercial terms for the purpose of undertaking commercial lending in which PPK has an indirect equity interest - along with other unassociated investors.

Details of the units and the trusts in which each Director has a relevant interest and of the nature of that relevant interest are set out in the tables below:

**J I Wowk:**

| Trusts - registered holder(s) | Number of Units | Nature of Interest (all indirect) |
|---|---|---|
| Willoughby Funding Unit Trust - Dealcity Pty Ltd | 2 | Director & Member |
| Nerang Street Southport Project Trust – Dealcity Pty Ltd | 33 | Director & Member |

**G R Molloy:**

| Trusts - registered holder(s) | Number of Units | Nature of Interest (all indirect) |
|---|---|---|
| Willoughby Funding Unit Trust - Wavet Fund No. 2 Pty Limited | 10 | Director & Member |
| Nerang Street Southport Project Trust - Wavet Fund No. 2 Pty Limited | 286 | Director & Member |

## OTHER INTERESTS IN RELATED PARTIES OF THE GROUP (Cont'd)

**R M Beath:**

| Trusts - registered holder(s) | Number of Units | Nature of Interest (all indirect) |
|---|---|---|
| Willoughby Funding Unit Trust<br>- Zenaval Pty Ltd | 1 | Director & Member |

**G D Webb:**

| Trusts - registered holder(s) | Number of Units | Nature of Interest (all indirect) |
|---|---|---|
| Willoughby Funding Unit Trust<br>- GRG Finance Pty Ltd<br>- Phillip Street Properties Pty Ltd | <br>20<br>20 | <br>Director<br>Director |
| Nerang Street Southport Project Trust<br>- GRG Finance Pty Ltd | 231 | Director |

## OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. Transactions are inclusive of GST.

The Group has secured a loan from Neruj Pty Ltd ATF Wemole Funding Trust. PPK Directors, Mr Glenn Molloy, Mr Graeme Webb and Mr Robin Levison share beneficial ownership and control of this entity.

| | Consolidated Entity | |
|---|---|---|
| | 2016 | 2015 |
| | $000s | $000s |
| Loans advanced | 2,550 | - |
| Interest paid and credited to loan | 207 | - |
| Loans repaid | - | - |
| Balance outstanding | 2,757 | - |

The Group has made loans to Couran Cove Holdings Pty Ltd ATF CCH trust. Mr Glenn Molloy was a Director and beneficiary of the CCH Trust. The loan was repaid in September 2016.

| | Consolidated Entity | |
|---|---|---|
| | 2016 | 2015 |
| | $000s | $000s |
| Loans advanced | 2,647 | - |
| Interest paid and credited to loan | 268 | - |
| Loans repaid | - | - |
| Balance outstanding | 2,915 | - |

The Group has made loans to the ASX-listed entity SubZero Group Limited. Mr Glenn Molloy was a Director of SubZero Group Limited from April 2013 to November 2013. The loan was repaid on 2 August 2014.

| | Consolidated Entity | |
|---|---|---|
| | 2016 | 2015 |
| | $000s | $000s |
| Loans advanced | - | 78 |
| Interest paid and credited to loan | - | 2 |
| Loans repaid | - | (80) |
| Balance outstanding | - | - |

As noted earlier in this report, On 27 June 2016 Glegra Pty Ltd ATF The Coaltram Trust (TCT) being a wholly owned entity of Mr Glenn Molloy, became the owner of the ex-UFME lease and thus the rights to the unpaid lease rental arrears of $1.200M (2015 Nil) and $1.630M (2015 $2.000M) onerous lease provision.

## OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (CONT'D)

A number of PPK directors have voluntarily elected to temporarily defer payment of their director & consulting fee entitlements. The following amounts remain unpaid as at reporting date:

| | Consolidated Entity | |
|---|---|---|
| | 2016 | 2015 |
| | $000s | $000s |
| Graeme Webb (Awaba Partnership) | 65 | 41 |
| Glenn Molloy (Corso Management Services) | 184 | 30 |
| Dale McNamara (McNamara Consultants Pty Ltd) | 111 | 118 |
| Robin Levison (Ignition Equity Partners) | 443 | 261 |
| Balance outstanding | 803 | 450 |

Directors and key management personnel and their related entities had made loans to the Easy Living Unit Trust and the Easy Living Bundaberg Trust. Both loans were secured by a second mortgage over property held by the trusts and were interest free.

On 30 September 2014 PPK disposed of its entire interests in the Easy Living Unit Trust and Easy Living Bundaberg Trust.

| | Consolidated Entity | |
|---|---|---|
| | 2016 | 2015 |
| | $000s | $000s |
| The Easy Living Unit Trust was a subsidiary of the Group by virtue of its 50% ownership interest prior to its disposal by the Group on 30 September 2014. | | |
| Balance at start of year | - | 275 |
| Loans advanced to the Group | - | - |
| Loans repaid by the Group | - | - |
| Total advanced to the Group | - | 275 |
| Reclassification of Key Management Personnel | - | - |
| Trust distribution credited to loan | - | 22 |
| Loan capitalisation to trust units | - | (297) |
| Balance outstanding | - | - |
| The Easy Living Bundaberg Trust was a subsidiary of the Group by virtue of its 50% ownership interest prior to its disposal by the Group on 30 September 2014. | | |
| Balance at start of year | - | 334 |
| Loans advanced to the Group | - | - |
| Loans repaid by the Group | - | - |
| Total advanced to the Group | - | 334 |
| Reclassification of Key Management Personnel | - | - |
| Trust distribution credited to loan | - | 45 |
| Loan capitalisation to trust units | - | (379) |
| Balance outstanding | - | - |

## OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (CONT'D)

| | Consolidated Entity | |
|---|---|---|
| | **2016** | **2015** |
| | **$000s** | **$000s** |
| Loans to the SLOT Loan Trust are secured loans repayable by October 2015 and are interest free under current terms. | | |
| The SLOT Loan Trust is a subsidiary of the Group by virtue of its 51% voting interest. | | |
| Balance at start of year | 891 | 875 |
| Loans repaid by the Group | (932) | (138) |
| Total advanced to the Group | (41) | 737 |
| Trust distribution credited to loan | 41 | 154 |
| Balance outstanding | - | 891 |

| | Consolidated Entity | |
|---|---|---|
| | **2016** | **2015** |
| | **number** | **number** |
| The Easy Living Unit Trust - units | - | - |
| The Easy Living Bundaberg Trust - units | - | - |
| The SLOT Loan Trust - units | - | 900 |
| | **$000s** | **$000s** |
| Transactions with Associates | | |
| Interest receivable from associates | | |
| PPK Willoughby Funding Unit Trust | 2,658 | 2,624 |
| Nerang Street Southport Project Trust | 83 | 101 |
| | 2,741 | 2,725 |
| Loans and receivables from associates | | |
| Current | | |
| PPK Willoughby Funding Unit Trust[1] | 3,567 | 4,814 |
| Nerang Street Southport Project Trust | 899 | 811 |
| | 4,466 | 5,625 |

[1] The carrying value of the Loan receivables in the Group Financials has been reduced by an impairment provision of $0.364M, refer to note 11.

**(End of Audited Remuneration Report)**

## MEETINGS OF DIRECTORS

During the financial year, meetings of directors (including committee meetings) were held. Attendances were:

| | DIRECTORS' MEETINGS | | AUDIT COMMITTEE MEETINGS | |
|---|---|---|---|---|
| | Number Eligible to attend | Number Attended | Number Eligible to attend | Number Attended |
| Robin Levison | 11 | 11 | - | - |
| Jury Ivan Wowk | 11 | 9 | 4 | 3 |
| Glenn Robert Molloy | 11 | 11 | - | - |
| Raymond Michael Beath | 11 | 8 | 4 | 3 |
| Graeme Douglas Webb | 11 | 10 | - | - |
| Dale William McNamara | 11 | 10 | - | - |

## CORPORATE GOVERNANCE STATEMENT

PPK's directors and management are committed to conducting the Group's business ethically and in accordance with high standards of corporate governance. A copy of PPK's Corporate Governance Statement can be found in the corporate governance section of PPK's website at www.ppkgroup.com.au.

## RISK & CONTROL COMPLIANCE STATEMENT

Under ASX Listing Rules and the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Recommendations 3rd edition"), the Company is required to disclose in its Annual Report the extent of its compliance with the ASX Recommendations.

Throughout the reporting period, and as at the date of signing of this Directors' Report, the Company was in compliance with a majority of the ASX Recommendations in all material respects as more fully detailed in PPK's corporate governance section as set out on its website.

In accordance with the Recommendations, the Board has:

- received and considered reports from management regarding the effectiveness of the Company's management of its material business risks; and
- received assurance from the people performing each of the Chief Executive Officer and Chief Financial Officer functions regarding the consolidated financial statements and the effective operation of risk management systems and internal controls in relation to financial reporting risks.

Material associates and joint ventures, which the company does not control, are not dealt with for the purposes of this statement.

## AUDIT COMMITTEE

The details of the composition, role and Terms of Reference of the PPK Audit Committee are available on the Company's website at www.ppkgroup.com.au

During the reporting period, the PPK Audit Committee consisted of the following Non-executive, Independent Directors:

R M Beath (Chairman)
J I Wowk

The Company's lead signing and review External Audit Partner, Chairman, Chief Financial Officer and selected consultants attend meetings of the Audit Committee by standing invitation.

## DIRECTORS' AND AUDITORS' INDEMNIFICATION

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The Company has paid premiums during 2016 of $0.087M to insure all directors of the parent entity and officers of the consolidated entity against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

## NON-AUDIT SERVICES

There were no non-audit services performed by the external auditors during the year.

## AUDIT INDEPENDENCE

The lead auditor has provided the Auditor's Independence Declaration under section 307C of the *Corporations Act 2001* (Cth) for the year ended 30 June 2016 and a copy of this declaration forms part of the Directors' Report.

## ROUNDING OF ACCOUNTS

The parent entity has applied the relief available to it in ASIC Class Order 98/100 and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.

**ROBIN LEVISON**
**Executive Chairman**

**GLENN MOLLOY**
**Executive Director**

Brisbane, 23rd June 2017

Grant Thornton

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## Auditor's Independence Declaration
## To the Directors of PPK Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of PPK Group Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Cameron Smith

Cameron Smith
Partner – Audit & Assurance

Brisbane, 23 June 2017

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2016

| | | Consolidated Entity | |
|---|---|---|---|
| | | **2016** | **2015** |
| | Notes | **$000s** | **$000s** |
| **REVENUE** | | | |
| Mining equipment | | 26,075 | 29,577 |
| Investment properties | | 585 | 1,778 |
| Investment activities | | - | 25 |
| Interest receivable | 3(b) | 495 | 1,587 |
| **TOTAL REVENUE** | 3(a) | 27,155 | 32,967 |
| **OTHER INCOME** | 3(c) | 1,597 | 8,626 |
| **EXPENDITURE** | | | |
| Mining equipment | | (32,818) | (47,082) |
| Investment properties | | (79) | (292) |
| Investment activities | | (323) | (588) |
| Administrative expenses | | (1,898) | (3,111) |
| Share-based payment expense | | (103) | (397) |
| Business combination transaction expenses | | - | (323) |
| Finance costs | | (1,015) | (1,540) |
| **TOTAL EXPENDITURE** | | (36,236) | (53,333) |
| Share of profit (loss) from associates accounted for using the equity method | 3(f) | (389) | (85) |
| **PROFIT (LOSS) BEFORE INCOME TAX EXPENSE** | | (7,873) | (11,825) |
| Income tax (expense)/benefit attributable to profit | 4(a) | 133 | 3 |
| **PROFIT (LOSS) AFTER INCOME TAX** | | (7,740) | (11,822) |
| **PROFIT (LOSS) IS ATTRIBUTED TO:** | | | |
| Owners of PPK Group Limited | | (7,763) | (12,122) |
| Non-controlling interest | | 23 | 300 |
| | | (7,740) | (11,822) |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Items that may be re-classified to profit or loss* | | | |
| Changes in fair value of available-for-sale financial assets | | 1,035 | 1,826 |
| Income tax relating to these items | | - | - |
| Realised gain on sale of available-for-sale financial assets transferred to the profit and loss statement from the available for sale reserve | | (1,391) | (252) |
| Income tax relating to these items | | - | - |
| Realised loss on sale of available-for-sale financial assets transferred to the profit or loss statement from the available-for-sale reserve | | 5 | 18 |
| Income tax relating to these items | | - | - |
| Foreign currency translation of controlled entities | | (6) | 2 |
| **OTHER COMPREHENSIVE (LOSS) INCOME NET OF INCOME TAX** | | (357) | 1,594 |
| **TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR** | | (8,097) | (10,228) |
| **TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR IS ATTRIBUTABLE TO:** | | | |
| Owners of PPK Group Limited | | (8,120) | (10,528) |
| Non-controlling interest | | 23 | 300 |
| | | (8,097) | (10,228) |
| **Overall Operations** | | | |
| Basic Earnings (Loss) per share | 8 | (13.4) cents | (21.2) cents |
| Diluted Earnings (Loss) per share | 8 | (13.4) cents | (21.2) cents |

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2016

| | Notes | 2016 $000s | 2015 $000s |
|---|---|---|---|
| | | **Consolidated Entity** | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 10 | 945 | 2,476 |
| Trade and other receivables | 11 | 9,659 | 9,389 |
| Inventories | 12 | 9,956 | 11,437 |
| Other current assets | 13 | 419 | 627 |
| Current tax receivable | 17(a) | - | 178 |
| **TOTAL CURRENT ASSETS** | | 20,979 | 24,107 |
| **NON-CURRENT ASSETS** | | | |
| Other Receivables | 11 | 857 | 4,139 |
| Investments in associates - equity accounted | 14(a) | 19 | 408 |
| Financial assets | 14(b) | 2,032 | 3,533 |
| Investment Properties | 15(b) | 3,425 | 3,468 |
| Property, plant and equipment | 16 | 7,824 | 9,051 |
| Deferred tax assets | 17(a) | - | - |
| Intangibles | 18 | 252 | 120 |
| **TOTAL NON-CURRENT ASSETS** | | 14,409 | 20,179 |
| **TOTAL ASSETS** | | 35,388 | 44,826 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 19 | 6,762 | 7,381 |
| Interest bearing liabilities | 20 | 5,806 | 7,137 |
| Current tax liabilities | 17(b) | - | - |
| Provisions | 21 | 1,806 | 2,064 |
| **TOTAL CURRENT LIABILITIES** | | 14,374 | 16,582 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest bearing liabilities | 22 | 2,730 | 1,421 |
| Deferred tax liabilities | 17(b) | - | - |
| Provisions | 21 | 1,298 | 1,818 |
| **TOTAL NON-CURRENT LIABILITIES** | | 4,028 | 3,239 |
| **TOTAL LIABILITIES** | | 18,402 | 19,821 |
| **NET ASSETS** | | 16,986 | 25,005 |
| **EQUITY** | | | |
| Contributed equity | 23 | 34,625 | 34,125 |
| Reserves | 24 | 2,629 | 3,383 |
| Retained earnings (Accumulated losses) | | (20,268) | (12,505) |
| Capital and reserves attributable to owners of PPK Group Ltd | | 16,986 | 25,003 |
| Non-controlling interests | | - | 2 |
| **TOTAL EQUITY** | | 16,986 | 25,005 |

