

# **PTB GROUP LIMITED**

ABN 99 098 390 991  
PO Box 90, Pinkenba  
47-51 Pandanus Ave  
BRISBANE AIRPORT Qld 4007  
Tel: 61 7 3637-7000  
Fx: 61 7 3860-4006

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The Manager Companies  
Australian Stock Exchange Limited  
Level 5  
123 Eagle Street  
Brisbane, QLD 4001

## **CONTINUOUS DISCLOSURE**

### **1 2007 FINANCIAL YEAR**

The Directors advise that the Company does not expect to reach its Prospectus forecast for the year to 30 June 2007. The result is now expected to be approximately \$5.03 million before tax (budget \$6.6 million). This compares to the forecast as follows:

	Current Forecast	Prospectus Forecast
Profit before income tax:	\$'000	\$'000
PTB Business	2206	3433
IAP Business	1590	1855
Emerald Assets	<u>1235</u>	<u>1319</u>
Total NPBT	<u>5031</u>	<u>6607</u>

### **Reasons for Reduction**

#### **A General Comment**

The main reason has been the significant focus by the Company's small management team with the IAP Group acquisition followed by the Emerald assets acquisition, the move from NSX to ASX and the associated capital raising activities. To some extent this focus impacted negatively on the profitability of the PTB and IAP businesses.

The Emerald assets transaction has been an enormous success in acquiring a large number of aircraft to place in the Group's growing Financing and Rentals division (with its recurring earnings). The Group has spent considerable time and funds in bedding down the new acquisitions and the need for new people and systems to handle this growth has been identified and is under way.

## B Detailed Review

PTB Business: The projected negative variance of \$1.22 million has come from reduced gross margin contribution of \$824,000 and additional costs in the overhead area of \$403000. Over 30 per cent of these additional costs are compliance costs which relate to the recent acquisition activity and this level will reduce somewhat as the Company's processes improve to handle this type of activity. A bad debt expense of \$133000 is included in the \$403000 figure.

Part of the gross margin variance (approximately \$300000) has come from the increase in value of the Australian dollar against the US dollar. The level of the Australian dollar has exceeded the forecast range by a significant amount. Given that a significant parts of the Group's business takes place in US dollars, it has to be accepted that an Australia headquartered company will suffer profit reductions when the Australian dollar appreciates and will benefit from a lower Australian dollar. The improved trading conditions in the aviation markets in which the Group operates has meant that margins have been compressed somewhat but over time management believes this will bring more opportunities.

Rental income is expected to be \$156000 behind budget for the year and this makes up a part of the negative gross margin variance of \$824000 referred to above.

IAP Business: The IAP business has an expected negative variance of \$265000. Approximately two-thirds of this is from Aeropelican with the balance being across the board. IAP in particular has suffered with Steve Ferris having to spend significant time on bedding down the Emerald assets transaction. It will benefit for the balance of the year with him being able to spend more time on the Australian operations. The strength of the Australian Dollar has also affected IAP's results.

It was expected that the additional working capital available would assist in generating more deal flow through IAP. In practice, with the concentration on the Emerald assets transaction and due to the planned \$40 million debt fund not yet being in place, this type of transaction is not yet flowing.

Aeropelican will benefit from the introduction of the Jetstream 32 aircraft which have been acquired but are not yet available for use by the business. These aircraft will be far more cost-effective for Aeropelican and their introduction will open up other lease opportunities for the other J32 aircraft acquired for the lease pool

Emerald Assets: The Emerald assets are expected to be on budget for the year. Progress has been significant:

- All the ATP's are committed to operating lease customers. One has been delivered with the remaining four to be delivered between June and December 2007.
- Eighty per cent of the HS748's have been committed with two already delivered and a further eight to be delivered over the period to February 2008.

Almost all these aircraft will be held in PTB Group's Lease and Rental division, building the group's long term income stream. The building of recurring earnings from airframe and engine financing is a key part of PTB Group's business model and creation of this income stream has and will continue to dilute higher short term profits for long term recurring earnings.

Refurbishment and maintenance work on the aircraft yet to be delivered is currently being undertaken.

The degree of progress with this Emerald assets transaction (which is a part of IAP division's core business) is a result of significant management input from Steve Ferris. The time and resources dedicated to this project has been significant but the outcome, both short and long term is very pleasing for the Group and strongly establishes the Group as a significant world player in this market .

## **2 OVERALL COMMENTS ON THE PTB GROUP BUSINESS OPERATIONS**

Notwithstanding the above, the Directors are confident in the positioning of the business:

- The IAP acquisition and the subsequent Emerald assets transaction has been a significant and positive move for the Company taking it to a new level.
- The Company has to improve its management capability to ensure that 'deal doers' spend as much time as possible generating profitable business. Progress is being made in this area.
- Finance and accounting infrastructure has to be refined and improved to better cope with the demands of the expanded group. Again, significant progress is being made in this area.
- The Company has traditionally adopted conservative accounting policies and this will continue. Further, it will continue to work towards building its long term earnings streams, notwithstanding that there will be reductions in near term profits to achieve this.
- Financing Pool: The Directors are happy with the negotiations on a \$40 to \$50 million funding pool for airframe and engine funding world-wide. This is expected to be in place to enable draw downs from late May/early June 2007. Bank funding has not kept pace with the Company's growth and this process continues to be time consuming for senior management. Without appropriate funding lines in place reserve working capital levels are too high.

## **3 CHANGE IN ARRANGEMENTS FOR STEPHEN SMITH**

Stephen Smith, executive director of PTB Group Limited and one of its founders has indicated he wishes to step down from full-time duties from the end of his contract in December 2007. He will resign from the board at that time.

From December 2007, the Company has contracted with Mr Smith to work part time in the sales area with a three year agreement.

While the loss of Stephen's capabilities on a full-time basis will be significant, the Directors are sanguine about the possibilities of strong results from the proposed contracting arrangement which will be wholly focused on sales and 'deal doing'.

Yours sincerely



Harvey Parker  
CHAIRMAN  
PTB GROUP LIMITED  
07 3637-7000



Craig Baker  
MANAGING DIRECTOR  
PTB GROUP LIMITED  
07 36377001