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2016

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from customers | | 30,170 | 33,910 |
| Cash payments to suppliers and employees | | (36,242) | (35,357) |
| Dividends received | | - | 25 |
| Interest received | | 76 | 1,560 |
| Income taxes refunded (paid) | | 311 | (300) |
| Interest paid | | (545) | (1,408) |
| Net cash (used in) operating activities | 30(a) | (6,230) | (1,570) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payment for purchases of plant and equipment | | (284) | (1,275) |
| Payment for purchase of land and buildings | | - | (1,257) |
| Proceeds from sale of investment property | | - | 24,567 |
| Proceeds from sale of property and equipment | | 171 | 18 |
| Purchase of business combination | | - | (3,327) |
| Business purchase acquisition costs | | - | (323) |
| Proceeds from sale of available-for-sale financial assets | | 2,618 | 1,935 |
| Proceeds on return of subsidiary capital upon winding up (net of cash lost on deconsolidation) | | (2) | - |
| Proceeds on sale of subsidiaries (net of cash lost in deconsolidation)[1] | | - | 943 |
| Payments for available-for-sale financial assets | | - | (184) |
| Payment for intangibles | | (179) | (728) |
| Net cash provided by investing activities | | 2,324 | 20,369 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Other receivables - loans advanced | | (3,165) | (845) |
| Other receivables - loans repaid | | 5,878 | 2,552 |
| Payment for buyback of shares | | - | (148) |
| Proceeds from other borrowings | | 8,730 | 4,096 |
| Repayment of other borrowings and bank loans | | (9,043) | (24,586) |
| Dividends paid | | - | (2,000) |
| Transactions with non-controlling interests | | (23) | (296) |
| Net cash provided by (used in) financing activities | | 2,377 | (21,227) |
| Net (decrease) in cash held | | (1,529) | (2,428) |
| Cash at the beginning of the financial year | | 2,476 | 4,904 |
| Effects of exchange rates on cash and cash equivalents | | (2) | - |
| Cash at the end of the financial year | 30(b) | 945 | 2,476 |

[1] In addition to cash consideration, the proceeds on sale of subsidiaries included shares in the ASX listed purchaser entity in the 2015 comparatives, refer note 14(b) for further details

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2016

| | Note | Issued Capital $000s | Accumulated Losses $000s | Options Reserve $000s | Available-for-sale Reserve $000s | Foreign Currency Translation Reserve $000s | Total Attributable to Owners of PPK Group Ltd $000s | Non-Controlling Interests $000s | Total Equity $000s |
|---|---|---|---|---|---|---|---|---|---|
| **CONSOLIDATED ENTITY** | | | | | | | | | |
| **At 1 July 2015** | | 34,125 | (12,505) | 1,735 | 1,646 | 2 | 25,003 | 2 | 25,005 |
| **Total comprehensive income for the year** | | | | | | | | | |
| Loss for the year | | - | (7,763) | - | - | - | (7,763) | 23 | (7,740) |
| **Other comprehensive (loss) income** | | | | | | | | | |
| Fair value adjustment on available-for-sale financial assets | | - | - | - | 1,035 | - | 1,035 | - | 1,035 |
| Realised gain on available-for-sale financial assets transferred to profit and loss from the available-for-sale reserve | | - | - | - | (1,391) | - | (1,391) | - | (1,391) |
| Realised loss on available-for-sale financial assets transferred to profit and loss from the available-for-sale reserve | | - | - | - | 5 | - | 5 | - | 5 |
| Foreign currency translation of controlled entities | | - | - | - | - | (6) | (6) | - | (6) |
| **Total comprehensive (loss) income for the year** | | - | (7,763) | - | (351) | (6) | (8,120) | 23 | (8,097) |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Dividends paid | 7(a) | - | - | - | - | - | - | - | - |
| Trust distributions | | - | - | - | - | - | - | (23) | (23) |
| Shares issued – employee share based payment | 23 | 500 | - | (500) | - | - | - | - | - |
| Employee share-based payment | 24 | - | - | 103 | - | - | 103 | - | 103 |
| Changes in holding of non-controlling interests | | - | - | - | - | - | - | (2) | (2) |
| | | 500 | - | (397) | - | - | 103 | (25) | 78 |
| **At 30 June 2016** | | 34,625 | (20,268) | 1,338 | 1,295 | (4) | 16,986 | - | 16,986 |



The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

| | Note | Issued Capital $000s | Accumulated losses $000s | Options Reserve $000s | Available-for-sale Reserve $000s | Foreign Currency Translation Reserve $000s | Total Attributable to Owners of PPK Group Ltd $000s | Non-Controlling Interests $000s | Total Equity $000s |
|---|---|---|---|---|---|---|---|---|---|
| **CONSOLIDATED ENTITY** | | | | | | | | | |
| **At 1 July 2014** | | 33,731 | 2,160 | 1,338 | 54 | - | 37,283 | 150 | 37,433 |
| **Total comprehensive income for the year** | | | | | | | | | |
| Profit for the year | | - | (12,122) | - | - | - | (12,122) | 300 | (11,822) |
| **Other comprehensive income** | | | | | | | | | |
| Fair value adjustment on available-for-sale financial assets | | - | - | - | 1,826 | - | 1,826 | - | 1,826 |
| Realised gain on available-for-sale financial assets transferred to profit and loss from the available-for-sale reserve | | - | - | - | (252) | - | (252) | - | (252) |
| Realised loss on available-for-sale financial assets transferred to profit and loss from the available-for-sale reserve | | - | - | - | 18 | - | 18 | - | 18 |
| Foreign currency translation of controlled entities | | - | - | - | - | 2 | 2 | - | 2 |
| **Total comprehensive income (loss) for the year** | | - | (12,122) | - | 1,592 | 2 | (10,528) | 300 | (10,228) |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Dividends paid | 7(a) | - | (2,543) | - | - | - | (2,543) | - | (2,543) |
| Trust distributions | | - | - | - | - | - | - | (448) | (448) |
| Shares issued - share and loan plan | 23 | 542 | - | - | - | - | 542 | - | 542 |
| Treasury shares repurchased | 23 | (148) | - | - | - | - | (148) | - | (148) |
| Employee share-based payment | 24 | - | - | 397 | - | - | 397 | - | 397 |
| | | 394 | (2,543) | 397 | - | - | (1,752) | (448) | (2,200) |
| **At 30 June 2015** | | 34,125 | (12,505) | 1,735 | 1,646 | 2 | 25,003 | 2 | 25,005 |



The accompanying notes form part of these financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

## NOTE 1
## CORPORATE INFORMATION

The financial statements of PPK Group Limited ("PPK" or "the Group") for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 23rd June 2017 and covers PPK Group Limited and its controlled entities as required by the Corporation Act 2001.

PPK is a for-profit company limited by shares, incorporated in Australia. Its shares are publicly traded on the Australian Securities Exchange.

Separate financial statements for PPK Group Limited as an individual entity are no longer presented as a consequence of a change to the Corporations Act 2001, however, limited financial information for PPK Group Limited is provided as an individual entity in note 9.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

## NOTE 2
## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of Preparation and Statement of Compliance**

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by The International Accounting Standards Board. PPK Group Limited is a for-profit entity. The financial statements have been prepared on an accruals basis and are based on historical costs, except for available-for-sale financial assets and derivatives which have been measured at fair value, and land and buildings, plant and equipment and intangible assets where impairment has been recognised when the fair value of the asset is less than the historical cost.

Non-current assets and disposal groups held-for-sale are measured at the lower of carrying amounts and fair value less costs to sell.

The accounting policies have been consistently applied to the entities of the consolidated entity unless otherwise stated.

The financial statements are presented in Australian currency.

**(b) Basis of Consolidation**

**Subsidiaries**

The financial statements consolidate those of the Parent Company, PPK Group Limited, and all of its subsidiaries at 30 June each year.

The Parent Company, regardless of the nature of its involvement with an entity (the investee), determines whether it is a parent by assessing control.

This occurs when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns.

Potential voting rights that are substantive, whether or not they are exercisable or convertible, are considered when assessing control.

Consolidated financial statements include all subsidiaries from the date that control commences until the date that control ceases.

The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.
The Parent Company, regardless of the nature of its involvement with an entity (the investee), determines whether it is a parent by assessing control. All intercompany balances and transactions, including unrealised profits arising from intergroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

**Associates**

Associates are entities over which the Group has significant influence but not control. Associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method the Group's share of the post-acquisition other comprehensive income or loss of the associates is recognised in consolidated profit or loss and the Group's share of the post-acquisition movements in reserves of associates is recognised in consolidated other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends and distributions received from associates reduce the carrying amount of the investment in the consolidated financial statements.

When the Group's share of post-acquisition losses in an associate exceeds its interest in the associate (including any unsecured receivables), the Group does not recognise further losses unless it has obligations to, or has made payments, on behalf of the associate.

The financial statements of the associate are used to apply the equity method. The end of the reporting period of the associate and the parent are identical and both use consistent accounting policies.

**(c) Revenue and Revenue Recognition**

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowance and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

*Sales of goods*

Revenue from the sale of mining equipment is recognised when significant risk and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to the buyer when the goods have been delivered to the customer.

Revenue from the sale of Coaltram vehicles or spare parts sales are recognised when they leave the warehouse and risks and rewards of ownership have passed.

*Rental Income*

Rental income on investment properties is accounted for on a straight-line basis over the lease term. Contingent rentals are recognised as income in the periods when they are earned.

## NOTE 2
## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Interest income*

Revenue is recognised as it accrues using the effective interest rate method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

*Asset sales*

Gain and loss on sale of assets is recognised on a net basis. The gain or loss on disposal of assets is brought to account at the date an unconditional contract of sale is signed, or if a conditional contract is signed, the date it becomes unconditional. In the case of real estate sales under AASB 118 it becomes unconditional when title passes.

*Dividends*

Dividends are recognised when the Group's right to receive payment is established.

**(d) Inventories**

*Raw materials, work in progress and finished goods*

Inventories are stated at the lower of cost and net realisable value. Costs comprise all direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed overheads are allocated on the basis of normal operating capacity. Costs are assigned to inventory using an actual costing system. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling cost of completion and selling expenses.

**(e) Trade Receivables & other receivables**

Trade and other receivables are recognised initially at original invoice amounts less an allowance for uncollectable amounts and have repayment terms between 30 - 60 days. Collectability is assessed on an ongoing basis. Debts which are known to be uncollectable are written off. An allowance is made for doubtful debts where there is objective evidence that the Group may not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, default of payment terms or debts more than 60 days past due. On confirmation that the trade receivable will not be collectable the gross carrying value of the asset is written off against the associated provision.

From time to time the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to a change in the timing of payments rather than changes to the amount owed and are not, in the view of the directors, sufficient to require the de-recognition of the original instrument.

**(f) Income Tax**

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets are only recognised for deductible temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantially enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or liability if they arose in a transaction other than a business combination that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if there is reasonable certainty that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, associates and interests in joint ventures where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances relating to amounts recognised directly in other comprehensive income or equity are also recognised directly in other comprehensive income or equity.

PPK Group Limited and its wholly owned Australian subsidiaries have implemented the tax consolidation legislation and entered into a tax sharing agreement for the whole of the financial year, where each subsidiary will compensate PPK Group Limited for the amount of tax payable that would be calculated as if the subsidiary was a tax paying entity. PPK Group Limited is the head entity in the tax consolidated group. The separate taxpayer within a group approach has been used to allocate current income tax expense and deferred tax expense to wholly-owned subsidiaries that form part of the tax consolidated group. PPK Group Limited has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated group via intercompany receivables and payables because a tax funding arrangement has been in place for the whole of the financial year. The amounts receivable/payable under tax funding arrangements are due upon notification by the head entity. Interim funding notices may also be issued by the head entity to its wholly-owned subsidiaries in order for the head entity to be able to pay tax instalments.

**(g) Investment Property & Property, Plant and Equipment**

*Investment Properties*

Investment properties are initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at cost, less depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. Depreciation on investment properties is calculated on a straight-line basis over the estimated useful life of the asset of 50 years. Land is not depreciated.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in the profit or loss statement in the year that the item is derecognised.

*Property, plant and equipment*

Property, plant and equipment are brought to account at cost less, where applicable, any accumulated depreciation or amortisation and impairment. The cost of fixed assets constructed within the Group includes the cost of materials used in construction, direct labour and an appropriate proportion of fixed and variable overheads.

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the profit before income tax of the consolidated entity in the year of disposal.

## NOTE 2
## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate Straight Line |
|---|---|
| Buildings | 2 % |
| Leasehold Improvements | over the term of the lease |
| Plant & Equipment | 3-50 % |
| Leased Plant & Equipment | 3-33 % |

**(h) Non-Current Assets Classified as Held for Resale**

Non-current assets classified as held for sale are those assets whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use and sale is considered highly probable. These assets are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised. Interest expense continues to be recognised on liabilities of a disposal group classified as an asset held for sale.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for subsequent increases in fair value less costs to sell of an asset but not exceeding any cumulative impairment losses previously recognised.

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the profit or loss.

**(i) Investments and Other Financial Assets**

All investments and other financial assets are initially recorded at cost, being the fair value of consideration given plus acquisition costs. Purchases and sales of investments are recognised at trade date which is the date on which the Group commits to purchase or sell the asset. Accounting policies for each category of investments and other financial assets subsequent to initial recognition are set out below.

*Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

*Classification and subsequent measurement*

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and are subsequently measured at amortised cost using the effective interest rate method.

The host debt contract of a convertible note is classified as loans and receivables. The host debt contract is measured initially at the residual amount after separating the embedded option derivative. The host debt contract is subsequently at amortised cost using the effective interest rate method.

*(ii) Held-to-maturity investments*

Held to maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold the investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

*(iii) Available-for-sale financial assets*

Available-for-sale financial assets comprise investments in listed and unlisted entities and any non-derivatives that are not classified as any other category of financial assets, and are classified as non-current assets (unless management intends to dispose of the investments within 12 months of the end of the reporting period). After initial recognition, these investments are measured at fair value with gains or losses recognised in other comprehensive income (available-for-sale investments revaluation reserve). Where there is a significant or prolonged decline in the fair value of an available-for-sale (which constitutes objective evidence of impairment) the full amount including any amount previously charged to other comprehensive income is recognised in profit or loss.

Purchases and sales of available-for-sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement being recognised in other comprehensive income. On sale the amount held in available-for-sale reserves associated with that asset is recognised in profit or loss as a reclassification adjustment.

Investments in subsidiaries, associates and joint venture entities are accounted for in the consolidated financial statements as described in note 2(b).

Reversal of impairment losses on equity instruments classified as available-for-sale cannot be reversed through profit or loss. Reversal of impairment losses on debt instruments classified as available-for-sale can be reversed through profit or loss where the reversal relates to an increase in the fair value of the debt instrument occurring after the impairment loss was recognised in profit or loss.

The fair value of quoted investments is determined by reference to Securities Exchange quoted market bid prices at the close of business at the end of the reporting period. For investments where there is no quoted market, fair price is determined by reference to current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

*(iv) Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are measured at amortised cost using the effective interest rate method.

*(v) Derivatives*

Share options embedded in a convertible note are not closely related to the debt host contract and are separated from the host debt contract and accounted for as a separate derivative. The share options are initially measured at fair value using the Black Scholes model or the listed market price if one exists. Other share options are classified as a derivative and initially measured at fair value net of transaction costs. Subsequent adjustments to fair value of the share options are taken to profit or loss.

The Group does not use derivative financial instruments such as forward exchange contracts and interest rate swaps to mitigate risks associated with interest rate and foreign exchange fluctuations.

## NOTE 2
## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*(vi) Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking or if it is a derivative that is not designated as a hedge. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

**(j) Leases**

Leases of property, plant & equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases and capitalised at inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. When assets are leased out under finance leases, the present value of the lease payments is recognised as a lease receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the lease term using the net investment method which reflects a constant periodic rate of return. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying value of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

**(k) Foreign Currency**

Foreign currency transactions during the period are converted to Australian currency at rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currency at balance date are converted at the rates of exchange rates at year end. The gains and losses from conversion of short term balances, whether realised or unrealised, are recognised in profit or loss.

**(l) Trade and Other payables**

These amounts represent unpaid liabilities for goods received and services provided to the Group and parent entity prior to the end of the financial year. The amounts are unsecured and are normally settled within 30 to 60 days, except for imported items for which 90 or 120 day payment terms are normally available.

**(m) Borrowings**

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss statement over the period of the loans and borrowings using the effective interest method. Bank loans are subject to set-off arrangements.

**(n) Employee Benefit Provisions**

*Salary, wages and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other liabilities or provision for employee benefits in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

*Long service leave*

Liabilities for long service leave are recognised as part of the provision for employee benefits and measure as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and period of service. Expected future payments are discounted using national corporate bond rates at the end of the reporting period with terms to maturity that match as close as possible, the estimated future cash outflows.

*Retirement benefit obligations*

The Group contributes to defined contribution superannuation funds for employees. All funds are accumulation plans where the Group contributed various percentages of employee gross incomes, the majority of which were as determined by the superannuation guarantee legislation. Benefits provided are based on accumulated contributions and earnings for each employee. There is no legally enforceable obligation on the Group to contribute to the superannuation plans other than requirements under the superannuation guarantee legislation. Contributions are recognised as expenses as they become payable.

**(o) Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

**(p) Intangible assets**

*Brands Names*

Expenditure on internally generated brand names are expensed as incurred. Acquired Brand names are stated at cost and are considered to have indefinite useful lives and are not amortised. The useful life is assessed annually to determine whether events or circumstances continue to support an indefinite useful life assessment. The carrying value of brand names is reviewed annually for impairment, at the same time every year.

*Research and Development*

Research is recognised as an expense as incurred. Costs incurred on development (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measure reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets at cost less any accumulated amortisation and impairment losses and amortised over the period of expected future sales from the related projects which vary from 5 - 7 years. The carrying value of development costs is reviewed annually when the asset is not yet ready for use, or when events or circumstances indicate that the carrying value may be impaired.

*Patents, Trademarks and Licences*

Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis over the number of years of their expected benefit which ranges from 3 to 20 years.

## NOTE 2
## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Goodwill*

Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over the fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combinations synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Impairment losses on goodwill cannot be reversed.

**(q) Impairment of Assets**

At each reporting date the Group assesses whether there is an indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(r) Borrowing costs**

All borrowing costs are expensed when incurred.

**(s) Share-Based Payments**

The Group recognises an expense for all share-based remuneration and amortises those expenses over the relevant vesting periods where required.

**(t) Rounding of Amounts**

The parent entity applied the relief available under ASIC Class Order 98/100 and accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

**(u) Dividends**

Provision is made for dividends declared, and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at the end of the reporting period.

Dividends can no longer be paid unless:

(a) Assets exceed liabilities immediately before the dividend is declared and the excess is sufficient for the payment of dividends; and

(b) The payment of the dividend is fair and reasonable to the company's shareholders as a whole; and

(c) The payment of the dividend does not materially prejudice the company's ability to pay its creditors.

**(v) Earnings per share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of PPK Group Limited, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

*Diluted earnings per share*

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(w) GST**

Revenues and expenses are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(x) Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses. A business combination is accounted for by applying the acquisition method. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised.

All transaction costs incurred in relation to business combinations other than those associated with the issue of a financial instrument are recognised as expenses in profit or loss when incurred. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

**(y) New and revised Standards that are effective for these financial statements**

PPK has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board "AASB" that are mandatory for the current reporting period.

Adoption of these standards and interpretations did not have any effect on the statements of financial position or performance of PPK.

Information of these standards is presented below.

AASB 2012-3 *Offsetting Financial Assets and Liabilities*

► adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

## NOTE 2
## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*AASB 2013-3: Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

► includes the requirement to disclose additional information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

**(z) New Accounting Standards and interpretations not yet adopted**

No new accounting standards and interpretations, that are available for early adoption at 30 June 2015, but not yet adopted, will result in any material change to the financial statements.

The Group has determined that there will be no material change on the Group's financial reports following adoption of these standards in future years, as either their application is only required to be applied prospectively, they are disclosure standards only and there will be no material impact on amounts recognised in the financial statements or they are disclosure standards only that will require various additional disclosures.

Standards issued but not yet adopted are as follows

*AASB 9 - Financial Instruments (applies from 1 January 2018)*

- Simplifies measurement and classification of financial liabilities. For example financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

  Furthermore AASB 9 introduces a new impairment model based on expected credit losses.

*AASB 15 - Revenue from Contracts with Customers (applies from 1 January 2017)*

- Establishes a new revenue recognition model and changes the basis for deciding whether revenue is to be recognised over time or at a point in time. It also provides new and more detailed guidance on specific topics.

*AASB 16 - Leases (applies from 1 January 2019)*

- The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16. The key features of AASB 16 are as follows:

Lessee accounting

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

The Group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the Group.

**(aa) Critical accounting estimates and judgements**

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

***Key estimates – Impairment***

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount is determined for the asset or cash generating unit to which the asset has been allocated. Where the recoverable amount is based on value in use, discounted cash flow calculations have been prepared which incorporate a number of key estimates. Estimated future cash flows are based on past experience, actual operating results, annual budgets, business plans and long term strategy for the cash generating unit. In particular, past experience is relevant when forming expectations in a recovering mining sector.

Key assumptions include:

*Non-Manufacturing CGU:*

| Assumption | 2016 | 2015 |
|---|---|---|
| Revenue growth rates (yr 1) | 10% | 9% |
| Revenue growth rates (yr 2 to yr 5) | 3% | 0% |
| Terminal growth rate | 0.0% | 0.0% |
| Discount rate | 9.28% | 9.70% |

*Manufacturing CGU:*
New Coaltram sales of between 4 to 10 per year (2015: 6 per year). Terminal and discount rates are as per above.

The discount rate was calculated based on the Group's weighted average cost of capital, an average of beta's within the industry, risk free rate based on Australian government 10-year treasury bonds, a market risk premium of 6% and a calculated cost of debt based on the Group's current debt and interest rates payable on this debt.

*Available-for-sale financial assets*

The Group reviews each of its listed investments at each reporting date to consider whether there is any indication that individual investments are impaired. Based on all the information available to the Directors it was determined that the Group's investments in the certain listed companies were impaired resulting in the following impairment losses being taken up in profit or loss on these investments.

| **Investment** | **2016** | **2015** |
|---|---|---|
| | **$000s** | **$000s** |
| SubZero Group Limited | 40 | 556 |
| IBuyNew Group Limited | 3 | - |
| Onterran Limited | 39 | - |
| | 82 | 556 |

The Directors determined that no other listed available-for-sale financial assets were impaired at balance date.

*Investment in Associates*

The Group's investments in associated entities are reviewed at each reporting date to consider whether there is any indication that individual investments are impaired. Based on all the information available to the Directors it was determined that there were no impairments of the Group's investments in associated entities.

## NOTE 2

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Investment Properties*

All investment properties have been included in the financial statements at cost. The last independent valuation of investment properties was conducted in November 2014, which indicated that no impairment was necessary.

*Goodwill, Brand Names, Plant and Equipment*

No impairment charges with respect to goodwill, brand names, patents, licences and development costs were recognised during the year ended 30 June 2016.

In 2015 impairment charges of $7.696M were recognised in respect of goodwill, brand names, patents, licences and development costs and $0.489M for plant and equipment for the financial year reflecting the challenging industry conditions particularly in the second half of the 2015 financial year. Refer to note 18 for details of assumptions used in estimating the recoverable amount of intangible assets.

*Deferred Tax Asset*

Deferred tax asset is only recognised to the extent that there is reasonable certainty of realising future taxable amounts sufficient to recover the carrying value. Due to carry forward tax losses exceeding $15.000M and an expectation that the current challenging industry conditions would continue in the short term, the Directors assessed that deferred tax assets would only be recognised to the extent of, and offset against, available deferred tax liabilities.

No deferred tax assets were recognised during the year. No impairment of previously recognised deferred tax assets was recognised during the year (2015: $0.073M). Refer note 4 and note 17(a) for further details.

*Inventory*

Inventory is carried at the lower of cost or net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to realise and the estimate of costs to complete. Key assumptions require the use of management judgment which are continually reviewed. Management's assessment resulted in an inventory write-down of $0.682M (2015: $2.191M) during the year. Refer note 3(d).

*Warranty Provision*

Provisions for product warranties are based on current volumes of products sold still under warranty and on historic quality rates for mature products as well as estimates and assumptions on future quality rates for new products and estimates of costs to remedy the various qualitative issues that might occur. Total provisions for product warranties as at year end was $0.040M (2015: $0.140M).

**Key judgements**

*Cash Generating Units (CGU)*

A key judgement has been the determination of cash generating units relating to the assessment of assets for impairment. The Group has determined the existence of two cash generating units for the mining equipment segment: Manufacture (design, build and sale of capital equipment) and Non-Manufacture (service, repair, hire and spare parts distribution).

*Classification as Held for Sale*

The Group classifies assets as held for sale where an asset (or disposal Group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal Groups) and the sale is highly probable. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

### (ab) Going Concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business. As articulated in this report, the financial performance for the group's Mining Equipment business segment has been materially impacted by the severe economic conditions affecting the underground coal mining industry during the financial year and subsequently. In particular, customer capital expenditure restrictions have been detrimental to PPK's Coaltram mining equipment sales. Accordingly, in the 2016 financial year the Group recorded a loss of $7.740M after tax and consumed $6.230M in operating cash flows. On 23rd June 2017, being the date of approval of the financial report, the Directors believe it is appropriate to prepare the financial report on a going concern basis. In making this assessment the directors have identified and considered:

- As at the end of the 2016 financial year, and at all times subsequently, the Group has been able to meet its obligations as and when they fell due;
- The Group currently enjoys low levels of debt financing and the Directors are confident that additional debt financing would be available if required;
- Industry conditions and the operating performance of the group's mining equipment segment is improving and the company is currently responding to enquiries for the sale of Coaltram mining equipment with a number of customers; and
- The Group has a history of strong support from the majority of shareholders and has an expectation that this will continue.

| | | Consolidated Entity | |
|---|---|---|---|
| | | **2016** | **2015** |
| | Notes | **$000s** | **$000s** |
| **NOTE 3** | | | |
| **REVENUE, OTHER INCOME & EXPENSES FROM OPERATIONS** | | | |
| **(a) REVENUE** | | | |
| Mining equipment sale / service / hire revenue | | 26,075 | 29,577 |
| Rental income from investment properties | | 585 | 1,778 |
| Dividends received – other parties | | - | 25 |
| Interest receivable | (b) | 495 | 1,587 |
| | | 27,155 | 32,967 |
| **(b) INTEREST INCOME** | | | |
| Other persons | | 344 | 692 |
| Associated entities | | 151 | 895 |
| | | 495 | 1,587 |
| **(c) OTHER INCOME** | | | |
| Gain on bargain purchase of business combination | | - | 1,636 |
| **OTHER ITEMS** | | | |
| Net gain on sale of held for sale property | | - | 4,478 |
| Net gain on sale of subsidiaries | | - | 1,894 |
| Net gain on sale of available-for-sale financial assets | | 1,548 | 605 |
| Foreign currency translation gain | | 1 | - |
| Sundry income | | 48 | 13 |
| | | 1,597 | 6,990 |
| | | 1,597 | 8,626 |
| **(d) EXPENSES** | | | |
| Profit (loss) before income tax includes the following specific expenses: | | | |
| Amortisation of intangibles | | 46 | 353 |
| Cost of sales - mining equipment manufacture | | 13,254 | 12,238 |
| Depreciation - investment properties | | 43 | 199 |
| - plant and equipment | | 1,208 | 1,342 |
| | | 1,251 | 1,541 |
| Warranty costs | | 104 | 341 |
| Inventory write down | | 682 | 2,191 |
| Impairment – intangibles | | - | 7,696 |
| Impairment – plant and equipment | | - | 489 |
| Recognition / (unwind) of onerous contract liability | | (550) | 2,000 |
| Impairment of listed investments - available-for-sale financial assets | | 82 | 556 |
| Employee benefit expenses | | 11,985 | 12,853 |
| Defined contribution superannuation expense | | 1,005 | 1,137 |
| Employee share-based payment expense | | 103 | 397 |
| Net loss on disposal of property, plant and equipment | | 58 | - |
| Redundancy and relocation costs | | 111 | 738 |
| Rental expense on operating leases | | 3,973 | 4,249 |
| Doubtful debts - trade receivables | | 152 | 66 |
| **(e) FINANCE COSTS** | | | |
| Interest expense | | 835 | 1,540 |
| Unwinding of discount relating to onerous lease liability | | 180 | - |
| | | 1,015 | 1,540 |

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|
| **NOTE 3 REVENUE, OTHER INCOME & EXPENSES FROM OPERATIONS (Cont'd)** | | | |
| **(f) SHARE OF PROFIT (LOSS) FROM ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD** | | | |
| Share of profit (loss) from associates accounted for under the equity method | | (389) | (85) |
| **NOTE 4 INCOME TAX EXPENSE** | | | |
| (a) The prima facie tax payable (benefit) on the profit (loss) before income tax is reconciled to the income tax expense as follows: | | | |
| Profit (loss) before tax | | (7,873) | (11,825) |
| Prima facie tax payable (benefit) at 30% (2015: 30%) | | (2,362) | (3,548) |
| (Non-assessable income) non-deductible expenses | | 144 | 231 |
| Share based payment | | 31 | 105 |
| Gain on bargain purchase not taxable | | - | (491) |
| (Over) provision relating to prior year - research & development concession | | (133) | (74) |
| Capital losses realised not previously recognised | | (256) | (1,141) |
| Current year losses for which no deferred tax asset was recognised | 17(c) | 1,998 | 3,000 |
| Current year temporary differences for which no deferred tax asset or liability was recognised | 17(c) | 445 | 1,842 |
| Impairment of deferred tax asset previously recognised (net of deferred tax liability offset) | 17(a) | - | 73 |
| Income tax expense (benefit) | | (133) | (3) |
| The applicable weighted average effective tax rates are as follows: | | 0% | 0% |
| (b) The components of tax expense comprise: | | | |
| Current tax | | - | (2) |
| Deferred tax | | - | 73 |
| (Over) provision in respect of prior years | | (133) | (74) |
| Income tax expense (benefit) | | (133) | (3) |
| (c) Deferred tax recognised on other comprehensive income through Available-for-sale Financial Asset Reserve relating to valuing investments at fair value | | - | - |
| **NOTE 5 AUDITORS' REMUNERATION** | | | |
| Remuneration of the auditor of the Group and parent entity for: | | | |
| - auditing or reviewing the financial report | | | |
| Grant Thornton | | 174 | 144 |
| - non audit services (accounting / technical advice) | | | |
| Grant Thornton | | - | - |
| | | 174 | 144 |

| | | Consolidated Entity | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Notes | $000s | $000s |

## NOTE 6 KEY MANAGEMENT PERSONNEL REMUNERATION

**(a) Key management personnel remuneration**

| | | 2016 $000s | 2015 $000s |
|---|---|---|---|
| Short-term benefits | | 1,243 | 1,200 |
| Post-employee benefits | | 45 | 38 |
| Share-based payments | | - | - |
| | | 1,288 | 1,238 |

Further information regarding the identity of key management personnel and their compensation can be found in the Audited Remuneration Report contained in the Directors' Report of this annual report.

**(b) Equity Instruments**
There were no options and rights held directly, indirectly or beneficially by key management personnel and their related parties in the current financial year, except as noted in the remuneration report in relation to the share loan plans issued in 2014.

**(c) Loans**
There were no loans or advances to parent entity directors, executives and key management personnel in the current financial or previous financial years, except as noted in the remuneration report in relation to the share loan plans issued in 2014.

**(d) Other transactions with directors**
Refer to note 29 for further details of transactions with directors and director related entities.

## NOTE 7 DIVIDENDS

(a) Dividends paid

| | | 2016 $000s | 2015 $000s |
|---|---|---|---|
| 2016 No interim ordinary dividend was declared or paid (prior year 1.50c per share - 100% franked) | | - | 1,090 |
| 2015 No final ordinary dividend was declared or paid (prior year 2.00c per share – 100% franked) | | - | 1,453 |
| | | - | 2,543 |

| | | 2016 $000s | 2015 $000s |
|---|---|---|---|
| (b) Dividends declared after balance date<br>The directors have not declared a final dividend for the 2016 financial year. | | - | - |

(c) Dividends for Share and Loan Plan

The detailed terms and conditions of the share and loan plan were outlined in the Explanatory Memorandum to the Notice of General Meeting held 28th April 2014.

The dividend relating to the Share and Loan Plan for the current financial year was nil (2015: $0.542M), for further details refer to the Audited Remuneration Report contained in the Directors' Report.

(d) Franked dividends

| | | 2016 $000s | 2015 $000s |
|---|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2015 - 30%) | | 2,164 | 1,911 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
(a) franking credits that will arise from the payment of the current tax liability
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and
(d) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

| | Notes | Consolidated Entity 2016 Cents | 2015 Cents |
|---|---|---|---|
| **NOTE 8 EARNINGS PER SHARE** | | | |
| Basic earnings per share (cents per share) | | | |
| Continuing operations | | (13.4) | (21.2) |
| Diluted earnings per share (cents per share) | | | |
| Continuing operations [1] | | (13.4) | (21.2) |
| | | **$000s** | **$000s** |
| (a) Reconciliation of Earnings to Net Profit | | | |
| Earnings used in calculating Basic and Dilutive EPS Continuing operations | | (7,763) | (12,122) |

| | No. | No. |
|---|---|---|
| (b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS | 57,814,570 | 57,147,902 |
| Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS [1] | 57,814,570 | 57,147,902 |

[1] 15.500M loan plan shares (see note 7) were excluded from the computation of diluted earnings per share as they would have resulted in a decrease in loss per share for continuing operations.

## NOTE 9 PARENT ENTITY INFORMATION

The following detailed information relates to the parent entity, PPK Group Limited at 30 June 2016. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

| | 2016 | 2015 |
|---|---|---|
| Current assets | 209 | 85 |
| Non-current assets | 17,140 | 35,428 |
| Total Assets | 17,349 | 35,513 |
| | | |
| Current liabilities | 363 | 76 |
| Non-current liabilities | - | 2,210 |
| Total liabilities | 363 | 2,286 |
| Net Assets | 16,986 | 33,227 |
| | | |
| Contributed equity [1] | 34,773 | 34,273 |
| Share based payment reserve | 1,330 | 1,727 |
| Option reserve | 8 | 8 |
| Retained earnings | (19,125) | (2,780) |
| Total Equity | 16,986 | 33,227 |
| | | |
| Loss for the year (including impairments) [2] | (16,345) | (2,852) |
| Other comprehensive income for the year | - | - |
| Total comprehensive income (loss) for the year | (16,345) | (2,852) |

[1] In addition to the Parent Entity contributed equity, the Group's consolidated Contributed Equity includes Treasury Shares of $0.148M related to the Employee Share Plan, refer note 23.
[2] Non-current asset balances include investments in subsidiaries which have been impaired so as to not exceed the net assets of the Consolidated Group.

## CURRENT ASSETS
## NOTE 10 CASH AND CASH EQUIVALENTS

| | Notes | 2016 | 2015 |
|---|---|---|---|
| Cash at bank and on hand | 30(b) | 945 | 2,476 |

Cash at bank consists of temporary surplus funds which are non-interest bearing.

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|
| **NOTE 11 TRADE AND OTHER RECEIVABLES** | | | |
| **Current** | | | |
| Trade receivables | (a) | 3,449 | 3,555 |
| Less: Allowance for doubtful debts | | (152) | - |
| | | 3,297 | 3,555 |
| Other receivables | (b) | 202 | 663 |
| Less: Allowance for doubtful debts | | - | - |
| | | 202 | 663 |
| Loans and receivables | | | |
| - other loans, associates - secured | (c) | 3,567 | 1,494 |
| - other loans, other persons - secured | (d) | 2,915 | 3,637 |
| - other loans, associates - unsecured | | 42 | 29 |
| - other loans, other persons - unsecured | | - | 11 |
| Impairment of capitalised interest of Loans Receivables | | (364) | - |
| | | 6,160 | 5,171 |
| | | 9,659 | 9,389 |
| **Non-Current** | | | |
| Loans and receivables | | | |
| - other loans, associates - secured | (c) | 857 | 4,139 |
| | | 857 | 4,139 |

**(a) Trade Receivables**
Current trade receivables are non-interest bearing and are generally 30-60 day terms. A provision for doubtful debts is raised when there is objective evidence that it is considered unlikely that any amounts will be recovered.

**(b) Other Receivables**
Other receivables are non-interest bearing and are generally 30 day terms. A provision for doubtful debts is raised for the loans in other receivables where it is considered that there is some doubt as to whether the amounts will be recovered.

**(c) Other loans, associated entities**
Other loans are funds advanced to unit trusts that are associates of the Group. The amounts are secured by a registered first mortgage over property owned by each of the trusts. The interest rate received by the Group on current and non-current loans range from 0% to 15% with the rate being fixed for the term of the loan at the time it is made.

The loan to PPK Willoughby Funding Unit Trust is expected to be repaid during the 2017 financial year, the balance outstanding on this loan is $3.567M (2015: $4.814M). The loan to Nerang Street Southport Unit Trust is expected to be repaid when the related property asset is sold, the balance outstanding on this loan is $0.857M (2015: $0.811). In the current year $0.364M of the capitalised interest of the Willoughby investment has been impaired and shown as an offset against interest received in the Statement of Profit or Loss.

**(d) Other loans, other persons**
Other loans, other persons are funds advanced to non-related third parties or related third parties on arms length terms. The amounts are secured by a registered first mortgage over property owned by the borrower. The interest rate received by the Group on loans range from 14% to 20% with the rate being fixed for the term of the loan at the time it is made. The current loans, predominantly relate to Couran Cove Holdings P/L ATF CCH trust and have interest rates of 14% per annum calculated daily with interest either due monthly in arrears or compounded monthly. Refer note 29 for details on related party loans.

| **Movement in balance – current** | 2016 | 2015 |
|---|---|---|
| Opening Balance | 5,171 | 10,916 |
| Reclassified to/from non-current | 3,328 | (4,139) |
| Funds advanced | 3,146 | 845 |
| Trust distribution capitalised | - | 123 |
| Expenses capitalised | 18 | 22 |
| Less principal and interest repaid | (5,878) | (4,179) |
| | 5,785 | 3,588 |
| Interest revenue added to carrying value | 375 | 1,583 |
| | 6,160 | 5,171 |

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|

## NOTE 11 TRADE AND OTHER RECEIVABLES (Cont'd)

| | | 2016 $000s | 2015 $000s |
|---|---|---|---|
| **Movement in balance – non current** | | | |
| Opening Balance | | 4,139 | - |
| Reclassified to/from non-current | | (3,328) | 4,139 |
| Funds advanced | | - | - |
| Trust distribution capitalised | | - | - |
| Expenses capitalised | | - | - |
| Less principal and interest repaid | | - | - |
| | | 811 | 4,139 |
| Interest revenue added to carrying value | | 46 | - |
| | | 857 | 4,139 |

**Provision for Impairment of Receivables**

Current trade, term and other receivables and loans are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is an objective evidence that an individual trade or term receivable is impaired. Movements in the provision for impairment are as follows:

| Consolidated Entity | Opening balance $000s | Charge for the year $000s | Reversal of charge $000s | Amounts written off $000s | Closing Balance $000s |
|---|---|---|---|---|---|
| **2016** | | | | | |
| **Current** | | | | | |
| Trade receivables | - | 152 | - | - | 152 |
| Loans and receivables, associated entities | - | 364 | - | - | 364 |
| | - | 516 | - | - | 516 |
| **2015** | | | | | |
| **Current** | | | | | |
| Trade receivables | 36 | - | (36) | - | - |
| Loans and receivables, associated entities | - | - | - | - | - |
| | 36 | - | (36) | - | - |

**Trade receivables aging analysis**
The ageing analysis of trade receivables for amounts not impaired for the Group is as follows:

| | 2016 | 2015 |
|---|---|---|
| Not past due | 2,271 | 2,385 |
| Past due 1 - 30 days | 876 | 991 |
| Past due 31 - 60 days | 74 | 153 |
| Past due over 60 days | 76 | 26 |
| | 3,297 | 3,555 |

With respect to trade receivables that are neither impaired or past due, there are no indications as at reporting date that the debtors will not meet their obligation as they fall due.

| | | Consolidated Entity | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Notes | $000s | $000s |

## NOTE 11 TRADE AND OTHER RECEIVABLES (Cont'd)

**Other receivables aging analysis**

| | | | |
|---|---|---|---|
| The ageing analysis of other receivables for amounts not impaired for the Group is as follows: | | | |
| Not past due | | 201 | 551 |
| Past due 1 - 30 days | | - | 112 |
| | | 201 | 663 |

With respect to other receivables that are neither impaired or past due, there are no indications as at reporting date that the debtors will not meet their obligation as they fall due.

## NOTE 12 INVENTORIES

| | | | |
|---|---|---|---|
| On hand | | | |
| Raw Materials | | 474 | 300 |
| Finished goods | | 4,702 | 6,015 |
| Work in Progress | | 4,780 | 5,122 |
| | | 9,956 | 11,437 |

During 2016 $11.683M (2015: $11.150M) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

During the year, the Group wrote down $0.682M in inventories to net realisable value (2015: $2.191M) (refer note 3(d)).

## NOTE 13 OTHER CURRENT ASSETS

| | | | |
|---|---|---|---|
| Prepayments | | 419 | 627 |
| | | 419 | 627 |

The carrying amount of prepayments approximates fair value.

## NON-CURRENT ASSETS

## NOTE 14 FINANCIAL ASSETS

**14(a) Investments in Associates - equity accounted**

| | | | |
|---|---|---|---|
| Summary of movement in carrying value | | | |
| Opening Balance | | 408 | 493 |
| Share of profit (loss) from associates accounted for under the equity method | | (389) | (85) |
| Trust distributions or dividends received from associates | | - | - |
| | | 19 | 408 |

| **Unlisted entities** | **Ownership Interest** | | **2016** | **2015** |
|---|---|---|---|---|
| | **2016** | **2015** | **Units Held** | **Units Held** |
| | % | % | **$1 Each** | **$1 Each** |
| **Details of units held in associated trusts** | | | | |
| Nerang Street Southport Project Trust | 18.75% | 18.75% | 275 | 275 |
| PPK Willoughby Funding Unit Trust | 22.86% | 22.86% | 40 | 40 |
| | | | 315 | 315 |

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|

## NOTE 14 FINANCIAL ASSETS (continued)

**Details of associates**
Nerang Street Southport Project Trust
- Nature of Activities: Owning and leasing of commercial land as passive investor in the trust alongside other investors.
- Principal place of business: Level 21, 1 York St Sydney NSW 2000

PPK Willoughby Funding Unit Trust
- Nature of Activities: Participation in residential land development as passive investor in the trust alongside other investors.
- Principal place of business: Level 21, 1 York St Sydney NSW 2000.

| | 2016 $000s | 2015 $000s |
|---|---|---|
| **Distributions receivable from associated trusts** | | |
| Nerang Street Southport Project Trust | - | - |
| PPK Willoughby Funding Unit Trust | 19 | 408 |
| | 19 | 408 |
| **PPK Willoughby Funding Unit Trust Group** | | |
| Current Assets | 65,995 | 80,551 |
| Non-current Assets | 15 | 23 |
| Current Liabilities | 65,914 | 78,346 |
| Non-current Liabilities | - | - |
| Equity | 96 | 2,228 |
| Revenues | 27,043 | 27,054 |
| Profit or (loss) before income tax | (2,128) | (1,049) |
| Income tax expense or (credit) | - | - |
| Profit or (loss) after income tax | (2,128) | (1,049) |
| Specific Disclosures: | | |
| - cash and cash equivalents included in current assets | 430 | 748 |
| - current financial liabilities (excluding trade and other payables and provisions) included in current liabilities | 56,811 | 67,169 |
| - non-current financial liabilities (excluding trade and other payables and provisions) included in non-current liabilities | - | - |
| - depreciation and amortisation | 9 | 9 |
| - interest income | 48 | 98 |
| - interest expense | 102 | 1 |
| **Contingent liabilities of associate** | | |
| Share incurred jointly with other investors | - | - |
| Contingent liabilities relating to liabilities of the associates for which the company is severally liable | - | - |
| | - | - |

The Group holds 22.86% (2015: 22.86%) of the issued units in this trust and 100% of the share capital in the trustee company PPK Willoughby Holdings Pty Ltd.

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|

## NOTE 14 FINANCIAL ASSETS (continued)

| | | 2016 | 2015 |
|---|---|---|---|
| **Nerang Street Southport Project Trust** | | | |
| Current Assets | | 409 | 354 |
| Non-current Assets | | 7,664 | 7,238 |
| Current Liabilities | | 233 | 114 |
| Non-current Liabilities | | 7,892 | 7,515 |
| Equity | | (52) | (37) |
| Revenues | | 7 | 10 |
| Profit or (loss) before income tax | | (15) | (9) |
| Income tax expense or (credit) | | - | - |
| Profit or (loss) after income tax | | (15) | (9) |
| Specific Disclosures: | | | |
| - cash and cash equivalents included in current assets | | 407 | 352 |
| - current financial liabilities (excluding trade and other payables and provisions) included in current liabilities | | - | - |
| - non-current financial liabilities (excluding trade and other payables and provisions) included in non-current liabilities | | 7,892 | 7,515 |
| - depreciation and amortisation | | - | - |
| - interest income | | 7 | 10 |
| - interest expense | | - | 2 |
| **Contingent liabilities of associate** | | | |
| Share incurred jointly with other investors | | - | - |
| Contingent liabilities relating to liabilities of the associates for which the company is severally liable | | - | - |
| | | - | - |

The Group holds 18.75% (2015 18.75%) of the issued units in this trust and 100% of the share capital in the trustee company, PPK Southport Pty Ltd. The Trust is considered to be an associate of the Group.

### 14(b) Financial Assets – available-for-sale financial assets

**Non-Current**

| | | 2016 | 2015 |
|---|---|---|---|
| (i) Listed Investments – at fair value | | | |
| - Shares in listed corporations | | | |
| Opening Balance | | 3,533 | 1,437 |
| Additions at cost | | - | 2,407 |
| Fair Value adjustments | | 1,035 | 1,808 |
| Impairment | | (82) | (556) |
| Disposals | | (2,454) | (1,562) |
| | | 2,032 | 3,533 |

Listed investments are recorded at fair value based on the ASX closing price at 30 June of the relevant financial period.

Gains or losses arising from changes in the fair value of available-for-sale financial assets are initially recognised directly in equity in other comprehensive income through a reserve, unless they are impaired. When the available-for-sale financial asset is disposed of any gain or loss arising from the sale is taken out of the reserve and included in the profit or loss.

A significant or prolonged decline in the fair value of a security below its cost is considered an indicator that the securities are impaired.

If such evidence exists for available-for-sale financial assets, the value of the impairment is assessed and the difference between the cost and the impaired value, less any impairment loss on that financial asset previously recognised in the profit or loss, is removed from other comprehensive income and recognised in profit or loss. Any subsequent difference between the impaired value and the fair value will be recognised in equity through the reserve.

In the 2015 financial year, Additions at Cost included $2.221M in shares received as part of the consideration on sale of the Easy Living subsidiary investments.

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|

## NOTE 14 FINANCIAL ASSETS (continued)

Impairment losses recognised in the profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

( ii ) Unlisted Investments - at cost less impairment

| - Shares and units held in other corporations | 2016 | 2015 |
|---|---|---|
| Cost | - | - |
| Impairment | - | - |
| | - | - |

Unlisted investments are recorded at cost less impairment which represents fair value at nil.

( iii ) Total Listed & Unlisted Investments

| | 2016 | 2015 |
|---|---|---|
| Current | - | - |
| Non-Current | 2,032 | 3,533 |
| | 2,032 | 3,533 |

**NOTE 14(c)**

**Controlled Entitles**

| Subsidiaries of PPK Group Limited: | Country of Incorporation | Notes | Percentage Owned 2016 % | Percentage Owned 2015 % |
|---|---|---|---|---|
| Rutuba Pty Limited | Australia | | 100% | 100% |
| Seven Hills Property Holdings Pty Ltd | Australia | | 100% | 100% |
| PPK Properties Pty Ltd | Australia | | 100% | 100% |
| PPK Property Trust | Australia | | 100% | 100% |
| Dandenong South Property Pty Ltd | Australia | | 100% | 100% |
| PPK Willoughby Holdings Pty Ltd | Australia | a | 100% | 100% |
| PPK Willoughby Pty Ltd | Australia | b | 100% | 100% |
| PPK Aust. Pty Ltd | Australia | | 100% | 100% |
| PPK Investment Holdings Pty Ltd | Australia | | 100% | 100% |
| PPK Finance Pty Ltd | Australia | c | 100% | 100% |
| SLOT Loan Trust | Australia | c | - | 51.4% |
| TMD Loan Trust | Australia | | 100% | 100% |
| PPK Southport Pty Ltd | Australia | d | 100% | 100% |
| York Group Limited | Australia | | 100% | 100% |
| Rambor Pty Ltd | Australia | | 100% | 100% |
| Rambor Manufacturing Pty Ltd | Australia | | 100% | 100% |
| Rambor Logistics & Asset Management Pty Ltd | Australia | | 100% | 100% |
| PPK Firefly Pty Ltd | Australia | | 100% | 100% |
| PPK Exlec Pty Ltd | Australia | | 100% | 100% |
| Exlec Holdings Pty Ltd | Australia | | 100% | 100% |
| QES Air Pty Ltd | Australia | | 100% | 100% |
| PPK Mining Equipment Group Pty Ltd | Australia | | 100% | 100% |
| PPK Mining Equipment Pty Limited | Australia | | 100% | 100% |
| PPK Mining Repairs Alternators Pty Ltd | Australia | | 100% | 100% |
| PPK Mining Equipment Hire Pty Ltd | Australia | | 100% | 100% |
| Coaltec Pty Ltd | Australia | | 100% | 100% |
| PPK IP Pty Ltd (formerly DMS Tech 1 Pty Ltd) | Australia | | 100% | 100% |
| PPK China Pty Ltd | Australia | | 100% | 100% |
| PPK (Beijing) Mining Equipment Co., Ltd | China | e | 100% | 100% |
| PPK Plans Pty Ltd | Australia | f | 100% | 100% |
| PPK (CC) Pty Ltd | Australia | g | 100% | - |
| PPK Couran Cove Pty Ltd | Australia | g | 100% | - |

(a) PPK Willoughby Holdings Pty Ltd acts as the trustee company of the PPK Willoughby Funding Unit Trust. The Group holds 22.86% of issued units of this trust which is considered an associate of the Group (refer to note 14a).

(b) PPK Willoughby Pty Ltd acts as the trustee company of the PPK Willoughby Purchaser Unit Trust. PPK Willoughby Funding Unit Trust holds 80% of issued units of this trust.

## NOTE 14 FINANCIAL ASSETS (Cont'd)

(c) PPK Finance Pty Ltd acted as the trustee company of the SLOT Loan Trust. The Group held 51.4% of the issued units of this trust. The SLOT Loan Trust was wound up during the year. PPK Finance Pty Ltd acts as the trustee company of the TMD Loan Trust. The Group holds 100% of the issued units of this trust. PPK Finance Pty Ltd acts as the trustee company of the PPK Funding Trust. The Group holds 100% of the issued units of this trust.

(d) PPK Southport Pty Ltd acts as the trustee company of the Nerang Street Southport Project Trust. The Group holds 18.75% of issued units of this trust which is considered an associate of the Group. (refer to note 14(a))

(e) PPK (Beijing) Mining Equipment Co., Ltd was formed in conjunction with the opening of PPK's office in Beijing, China.

(f) PPK Plans Pty Ltd was created as trustee for the PPK Long Term Incentive Plan Trust which administers the employee share plan.

(g) **Incorporation of new subsidiaries**
PPK (CC) Pty Ltd was incorporated on 15 September 2015. PPK Couran Cove Pty Ltd was incorporated on 16 September 2015.

### 14(d) Subsidiary with material non-controlling interests

As at reporting date the Group includes no subsidiaries with Non-Controlling Interests ('NCI'). The SLOT Loan Trust was wound up during the year.

| | Proportion of Ownership Interest Held | | Profit Allocated to NCI ('000s) | | Accumulated NCI ('000s) | | Distributions and Dividends Paid to NCI | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **30-June-16** | **30-June-15** | **30-June-16** | **30-June-15** | **30-June-16** | **30-June-15** | **30-June-16** | **30-June-15** |
| SLOT Loan Trust | 0% | 51.43% | 23 | 300 | - | - | 23 | 300 |

| | | Consolidated Entity | |
|---|---|---|---|
| | | **2016** | **2015** |
| | Notes | **$000s** | **$000s** |
| **NOTE 15 INVESTMENT PROPERTIES** | | | |
| **(a) Assets classified as held for sale** | | | |
| Freehold land & buildings - at cost | | | |
| Land | | - | - |
| Buildings – at cost | | - | - |
| Less: Accumulated depreciation | | - | - |
| | | - | - |
| | | - | - |
| Less: Provision for impairment | | - | - |
| Total assets held for sale | | - | - |
| **Reconciliations** | | | |
| **Current** | | | |
| Balance at the beginning of the year | | - | 18,517 |
| Add transferred to Current from non-current Land & Buildings | | - | - |
| Disposals | | - | (18,517) |
| **Total investment properties of continuing operations** | | - | - |

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|
| **NOTE 15 INVESTMENT PROPERTIES (Cont'd)** | | | |
| **(b) Non-Current** | | | |
| Freehold land & buildings - at cost | | | |
| Land | | 2,109 | 2,109 |
| Buildings – at cost | | 1,881 | 1,881 |
| Less: Accumulated depreciation | | (565) | (522) |
| | | 1,316 | 1,359 |
| | | 3,425 | 3,468 |
| Less: Provision for impairment | | - | - |
| Total Investment Properties | | 3,425 | 3,468 |
| **Reconciliations** | | | |
| **Non-Current** | | | |
| Balance at the beginning of the year | | 3,468 | 11,479 |
| Acquisition of land and building at cost | | - | - |
| Expenditure subsequent to acquisition | | - | - |
| Disposals | | - | (7,812) |
| Depreciation expense | | (43) | (199) |
| Impairment expense | | - | - |
| **Total investment properties of continuing operations** | | 3,425 | 3,468 |
| The following amounts have been recognised in the statement of comprehensive income: | | | |
| Rental income | | 561 | 1,778 |
| Net gain on sale of held-for-sale property | | - | 4,478 |
| Direct operating expenses arising from investment property that generated rental income during the period | | 22 | 292 |
| Direct operating expenses arising from investment property that did not generate rental income during the period | | 3 | - |

**Acquisition and Disposals**

In the prior period in October 2014, PPK sold all holdings in relation to the Arndell Park (NSW) investment property for consideration of $12.420M.

In the prior period in June 2015, PPK sold all holdings in relation to the Dandenong South industrial property for consideration of $12.350M.

Total gains derived from the above property sales were nil for the current year (2015: $4.478M) (refer Note 3).

**Impairment**

Based on all the information available to the Directors it was determined that no impairment adjustment was required for any investment property in the current year.

**Valuation of Investment Properties**

At balance date, PPK holds one industrial property located at 13A Stanton Road, Seven Hills, NSW.

In accordance with an Independent Valuation dated November 2015, the fair value of the industrial property is $7.700M.

**Non-current assets pledged as security**
Refer to note 22(c) for information on non-current assets pledged as security by the parent entity or its subsidiaries.

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|

## NOTE 15 INVESTMENT PROPERTIES (Cont'd)

**Leases as Lessor**
The investments properties are leased to tenants under long term operating leases with rentals receivable monthly.

| | 2016 $000s | 2015 $000s |
|---|---|---|
| - not later than 1 year | 568 | 562 |
| - later than 1 year but not later than 5 years | 2,612 | 983 |
| - later than 5 years | 3,189 | - |
| | 6,369 | 1,545 |

## NOTE 16 PROPERTY PLANT AND EQUIPMENT

| | 2016 $000s | 2015 $000s |
|---|---|---|
| Land and Buildings – at cost | 1,264 | 1,264 |
| Less: Accumulated depreciation | (39) | (14) |
| | 1,225 | 1,250 |
| Plant and equipment – at cost | 9,070 | 9,097 |
| Less: Accumulated depreciation and impairment | (2,471) | (1,296) |
| | 6,599 | 7,801 |
| Total property, plant and equipment of continuing operations | 7,824 | 9,051 |

**Reconciliations**

Reconciliations of the carrying amounts of each class of plant & equipment are set out below.

| | Land & Buildings $000s | Plant & Equipment $000s | Total $000s |
|---|---|---|---|
| **Consolidated – 2016** | | | |
| Carrying amount at start of year | 1,250 | 7,801 | 9,051 |
| Additions | - | 284 | 284 |
| Disposals | - | (227) | (227) |
| Transfers | - | (76) | (76) |
| Depreciation & Amortisation expense | (25) | (1,183) | (1,208) |
| Carrying amount at end of year | 1,225 | 6,599 | 7,824 |
| **Consolidated – 2015** | | | |
| Carrying amount at start of year | - | 6,718 | 6,718 |
| Acquired with business combination | - | 1,722 | 1,722 |
| Additions | 1,267 | 1,265 | 2,532 |
| Disposals | - | (90) | (90) |
| Impairment | - | (489) | (489) |
| Depreciation & Amortisation expense | (17) | (1,325) | (1,342) |
| Carrying amount at end of year | 1,250 | 7,801 | 9,051 |

The land and buildings relate to the Mt Thorley (NSW) industrial property out of which the Firefly and Rambor businesses operate. The property was acquired simultaneously to the Firefly business.

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|

## NOTE 17 DEFERRED TAX ASSETS AND LIABILITIES

**(a) Assets**

| | Notes | 2016 $000s | 2015 $000s |
|---|---|---|---|
| **CURRENT** | | | |
| Income tax receivable | | - | 178 |
| | | - | 178 |
| **NON-CURRENT** | | | |
| Deferred tax assets comprise temporary differences attributable to: | | | |
| *Amounts recognised in profit and loss* | | | |
| Doubtful Debts | | - | - |
| Employee benefits | | - | - |
| Building depreciation | | - | - |
| Plant and equipment depreciation | | - | - |
| Impairment of investments | | - | - |
| Realised capital losses accounted for | | - | - |
| Inventory | | - | - |
| Other | | - | - |
| | | - | - |
| Movements | | | |
| Opening balance | | - | 2,132 |
| Acquired with business combination | | - | 102 |
| Credit/(charged) to profit or loss | | - | - |
| Set off against deferred tax liability | | - | (2,161) |
| Impaired through profit and loss | 4 | - | (73) |
| | | - | - |

A deferred tax asset is only recognised to the extent that there is reasonable certainty of realising future taxable amounts sufficient to recover the carrying value. Due to carry forward tax losses exceeding $15.000M and an expectation that the current challenging industry conditions would continue in the short term, the Directors assessed that deferred tax assets would only be recognised to the extent of, and offset against, available deferred tax liabilities. As a result, an impairment of previously recognised deferred tax assets of nil (2015: $0.073M) was recognised.

**(b) Liabilities**

| | Notes | 2016 $000s | 2015 $000s |
|---|---|---|---|
| **CURRENT** | | | |
| Income Tax provision | | - | - |
| **NON-CURRENT** | | | |
| Deferred tax liability comprises temporary differences attributable to: | | | |
| *Amounts recognised in profit and loss* | | | |
| Rent receivable | | - | - |
| Plant and equipment depreciation | | - | - |
| Tax deferred trust distribution from associate | | - | - |
| *Recognised on bargain purchase of assets* | | | |
| Tax cost base adjustment on stock | | - | - |
| Tax cost base adjustment fixed assets | | - | - |
| Tax cost base adjustment on intangibles | | - | - |
| | | - | - |
| *Amounts recognised in equity* | | | |
| Fair value adjustment of available-for-sale financial assets | | - | - |
| Deferred tax liability | | - | - |
| Movements | | | |
| Opening balance | | - | 1,482 |
| (Credit)/charged to profit or loss | | - | - |
| Acquired on business combination | | - | 701 |
| (Credit)/charged to equity | | - | (22) |
| Set off against deferred tax asset | | - | (2,161) |
| | | - | - |

| | Notes | Consolidated Entity 2016 $000s | Consolidated Entity 2015 $000s |
|---|---|---|---|
| **NOTE 17 DEFERRED TAX ASSETS AND LIABILITIES (Cont'd)** | | | |
| **(c) Not Recognised in the Statement of Financial Position** | | | |
| *Unrecognised deferred tax assets* | | | |
| Tax losses | | 4,998 | 3,000 |
| Temporary differences | | 1,867 | 1,422 |
| Total | | 6,865 | 4,422 |
| *Movements* | | | |
| Opening balance | | 4,422 | - |
| Tax losses not recognised current year | | 1,998 | 3,000 |
| Temporary differences not recognised current year | | 445 | 1,915 |
| Charged to equity (reserves) | | | (493) |
| Closing balance | | 6,865 | 4,422 |

## NOTE 18 INTANGIBLE ASSETS

| | | 2016 $000s | 2015 $000s |
|---|---|---|---|
| Licences, software and patents - at cost | | 139 | 134 |
| Less: Accumulated amortisation and impairment | | (60) | (14) |
| | | 79 | 120 |
| Goodwill - Mining equipment manufacturing | | - | - |
| Development Costs - Mining equipment manufacturing - at cost | | 173 | - |
| Brand names - at cost | | - | - |
| Intangible Assets of continuing operations | | 252 | 120 |
| **Reconciliations** | | | |
| **Licences, software and patents - at cost** | | | |
| Balance at the beginning of year | | 120 | 2,344 |
| Acquired with business combination | | - | 2,166 |
| Additions - external purchases | | 5 | 132 |
| Impairment charge | | - | (4,198) |
| Amortisation charge | | (46) | (324) |
| | | 79 | 120 |
| (Amortisation charges are included in Cost of Goods Sold and Administration expenses in the statement of profit or loss and other comprehensive income) | | | |
| **Goodwill** | | | |
| Balance at the beginning of year | | - | 155 |
| Acquired with business combination | | - | 286 |
| Impairment charge | | - | (441) |
| | | - | - |
| **Development Costs** | | | |
| Balance at the beginning of year | | - | 1,611 |
| Acquired with business combination | | - | 380 |
| Additions at cost | | 173 | 597 |
| Impairment charge | | - | (2,559) |
| Amortisation charge | | - | (29) |
| | | 173 | - |
| **Brand Names** | | | |
| Balance at the beginning of year | | - | 497 |
| Impairment charge | | - | (497) |
| | | - | - |

### NOTE 18 INTANGIBLE ASSETS (Cont'd)

Licences, software and patents have a finite useful life. They are recorded at cost and amortised on a straight line basis over the number of years of their expected life which ranges from 3 to 20 years.

Goodwill is assessed to have an indefinite life; it is tested annually for impairment with any impairment losses being charged to profit or loss.

Costs incurred on development (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its estimated useful life of 7 years. They are tested annually for impairment with any impairment losses being charged to profit or loss.

Brand names have been assessed to have an indefinite useful life. These brands are registered with the relevant agencies. The registrations are renewed at insignificant cost to the consolidated entity. This, combined with continued support for the brands by product development, advertising and marketing expenditure, has allowed the Group to determine that the assets have an indefinite useful life. They are recorded at cost and tested annually for impairment. Impairment losses are charged to profit or loss.

**Impairment disclosures**

At balance date PPK assessed certain non-current assets at their cash generating unit level for impairment. No intangibles were written down during the year (2015: $7.696M).

The remaining intangibles balance of $0.079M (2015: $0.120M) relates to acquired software.

| | | Consolidated Entity | |
|---|---|---|---|
| | | **2016** | **2015** |
| | Notes | **$000s** | **$000s** |
| **CURRENT LIABILITIES** | | | |
| **NOTE 19 TRADE AND OTHER PAYABLES** | | | |
| Trade payables | | 2,447 | 3,689 |
| Sundry payables and accruals | | 4,315 | 3,692 |
| Payables of continuing operations | | 6,762 | 7,381 |
| | | | |
| **NOTE 20 INTEREST BEARING LIABILITIES - CURRENT** | | | |
| Bank loans – secured | | 46 | 3,600 |
| Other loans - secured | | 5,760 | 2,037 |
| Other loans - unsecured | | - | 1,500 |
| Interest bearing liabilities of continuing operations | | 5,806 | 7,137 |
| | | | |
| Total secured liabilities - see note 22 | | | |
| | | | |
| **NOTE 21 PROVISIONS** | | | |
| **Current** | | | |
| Annual leave | | 798 | 775 |
| Redundancy and relocation | | - | 297 |
| Warranty | (a) | 40 | 140 |
| Decommissioning and make good | (b) | 240 | 240 |
| Onerous lease provision | | 420 | 548 |
| Long service leave | | 308 | 64 |
| Total current | | 1,806 | 2,064 |
| | | | |
| **Non-Current** | | | |
| Long service leave | | 88 | 366 |
| Onerous lease provision | | 1,210 | 1,452 |
| Total Non-current | | 1,298 | 1,818 |

Annual leave and current long service leave comprise amounts payable that are vested and could be expected to be settled within 12 months of the end of the reporting period.

Non-current long service leave comprises amounts that are not vested at the end of the reporting period and the amount and timing of the payments to be made when leave is taken is uncertain. Refer accounting policy Note 2(n) for more detail.

### NOTE 21 PROVISIONS (Cont'd)

Warranty provisions comprise estimated costs to perform repairs to mining equipment while under warranty.

Make good provision comprise estimated costs to return leased premises to their original condition on expiry of the lease.

A $2.000M onerous lease provision was recognised for 2015 in relation to long term lease contracts entered into for seven COALTRAMS with an industry finance provider. PPK has determined that the lease payments are considerably higher than corresponding revenue currently expected in the short term hire environment. At 30 June 2016, the onerous lease provision is $1.630M, as a result of net writebacks of $0.370M (being $0.550M gross writeback less $0.180M associated interest).

| | | Consolidated Entity | |
|---|---|---|---|
| | | **2016** | **2015** |
| | Notes | **$000s** | **$000s** |
| **(a) Reconciliation of Provision for Warranty** | | | |
| Opening Balance | | 140 | 858 |
| Increases (decreases) to provision | | (100) | (718) |
| Closing Balance | | 40 | 140 |
| | | | |
| **(b) Reconciliation of Provision for Decommissioning and make good** | | | |
| Opening Balance | | 240 | 220 |
| Increases (decreases) to provision | | - | 20 |
| Closing Balance | | 240 | 240 |

### NON-CURRENT LIABILITIES
### NOTE 22 INTEREST BEARING LIABILITIES

| | | | |
|---|---|---|---|
| Bank Loans - Secured | | 2,730 | 1,421 |
| Interest bearing liabilities | | 2,730 | 1,421 |
| | | | |
| **(a) Secured liabilities** | | | |
| Total secured liabilities (current and non-current) are: | | | |
| Bank loans - PPK Group Limited | | - | 2,210 |
| Bank loans – Seven Hills Property Holdings Pty Ltd | | 2,730 | - |
| Bank loans - PPK Mining Equipment Pty Ltd | | - | 2,667 |
| Bank loans - PPK Mining Equipment Pty Ltd | | 46 | 144 |
| Vendor loan - PPK Property Trust | | 961 | 1,235 |
| Vendor loan - PPK Mining Equipment Pty Ltd | | 817 | 802 |
| Non-bank loans – PPK (CC) Pty Ltd | | 1,225 | - |
| Non-bank loans – PPK Investment Holdings Pty Ltd | | 2,757 | - |
| | | 8,536 | 7,058 |
| | | | |
| **(b) Unsecured liabilities** | | | |
| Other loans - other persons | | - | 1,500 |
| | | - | 1,500 |
| Total Interest Bearing Liabilities | | 8,536 | 8,558 |
| | | | |
| **(c) Assets pledged as security** | | | |
| The carrying amounts of non-current assets pledged as security are: | | | |
| | Notes | | |
| **First mortgage** | | | |
| Freehold investment properties | 15 | 3,425 | 3,468 |
| Land and buildings | 16 | 1,225 | 1,250 |
| **Registered Mortgage Debentures over company assets and cross guarantees & indemnities** | | | |
| Financial Assets | | 2,032 | 3,533 |
| Investments in associated entities | | 19 | 408 |
| Plant & equipment | | 6,599 | 7,801 |
| Intangible Assets | | 252 | 120 |
| Total non-current assets pledged as security | | 13,552 | 16,580 |

## NOTE 22 INTEREST BEARING LIABILITIES (Cont'd)

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|
| The following current assets are also pledged as security under the registered mortgage and cross guarantees & indemnities: | | | |
| Cash assets | | 945 | 2,476 |
| Term receivables | | 7,017 | 9,310 |
| Receivables - current | | 2,641 | 4,218 |
| Inventories | | 9,956 | 11,437 |
| Other current assets | | 419 | 627 |
| Total current assets pledged as security | | 20,978 | 28,068 |
| Total assets pledged as security | | 34,530 | 44,648 |

The total financial assets included in the above pledged as security for liabilities is $12.635M (2015: $19.537M).

**(d) Unused credit facilities**

The consolidated entity had access to the following lines of credit at balance date:

| | 2016 $000s | 2015 $000s |
|---|---|---|
| Total facilities available | | |
| Bank Overdraft | - | 940 |
| Bank Loans | 2,730 | 4,877 |
| Non Bank Loans | 3,982 | - |
| Master asset finance facility | 46 | 144 |
| | 6,758 | 5,961 |
| Not utilised at balance date | | |
| Bank Overdraft | - | 940 |
| Bank Loans | - | - |
| Non Bank Loans | - | - |
| Master asset finance facility | - | - |
| | - | 940 |
| Utilised at balance date | | |
| Bank Loans | 2,730 | 4,877 |
| Non Bank Loans | 3,982 | - |
| Master asset finance facility | 46 | 144 |
| | 6,758 | 5,021 |

The major facilities are summarised as follows:

*Banking overdrafts*
As at the date of this report the Group has no bank overdraft facilities (2015: $0.940M with National Australia Bank).

*Commercial bill facilities*
*Provided by the National Australia Bank Ltd (NAB).*
Variable interest rate facilities provided by the NAB facility were extinguished during the financial year and at reporting date were Nil (2015 $2.210M). The interest rate on the facilities was 4.90% (2015: 4.89%) inclusive of bank margins.

*Provided by the Commonwealth Bank of Australia Ltd (CBA).*
$2.730M (2015: $2.667M) of market rate facilities are provided by the CBA, maturing in October 2018, secured by first mortgage over the property located at 13A Stanton Road, Seven Hills.

Market rate interest banking facilities with the CBA were renegotiated during the year and are subject to interest only payments and annual review. There is no reason to believe that facilities will not be renewed at the end of the term. At year end the interest rate on the facility was 7.03% (2015: 6.11%) inclusive of bank margins.

Further details on the banking facilities with the CBA are included in note 25(c).

*Non Bank Loans*

PPK (CC) Pty Ltd non-bank loans of $1.225M is provided on terms of interest at 10% per annum, and expires in September 2017. The loans are secured by General Security Agreements over the assets of PPK (CC) Pty Ltd and PPK Investment Holdings Pty Ltd, together with a Guarantee & Indemnity from PPK Group Limited and PPK Investment Holdings Pty Ltd.

PPK Investment Holdings Pty Ltd non-bank loan of $2.757M attracts interest at 15% per annum, has an initial 12 month term and is secured by second mortgage over the property located at 13A Stanton Road, Seven Hills, NSW.

## NOTE 22 INTEREST BEARING LIABILITIES (Cont'd)

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|

*Vendor Loans*

The PPK Mining Equipment Pty Ltd vendor loan relates to the MONEx business acquisition in the prior year and is secured by PPK Group Ltd (parent company) guarantee. The loan is notional interest bearing at 6.5%. The PPK Property Trust vendor loan relates to the Mt Thorley land and buildings and is secured by first registered mortgage over this property. The loan is fixed interest bearing at 8%.

Loans owing to the non-controlling interest investors in the SLOT Loan Trust were repaid during the year and the trust wound up.

PPK considers that under the existing terms of the loans and their anticipated repayment date that their carrying value approximates the present value of the loans.

## SHAREHOLDERS' EQUITY

## NOTE 23 CONTRIBUTED EQUITY

### PAID-UP CAPITAL

| | 2016 $000s | 2015 $000s |
|---|---|---|
| 73.315M (2015: 72.648M) ordinary shares fully paid | 34,625 | 34,125 |
| Movements in ordinary share capital | | |
| Balance at the beginning of the financial year | 34,125 | 33,731 |
| Shares repurchased under approved buy back scheme | - | - |
| New share issue – share based payment | 500 | - |
| Treasury shares – employee share plan | - | (148) |
| Treasury shares - share and loan plan | - | 542 |
| | 34,625 | 34,125 |

The shares have no par value. Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

Treasury shares purchased in the 2015 pursuant to an employee share plan of $0.148M have not been allotted to individual employees as at balance date.

Refer note 24 for details of the new share issue in the current financial year under a business combination with a vendor employee.

Each ordinary share is entitled to one vote at shareholder meetings.

| | No. | No. |
|---|---|---|
| Movements in number of ordinary shares | | |
| Balance at the beginning of the financial year | 72,647,903 | 72,647,903 |
| Shares repurchased and cancelled under approved buy back scheme | - | - |
| New share issue | 666,667 | - |
| New share issue - share plan and loan | - | - |
| | 73,314,570 | 72,647,903 |

**Capital Risk Management**

The Group considers its capital to comprise its ordinary share capital, reserves and retained earnings.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through capital growth and distributions and through the payment of annual dividends to its shareholders. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, share buy-backs, or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

## NOTE 23 CONTRIBUTED EQUITY (Cont'd)

| | | Consolidated Entity | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Notes | $000s | $000s |

It is the Group's policy to maintain its gearing ratio within the range of 20% - 50% (2015: 20% - 50%). The Group's gearing ratio at the balance sheet date is shown below:

**Gearing ratios**

| | | |
|---|---|---|
| Total borrowings | 8,536 | 8,558 |
| less Cash and cash equivalents | (945) | (2,476) |
| Net debt | 7,591 | 6,082 |
| Total equity | 16,986 | 25,005 |
| Total capital | 24,577 | 31,087 |
| Gearing Ratio | 31% | 20% |

There have been no significant changes to the Group's capital management objectives, policies and processes in the year nor has there been any change in what the Group considers to be its capital.

## NOTE 24 RESERVES

| | | |
|---|---|---|
| Available-for-sale financial assets [1] | 1,295 | 1,646 |
| Share options [2] | 1,338 | 1,735 |
| Foreign Currency translation [3] | (4) | 2 |
| | 2,629 | 3,383 |

**Movement in reserves**

| | | |
|---|---|---|
| Share options | | |
| Opening balance | 1,735 | 1,338 |
| Employee share based payment - options | 103 | 397 |
| Shares allocated under agreement | (500) | - |
| Closing balance | 1,338 | 1,735 |
| Available-for-sale financial assets | | |
| Opening balance | 1,646 | 54 |
| Revaluation | 1,035 | 1,826 |
| Realised gains to (profit) loss | (1,391) | (252) |
| Realised loss to (profit) loss | 5 | 18 |
| Closing balance | 1,295 | 1,646 |
| Foreign currency translation | | |
| Opening balance | 2 | - |
| Foreign currency translation | (6) | 2 |
| Closing balance | (4) | 2 |

[1] The available-for-sale financial assets reserve carries fair value adjustments made to available-for-sale financial assets which are recognised in other comprehensive income. When an available-for-sale financial asset is either sold or considered impaired the amount held in this reserve is recognised in the profit or loss.

[2] The share options reserve is used to recognise the value of equity settled share-based payments provided to employees, including key management personnel, as part of their remuneration and business vendors as part of business combination agreements. The current financial year share based payment expense of $0.103M relates wholly to a business combination. In accordance with the terms of the business combination in October 2014 the vendor employee may receive $1.000M in PPK Group Limited ordinary share capital in two $0.500M tranches over two years. As per this agreement and having met the vesting conditions the vendor was issued 0.667M shares on 16 October 2015 being the first $0.500M tranche. Further the vesting conditions for the second tranche of $0.500M shares due on 16 October 2016 were not met and accordingly no shares issued.

The terms and condition of the contract effectively makes the agreement a share options instrument under AASB 2 Share-based Payments and does not form part of the consideration paid for the acquisition in accordance AASB 3 Business Combinations. The fair value of the options at issue date is deemed to represent the value of employee services received over the vesting period, recognised as a proportional share-based payment expense during each reporting period, with the corresponding credit taken to a Share Option Reserve.

[3] The foreign currency translation reserve is used for consolidation purposes to recognise exchange differences arising on translation of PPK's foreign subsidiary PPK (Beijing) Mining Equipment Co., Ltd.

## NOTE 25 FINANCIAL RISK MANAGEMENT

The Group's financial instruments include investments in deposits with banks, receivables, equities, derivatives, payables and interest bearing liabilities. The accounting classifications of each category of financial instruments as defined in note 2(i) and their carrying amounts are set out below.

| | | | | Fixed Interest Rate Maturing | | | |
|---|---|---|---|---|---|---|---|
| | Weighted Average Interest Rate | Notes | Floating Interest Rate $000s | Within 1 Year $000s | 1 to 5 Years $000s | Non-Interest Bearing $000s | Total $000s |
| **Consolidated 2016** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Receivables | 0.0% | 11 | - | - | - | 3,499 | 3,499 |
| Loans receivable | 14.5% | 11 | - | 6,160 | - | 857 | 7,017 |
| Loans and receivables | | | - | 6,160 | - | 4,355 | 10,516 |
| Cash and cash equivalents | 2.8% | 10 | 149 | - | - | 796 | 945 |
| Available-for-sale financial assets | 0.0% | 14b | - | - | - | 2,032 | 2,032 |
| Investments in associated companies | 0.0% | 14a | - | - | - | 19 | 19 |
| Total financial assets | | | 149 | - | - | 2,847 | 2,996 |
| **Financial Liabilities** | | | | | | | |
| Bank Loans | 2.6% | 22d | 2,730 | 46 | - | - | 2,776 |
| Other Loans | 12.5% | 22 | - | 4,879 | - | 817 | 5,696 |
| Trade & Other Payables - current | 0.0% | 19 | - | - | - | 6,762 | 6,762 |
| Total financial liabilities at amortised cost | | | 2,730 | 4,925 | - | 7,579 | 15,234 |
| **Consolidated 2015** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Receivables | 0.0% | 11 | - | - | - | 4,218 | 4,218 |
| Loans receivable | 16.4% | 11 | - | 8,493 | - | 817 | 9,310 |
| Loans and receivables | | | - | 8,493 | - | 5,035 | 13,528 |
| Cash and cash equivalents | 2.0% | 10 | 1,344 | - | - | 1,132 | 2,476 |
| Available-for-sale financial assets | 0.0% | 14b | - | - | - | 3,533 | 3,533 |
| Investments in associated companies | 0.0% | 14a | - | - | - | 408 | 408 |
| Total financial assets | | | 1,344 | - | - | 5,073 | 6,417 |
| **Financial Liabilities** | | | | | | | |
| Bank Loans | 3.1% | 22d | 4,877 | 98 | 46 | - | 5,021 |
| Other Loans | 9.1% | 22 | - | 2,735 | - | 802 | 3,537 |
| Trade & Other Payables - current | 0.0% | 19 | - | - | - | 7,381 | 7,381 |
| Total financial liabilities at amortised cost | | | 4,877 | 2,833 | 46 | 8,183 | 15,939 |

## NOTE 25 FINANCIAL RISK MANAGEMENT (Cont'd)

**Fair Value**
The carrying values of financial assets and liabilities listed above approximate their fair value.

Estimated discounted cash flows were used to measure fair value, except for fair values of financial assets that were traded in active markets that are based on quoted market prices.

The Group's and parent's investments and obligations expose it to market, liquidity and credit risks. The nature of the risks and the policies the Group and parent has for controlling them and any concentrations of exposure are discussed as follows:

*Hierarchy*
The following tables classify financial instruments recognised in the statement of financial position of the Group according to the hierarchy stipulated in AASB13 as follows:

- Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – a valuation technique is used using inputs other than quoted prices within Level 1 that are observable for financial instruments, either directly (i.e. as prices), or indirectly (i.e. derived from prices); or
- Level 3 – a valuation technique is used using inputs that are not based on observable market data (unobservable inputs).

| | Note | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Assets** | | **$000s** | **$000s** | **$000s** | **$000s** |
| **Group 2016** | | | | | |
| Available-for-sale financial assets | | | | | |
| Listed equity securities | | 2,032 | - | - | 2,032 |
| | | 2,032 | - | - | 2,032 |
| **Group 2015** | | | | | |
| Available-for-sale financial assets | | | | | |
| Listed equity securities | 14b | 3,533 | - | - | 3,533 |
| | | 3,533 | - | - | 3,533 |

**Financial risk Management**
The Board of Directors has overall responsibility for the establishment and oversight of the financial risk management framework. PPK Group's activities expose it to a range of financial risks including market risk, credit risk and liquidity risk. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material. The Board receives monthly reports, which it reviews and regularly discuss the effectiveness of the processes put in place and the appropriateness of the objectives and policies to support the delivery of the Group's financial targets while protecting future financial security. The Board also has in place informal policies over the use of derivatives and does not permit their use for speculative purposes.

**(a) Market risk**
Market risk is the risk that the fair value of future cash flows of the Group's and parent entity's financial instruments will fluctuate because of changes in market prices.

Market risk comprises three types of risk: interest rate risk, equity price risk and currency risk.

*(i) Interest rate risk*
Interest rate risk is the risk that the fair value or future cash flows of a security, will fluctuate due to changes in interest rates. Exposure to interest risk arises due to holding floating rate interest bearing liabilities, investments in cash and cash equivalents and loans to related parties and other persons. Although a change in the current market interest rate may impact the fair value of the Group's fixed interest financial liabilities and other receivables, it does not impact the Group profit after tax or equity as these financial liabilities and other receivables are carried at amortised cost and not fair value through profit or loss. Floating interest rates attached to the Group's financial assets and liabilities give rise to cash flow interest rate risk. Any changes in the current market rate will affect the cash flows payable on floating rate interest bearing liabilities and hence impact the Group's profit after tax.

| | | Consolidated Entity | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Notes | $000s | $000s |

## NOTE 25 FINANCIAL RISK MANAGEMENT (Cont'd)

**Sensitivity disclosure analysis**
The Group's exposure to its floating interest rate financial assets and liabilities is as follows:

| | 2016 | 2015 |
|---|---|---|
| **Financial Assets** | | |
| Cash | 149 | 1,344 |
| Receivables | - | - |
| | 149 | 1,344 |
| **Financial Liabilities** | | |
| Bank Loans | 2,730 | 4,877 |
| | 2,730 | 4,877 |
| Net Exposure | (2,581) | (3,533) |

The Group has performed sensitivity analysis relating to its interest rate risk based on the Group's year end exposure. This sensitivity demonstrates the effect on after tax results and equity which could result from a movement in interest rates of +/- 1%.

| | 2016 | 2015 |
|---|---|---|
| **Change in after tax profit** | | |
| - increase in interest rate by 1% | (18) | (25) |
| - decrease in interest rate by 1% | 18 | 25 |

*(ii) Equity Price risk*

Equity securities price risk is the risk that changes in market prices will affect the fair value of future cash flows of the Group's financial instruments.

The Group is exposed to equity price risk through the movement in share prices of the companies in which it is invested. These are determined by market forces and are outside control of the Group. The risk of loss is limited to the capital invested in relation to shares and options held.

As the market value of listed companies fluctuate the fair value of the available-for-sale financial assets and financial assets at fair value through profit or loss of the Group change continuously.

Changes in fair value of available-for-sale financial assets are recognised through the available for sale reserve unless there is objective evidence that available-for-sale financial assets have been impaired. Impairment losses are recognised in profit or loss.

Unlisted investments do not have a quoted price in an active market and their fair value cannot be reliably measured, so they remain valued at cost after their initial recognition. However, when there is objective evidence of impairment of these unlisted investments, such impairment losses are recognised in profit or loss.

The Group's portfolio of investments in listed companies is concentrated in a small number of companies. The individual performances of these companies exposes the Group to a greater concentration of risk than just that of general market forces if a more wide-spread portfolio were held. However, because of this concentration of holdings the Directors are able to regularly monitor the performance of the companies within its portfolio.

| | | Consolidated Entity | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Notes | $000s | $000s |

**NOTE 25 FINANCIAL RISK MANAGEMENT (Cont'd)**

**Sensitivity disclosure analysis**
The Group's exposure to equity price fluctuations on the fair value of its available-for-sale financial assets and its financial assets at fair value through profit or loss is as follows:

| | 2016 | 2015 |
|---|---|---|
| **Financial Assets** | | |
| *Available-for-sale financial assets* | | |
| Investments in listed companies | 2,032 | 3,533 |
| *Financial assets at fair value through profit or loss* | | |
| Investments in listed companies | - | - |
| | 2,032 | 3,533 |

The Group has performed sensitivity analysis relating to its exposure of equity price risk based on its year end asset holdings. This sensitivity demonstrates the effect on after tax results and equity which could result from a movement in equity prices at year end of +/- 10%.

| | 2016 | 2015 |
|---|---|---|
| **Change in after tax profit** | | |
| - increase in equity price by 10% | - | - |
| - decrease in equity price by 10% | - | - |
| **Change in equity** | | |
| - increase in equity price by 10% | 142 | 248 |
| - decrease in equity price by 10% | (142) | (248) |

*(iii) Currency Risk*
Currency risk is the risk that the fair value or future cash flows of a financial item will fluctuate as a result of movements in international exchange rates. The Group was not exposed to exchange rate transaction risk on foreign currency sales during the year. The Group was not exposed to significant exchange rate risk on purchases during the year. Sales revenue for the Group for the year was all denominated in Australian dollars (2015: 5% of sales were made primarily in USD). The Group does not take forward cover or hedge and was therefore at risk in relation to foreign currency movements during the year. The Group operates an office in Beijing, China and maintains CNY and USD bank accounts in relation to this office. At balance date these accounts comprised approximately 9.9% (2015: 1.7%) of cash at bank.

**(b) Credit Risk**

The Group's maximum exposure to credit risk is generally the carrying amount net of any provisions for doubtful debts. The Group's exposure is minimised by the fact that the trade receivables balance is with a diverse range of Australian and Multi-national customers. The Group has in place informal policies for establishing credit approval and limits so as to manage the risk. The Group also has a credit risk exposure in relation to cash at bank. The Group's policy is to ensure funds are placed only with major Australian banks thus minimising the Group's exposure to this credit risk. The Group's credit risk relating to tenants is primarily the risk that they will fail to honour their lease agreements. The lease agreement with the Seven Hills property is supported by a bank guarantee. Loans receivable from the associate entity PPK Willoughby Funding Unit Trust are secured by a registered first mortgage over property owned by that entity. Refer to note 11 for detail on the Group's trade and other receivables. The Group's exposure to credit risk at balance date by country of loans and receivables is as follows:

| | | Consolidated Entity | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Notes | $000s | $000s |
| Australia | | 10,879 | 13,496 |
| United States of America | | - | 32 |
| | | 10,879 | 13,528 |

| | | Consolidated Entity | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Notes | $000s | $000s |

**NOTE 25 FINANCIAL RISK MANAGEMENT (Cont'd)**

**(b) Credit Risk (Cont'd)**

The Group's exposure to credit risk at balance date by industry of loans and receivables is as follows:

**Loans and receivables by industry**

| | 2016 | 2015 |
|---|---|---|
| Property development | 7,352 | 5,587 |
| Mining Equipment | 3,346 | 3,861 |
| Retirement Villages | - | 3,236 |
| Property and investing | 181 | 844 |
| | 10,879 | 13,528 |

**(c) Liquidity risk**

Liquidity risk is the risk that the Group and parent will encounter difficulty in meeting obligations associated with financial liabilities. The Group's objective to mitigate liquidity risk is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other loans and hire purchase contracts. The Group and parent's exposure to liquidity risk is not significant based on available funding facilities and cash flow forecasts. Details of the Group's financing facilities are set-out in note 22.

**Financial Liabilities maturity analysis**
The tables below reflect the undiscounted contractual settlement terms for the Group's financial liabilities of a fixed period of maturity, as well as the earliest possible settlement period for all other financial liabilities. As such the amounts may not reconcile to the balance sheet.

The CBA market rate loan facility of $2.730M (fully used at balance date) expires in October 2018 and is subject to quarterly review.

These renewal dates have been used for disclosure of maturity dates of bank overdraft and loans, even though they are subject to periodic review as there is no reason to believe that the facilities will be altered by the bank at the time of annual review. This bank loan was subsequently repaid in the 2017 reporting year, refer to Note 31.

| | Carrying amount | <6 months | 6-12 months | 1-3 years | >3 years | Contractual Cash flows |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Consolidated 2016** | | | | | | |
| **Financial Liabilities (current & non-current)** | | | | | | |
| Trade & Other Payables | 6,764 | 6,764 | - | - | - | 6,764 |
| Bank Loans & overdrafts | 2,776 | 48 | 47 | 2,831 | - | 2,926 |
| Other Loans - other persons | 5,696 | 4,672 | 61 | 1,254 | - | 5,987 |
| Total Financial Liabilities | 15,236 | 11,484 | 108 | 4,085 | - | 15,677 |
| | | | | | | |
| **Consolidated 2015** | | | | | | |
| **Financial Liabilities (current & non-current)** | | | | | | |
| Trade & Other Payables | 7,381 | 7,381 | - | - | - | 7,381 |
| Bank Loans & overdrafts | 5,021 | 725 | 2,957 | 1,473 | - | 5,155 |
| Other Loans - other persons | 3,537 | 3,537 | - | - | - | 3,537 |
| Total Financial Liabilities | 15,939 | 11,643 | 2,957 | 1,473 | - | 16,073 |

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|

## NOTE 26 LEASE COMMITMENTS

**Operating lease commitments**

| | | 2016 $000s | 2015 $000s |
|---|---|---|---|
| Operating lease rentals contracted for but not capitalised in the financial statements payable: | | | |
| - not later than 1 year | | 3,712 | 4,004 |
| - later than 1 year but not later than 5 years | | 5,027 | 8,849 |
| - later than 5 years | | - | - |
| | | 8,739 | 12,853 |

The Group leases premises in Tomago, NSW, under a non-cancellable operating lease with an annual escalation clause of 3%. The terminating date of the lease is 30th June 2017. The Group has 2 options to renew the lease for the Tomago premises, for a period of up to 5 years each.

The Group leases premises in Port Kembla, NSW, under a non-cancellable operating lease with an annual CPI escalation. The terminating date of the lease is 28th March 2019. The Group has an option to renew the lease for the Port Kembla premises, for a period of up to 5 years.

At balance date the Group had leases on 7 of its Coaltrams under non-cancellable operating leases. The terminating dates of the leases run to approximately October 2019 to April 2020.

The Group operates a car fleet of 24 vehicles under operating lease agreements with terms up to 4 years.

## NOTE 27 CONTINGENT ASSETS AND LIABILITIES

Cross guarantees of the Groups banking and finance facilities total $6.758M (2015: $5.961M) of which $6.758M (2015: $5.021M) was drawn at balance date. The Group had bank guarantees which were released during the year relating to arrangements at the Tomago and Port Kembla premises. The Group now has one bank guarantee of $0.140M which is 100% secured by a cash deposit of the same amount (2015: $0.986M).

Non bank guarantees and indemnities include:
Unlimited Guarantee and Indemnity from PPK Group Limited and PPK Mining Equipment Group Pty Ltd in relation to the 7 leased Coaltrams.
Unlimited Guarantee and Indemnity from PPK Group Limited in relation to the Tomago leased premises.
Guarantee and Indemnity of $0.500M from PPK Group Limited in favour of a key Coaltram parts supplier in relation to trade credit account.
Guarantee and Indemnity from PPK Group Limited in relation to the leased motor vehicle fleet.

## NOTE 28 SEGMENT INFORMATION

The Group applies AASB 8 Operating Segments whereby segment information is presented using a "management approach" i.e. segment information is provided on the same basis as information used for internal reporting purposes by the chief operating decision makers.

Operating segments have been determined on the basis of reports reviewed by the Directors. The Directors are considered to be the chief operating decision makers of the Group. The segments are as follows:
- The Investment Property Segment owns one industrial property.
- The Investment Segment owns primarily listed and some unlisted investments, it has also made loans from which it earns interest. Investments in associated entities are included in this segment.
- The Mining Equipment Segment design, manufacture, service, support, distribute and hire underground coal mining equipment, COALTRAM vehicles, alternators, electrical equipment, drilling and bolting equipment and mining consumables.

## NOTE 28 SEGMENT INFORMATION (Cont'd)

**(a) Year ended 30 June 2016**

| Business Segments | Investment Properties $000s | Investing $000s | Mining Equipment $000s | Total of Continuing Operations $000s |
|---|---|---|---|---|
| **Segment Revenue from external customers** | | | | |
| Sales revenue | - | - | 26,075 | 26,075 |
| Rental income | 585 | - | - | 585 |
| Interest received | - | 495 | - | 495 |
| Dividends received | - | - | - | - |
| | 585 | 495 | 26,075 | 27,155 |
| **Segment other income** | | | | |
| Net gain on sale of available-for-sale financial assets | - | 1,548 | - | 1,548 |
| Other segment income | 4 | 1 | 44 | 49 |
| | 4 | 1,549 | 44 | 1,597 |
| **Total Revenue and other income** | 589 | 2,044 | 26,119 | 28,752 |
| **Segment expenses include** | | | | |
| Depreciation and amortisation | 79 | - | 1,218 | 1,297 |
| Impairment of available-for-sale financial assets | - | 82 | - | 82 |
| Impairment of Intangibles | - | - | - | - |
| Impairment of plant and equipment | - | - | - | - |
| Inventory write-down | - | - | 682 | 682 |
| Unwind of onerous contract liability | - | - | (550) | (550) |
| Segment result | 510 | 1,721 | (6,699) | (4,468) |
| **Reconciliation of segment net profit to group net profit before tax** | | | | |
| Amounts not included in segment profit but reviewed by the Board: | | | | |
| Share based payment expense | | | | (103) |
| Unallocated corporate expense | | | | (1,898) |
| Unallocated finance costs | | | | (1,015) |
| Share of profit or loss from associates | | | | (389) |
| **Consolidated operating (loss) before income tax** | | | | (7,873) |
| Non-controlling interests share of after tax profit | | | | (23) |
| Income tax benefit | | | | 133 |
| **Consolidated profit after income tax attributable to owners of PPK Group Limited** | | | | (7,763) |

| | Investment Properties $000s | Investing $000s | Mining Equipment $000s | Total $000s |
|---|---|---|---|---|
| Segment Assets | 4,824 | 9,373 | 20,928 | 35,125 |
| Unallocated | | | | 263 |
| **Total Assets** | | | | 35,388 |
| Segment Liabilities | 3,704 | 4,265 | 8,655 | 16,624 |
| Unallocated | | | | 1,778 |
| **Total Liabilities** | | | | 18,402 |

## NOTE 28 SEGMENT INFORMATION (Cont'd)

**(b) Year ended 30 June 2015**

| | Investment Properties $000s | Investing $000s | Mining Equipment $000s | Total of Continuing Operations $000s |
|---|---|---|---|---|
| **Segment Revenue from external customers** | | | | |
| Sales revenue | - | - | 29,577 | 29,577 |
| Rental income | 1,778 | - | - | 1,778 |
| Interest received | - | 1,587 | - | 1,587 |
| Dividends received | - | 25 | - | 25 |
| | 1,778 | 1,612 | 29,577 | 32,967 |
| **Segment other income** | | | | |
| Net gain on sale of available-for-sale financial assets | - | 605 | - | 605 |
| Net gain on disposal of investment property | 4,478 | - | - | 4,478 |
| Net gain on disposal of subsidiary | 1,893 | - | - | 1,893 |
| Other segment income | - | 14 | - | 14 |
| | 6,371 | 619 | - | 6,990 |
| **Total Revenue and other income** | 8,149 | 2,231 | 29,577 | 39,957 |
| **Segment expenses include** | | | | |
| Depreciation and amortisation | 199 | - | 1,695 | 1,894 |
| Impairment of available-for-sale financial assets | - | 556 | - | 556 |
| Impairment of Intangibles | - | - | 7,696 | 7,696 |
| Impairment of plant and equipment | - | - | 489 | 489 |
| Inventory write-down | - | - | 2,191 | 2,191 |
| Recognition of onerous contract liability | - | - | 2,000 | 2,000 |
| Redundancy and relocation costs | - | - | 738 | 738 |
| Segment result | 7,857 | 1,643 | (17,505) | (8,005) |

| | |
|---|---|
| **Reconciliation of segment net profit to group net profit before tax** | |
| Amounts not included in segment profit but reviewed by the Board: | |
| Net gain on bargain purchase | 1,636 |
| Share based payment expense | (397) |
| Business combination transaction expense | (323) |
| Unallocated corporate expense | (3,111) |
| Unallocated interest expense | (1,540) |
| Share of profit from associates | (85) |
| Consolidated operating (loss) before income tax | (11,825) |
| Non-controlling interests share of after tax profit | (300) |
| Income tax (expense) | 3 |
| **Consolidated profit after income tax attributable to owners of PPK Group Limited** | (12,122) |

| | Investment Properties $000s | Investing $000s | Mining Equipment $000s | Total $000s |
|---|---|---|---|---|
| Segment Assets | 5,086 | 14,743 | 24,668 | 44,497 |
| Unallocated | | | | 329 |
| **Total Assets** | | | | 44,826 |
| Segment Liabilities | 3,453 | 3,156 | 11,891 | 18,500 |
| Unallocated | | | | 1,321 |
| Total Liabilities | | | | 19,821 |

**(c) Geographic location of Customers**

Although the Group operates in Australia, the mining equipment segment has sales revenue from customers located overseas. Additional disclosure of sales revenue by geographical location of external customers that represent 5% or more of total entity sales revenue is as follows:

| | Consolidated Entity | |
|---|---|---|
| | 2016 | 2015 |
| | $000s | $000s |
| Australia | 26,419 | 27,908 |
| China | 15 | 1,415 |
| United States of America | 183 | 195 |
| United Kingdom | 43 | 59 |
| | 26,660 | 29,577 |

The geographical location of receivables, relating to these sales, is disclosed in Note 25(b) of these accounts.

**(d) Customer Concentration**

The mining equipment segment revenues are concentrated on the top three customers as follows:

| | | |
|---|---|---|
| Customer 1 | 9,745 | 12,071 |
| Customer 2 | 4,010 | 3,401 |
| Customer 3 | 1,241 | 1,569 |

## NOTE 29 RELATED PARTIES

For details on transactions between related parties refer to the Audited Remuneration Report contained in the Directors' Report of this annual report.

| | Notes | Consolidated Entity 2016 $000s | 2015 $000s |
|---|---|---|---|
| **NOTE 30 CASH FLOW INFORMATION** | | | |
| (a) Reconciliation of profit (loss) after income tax to the cash provided by operating activities | | | |
| Profit (loss) after income tax attributed to owners of PPK Group Limited | | (7,763) | (12,122) |
| Cash flows in operating activities but not attributable to operating result: | | | |
| Non-controlling interest equity distribution | | 23 | 300 |
| Non-cash flows in operating profit: | | | |
| Unrealised foreign exchange (gain) loss | | (6) | - |
| Amount transferred from Plant and Equipment to Inventory | | 73 | - |
| Amortisation | | 46 | 353 |
| Depreciation | | 1,251 | 1,541 |
| Interest accrued | | (129) | 105 |
| Impairment of available-for-sale-assets | | 82 | 556 |
| Impairment of intangibles | | - | 7,696 |
| Impairment of plant and equipment | | - | 489 |
| Share of (profit) loss from associates | | 389 | 85 |
| Loss (profits) on sale of available-for-sale financial assets | | (1,548) | (605) |
| Share based payment expense | | 103 | 397 |
| (Gain) on bargain purchase | | - | (1,636) |
| (Gain) on sale of subsidiaries | | - | (1,893) |
| Loss (gain) on sale of plant & equipment | | 58 | - |
| (Gain) on sale of property | | - | (4,478) |
| Decrease (increase) in tax recoverable | | 178 | (178) |
| Increase (decrease) in tax payable | | - | (200) |
| Decrease (increase) in deferred tax assets | 17 | - | 2,234 |
| Increase (decrease) in deferred tax liabilities | 17 | - | (2,159) |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in financial assets at fair value through profit and loss | | - | 12 |
| Decrease (increase) in trade and other receivables | | 721 | 2,687 |
| Increase (decrease) in intangible asset investment | | - | - |
| Decrease (increase) in prepayments | | 208 | 439 |
| (Increase) decrease in inventories | | 1,481 | 803 |
| (Decrease) increase in provisions | | (779) | 1,430 |
| (Decrease) increase in trade creditors and accruals | | (618) | 2,574 |
| Net cash (used in) provided by operating activities | | (6,230) | (1,570) |
| (b) Reconciliation of Cash | | | |
| For the purposes of the cash flow statement, cash includes: | | | |
| Cash on hand | | 2 | 1 |
| Call deposits with financial institutions | | 943 | 2,475 |
| Bank overdrafts - secured | | - | - |
| | 10 | 945 | 2,476 |
| (c) Non-cash Financing and Investing Activities | | | |
| During the financial year, the consolidated entity had the following non cash adjustments, expense (income); | | | |
| Gain on bargain purchase | | - | (1,636) |
| Impairment of intangibles | | - | 7,696 |
| Impairment of plant and equipment | | - | 489 |
| Impairment of available-for-sale financial assets (listed company investments) | | - | 556 |
| | | - | 7,105 |

## NOTE 31 EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

*Onerous lease*

On 27 June 2016, Glegra Pty Ltd ATF The Coaltram Trust (TCT) being a PPK director related entity (refer related party disclosures in the Audited Remuneration Report in the Directors Report) acquired the rights and obligations of the lessor on arms-length commercial terms. At 30 June 2016, total liabilities recognised in relation to the lease were $2.840M comprising $1.210M unpaid lease payments (rental arrears) and $1.630M onerous lease provision. PPK has paid TCT rental arrears to 31st August 2016 and subsequent monthly amounts remain outstanding as mutually agreed between PPK and TCT.

*Other loans receivable and payable*

In October 2015, PPK (CC) Pty Ltd (wholly owned subsidiary) acquired loans receivable totalling $2.647M owed by Couran Cove Holdings Pty Ltd ATF CCH trust and secured by real property located at Couran Cove Resort, South Stradbroke Island. These loans were repaid in full in September 2016, with principal and interest proceeds totalling $2.905M.

Further to the Non-Bank Loan payable of $1.225M in note 22, an additional $0.275M was advanced post year end and the full amount of these loans was repaid in September 2016.

In May 2017, secured loans of $1.25M were received from entities associated with PPK Director Glenn Molloy. Loan proceeds were used to repay the Mt Thorley premises vendor loan of $1.037M and the balance for capital expenditure and net working capital purposes. These loans were provided under a one year term and attract interest of 10% per annum. The loans are secured by a first ranking mortgage over the property located at 25 Thrift Close Mt Thorley and General Security Agreements and Specific Security Agreements for entities related to these premises or the Firefly business operating from these premises.

*Sale of Industrial Property and Debt repayment*

In January 2017, the Seven Hills (NSW) Investment property was sold for $7.875M resulting in a profit on sale of $4.433M. Proceeds on sale were used to repay the Commonwealth Bank market rate loan of $2.729M and Neruj Pty Ltd ATF Wemole Funding Trust loan of $3.195M (inclusive of interest and further advances from initial loan of $2.550M).

*Share Portfolio*

PPK's share portfolio is materially comprised of one key ASX listed stock, being Eureka Group Holdings (EGH). As at 30 June 2015, the EGH share price was $0.51 and PPK held 6.450M shares at a value of $3.290M. During the FY16 year 4.032M EGH shares were sold at an average price of $0.646 per share, resulting in gross proceeds of $2.603M. Furthermore, to date in FY17, 2.038M shares have been sold at an average price of $0.379 per share, for proceeds of $0.772M. The total EGH shareholding remaining as at the 12th June 2017 was 0.400M shares at $0.36.

*Shares based payment and new share issue*

Further to share based payment comments in note 24, in accordance with the terms of a business combination in October 2014 the vendor employee may receive $1.000M in PPK Group Limited ordinary share capital in two $0.500M tranches over two years. As per this agreement and having met the vesting conditions the vendor was issued 0.667M shares on 16 October 2015 being the first $0.500M tranche. Further, the vesting conditions for the second tranche of $0.500M shares due on 16 October 2016 were not met and accordingly no shares issued.

*Employee Share and Loan Plan*

As noted in the Remuneration Report, key executives had a non-recourse loan which expired 27th April 2017. The outstanding loan balance has not been repaid (pursuant to the non-recourse terms) and PPK is considering its options to sell or buy-back/cancel these shares.

No other matter or circumstance has arisen since the end of the financial year which is not otherwise dealt with in this report or in the Consolidated Financial Statements that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

# DIRECTORS' DECLARATION
**FOR THE YEAR ENDED 30 JUNE 2016**

1. In the opinion of the Directors of PPK Group Limited;

a) The consolidated financial statements and notes of PPK Group Limited are in accordance with the *Corporations Act 2001*, including
   - (i) Giving a true and fair view of is financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
   - (ii) Complying with Australia Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

b) There are reasonable grounds to believe that PPK Group Limited will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

3. Note 2 confirms that the consolidation financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

**ROBIN LEVISON**
Executive Chairman

**GLENN MOLLOY**
Director

Dated this 23rd day of June 2017

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# Independent Auditor's Report
# To the Members of PPK Group Limited

## Report on the financial report

We have audited the accompanying financial report of PPK Group Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, the 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 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

## Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

## Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**

In our opinion:

a the financial report of PPK Group Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the consolidated entity's financial position as 30 June 2016 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Emphasis of matter**

Without qualification to our opinion, we draw attention to Note 2(ab) to the financial report, which indicates that the group incurred a loss after tax of $7,740,000 for the year ended 30 June 2016, and net operating cash outflows of $6,230,000 for the year then ended. These conditions, along with other matters as set forth in Note 2(ab), indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern and therefore, the group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

**Report on the remuneration report**

We have audited the remuneration report included in pages 12 to 20 of the directors' report for the year ended 30 June 2016. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of PPK Group Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Cameron Smith

Cameron Smith
Partner – Audit & Assurance



Brisbane, 23 June 2017

## SHAREHOLDER INFORMATION

## AS AT 9TH JUNE 2017

**(a)** Number of PPK shareholders: 915

**(b)** Total shares issued: 73,314,570

**(c)** Percentage of total holdings by or on behalf of the 20 largest shareholders: 73.81%

**(d)** Distribution schedule of holdings

| Holdings Ranges | Holders | Total Units |
|---|---|---|
| 1-1,000 | 107 | 59,853 |
| 1,001-5,000 | 270 | 882,853 |
| 5,001-10,000 | 200 | 1,633,565 |
| 10,001-100,000 | 269 | 8,591,554 |
| 100,001-9,999,999,999 | 69 | 62,146,745 |
| Less than a marketable parcel | 190 | 205,486 |

**(e)** Voting rights: Every member present personally or by proxy or attorney etc, shall, on a show of hands, have one vote and on a poll shall have one vote for every share held.

### TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES

| | | |
|---|---|---|
| Wavet Fund No 2 Pty Ltd | 12,919,519 | 17.622% |
| Ignition Capital Pty Ltd <The Ignition A/C> | 11,766,667 | 16.050% |
| Equipment Company Of Australia Pty Limited | 9,460,000 | 12.903% |
| McNamara Investment Group Pty Ltd <McNamara Investment A/C> | 4,000,000 | 5.456% |
| Zhang Family Investment Group Pty Ltd <Zhang Investment A/C> | 4,000,000 | 5.456% |
| Contemplator Pty Ltd <ARG Pension Fund A/C> | 2,651,695 | 3.617% |
| John E Gill Operations Pty Limited | 1,568,985 | 2.140% |
| Mr Dennis Joseph McGillicuddy & Mrs Graciela McGillicuddy | 1,200,000 | 1.637% |
| Luton Pty Ltd | 800,000 | 1.091% |
| Mr Guy Lance Jones <BoQ Loan A/C> | 750,000 | 1.023% |
| Flynfam Pty Ltd <Flynn Family A/C> | 666,667 | 0.909% |
| Mr Leslie John Field & Mrs Eve Field | 639,453 | 0.872% |
| Ruminator Pty Ltd | 543,883 | 0.742% |
| Mr Barry Silverstein | 512,660 | 0.699% |
| Dealcity Pty Limited <Wowk Superannuation Fund A/C> | 500,000 | 0.682% |
| Ryan Consultancy Group Pty Ltd <Estateways P/L Exec S/F A/C> | 500,000 | 0.682% |
| Mr Robert Joseph Faulks & Mrs Patricia Baynton Faulks <Tharwa Super Fund A/C> | 459,535 | 0.627% |
| Mr Ian Macdonald | 425,000 | 0.580% |
| Miss Samantha Molloy | 408,570 | 0.557% |
| Ms Alison Irving | 341,960 | 0.466% |
| | 54,114,594 | 73.812% |

| Substantial Shareholders | Shares to Which Entitled | % of Issued Capital |
|---|---|---|
| Wavet Holdings Pty Ltd | 12,969,519 | 17.69 |
| Ignition Capital Pty Ltd and Associates | 11,766,667 | 16.05 |
| Equipment Company of Australia Pty Ltd | 9,460,000 | 12.90 |

# CORPORATE DIRECTORY

## PPK Group Limited
## ABN 65 003 964 181

A public company incorporated in New South Wales and listed on the Australian Securities Exchange (ASX Code: PPK)

**Directors**
Robin Levison (Executive Chairman)
Jury I. Wowk (Non-Executive Deputy Chairman) *resigned 5 May 2017*
Glenn R. Molloy (Executive Director)
Raymond M. Beath (Non-Executive Director) *resigned 8 March 2017*
Graeme D. Webb (Non-Executive Director)
Dale McNamara (Executive Director)

**Company Secretary**
Andrew J. Cooke

**Head and Registered Office**
PPK Group Limited
Level 27,
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| | |
|---|---|
| Telephone: | +61 7 3054 4500 |
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| Web Site: | www.ppkgroup.com.au |

**Auditors**
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| | |
|---|---|
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| | |
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| | |
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