Pyne Gould Corporation

NZX ANNOUNCEMENT

31 August 2015

PGC Preliminary Annual Result to 30 June 2015

Pyne Gould Corporation ("PGC") has today released its preliminary unaudited annual result for the year to 30 June 2015.

The full Annual Report, with accompanying Audited Financial Statements, are due for release on 30 September 2015.

MANAGING DIRECTOR'S REPORT

After a first half loss of GBP3.36m to 31 December 2014 PGC clawed back to a small but positive Net Profit After Tax (NPAT) of GBP0.038m for the year to 30 June 2015. This compares with a restated NPAT of GBP6.46m for the year to 30 June 2014.

After allowing for Other Comprehensive Income, PGC's unaudited Total Comprehensive Loss for the year to 30 June 2015 is GBP8.35m, compared with a (restated) Total Comprehensive Income of GBP2.91m for the year to 30 June 2014.

The result is largely due to non-cash accounting adjustments, in particular GBP8m negative impact from the foreign exchange translation of foreign associates and subsidiaries. The net outcome was a GBP decline in NTA per share from 34 pence to 31 pence. In NZD the NTA per share remained stable

The Statement of Financial Position was stable in NZD and down in GBP. At 30 June, PGC held total assets of GBP64.76m, total liabilities of GBP2.13m and a net position of GBP62.62m. PGC has no bank debt. Current assets are GBP28.51m (GBP21.64m last year), with GBP0.13m current liabilities (GBP3.02m last year), giving net current assets of GBP26.38m (up from GBP18.62m last year). PGC holds long-term assets of GBP36.25m and no long-term liabilities.

COMMENTARY

In 2011, we said that it would take a decade or more for PGC to fully convert its collection of difficult assets into a strong and sustainable business. We said that the job of converting bad book assets to cash and then into a strong core business was technically demanding, inherently unpopular and results would inevitably be lumpy.

We were correct – the time frame is long, the job requires highly specific skills in arcane areas, we continue to ignore popularity contests and the results are lumpy. However, and despite this, we have always been highly confident our strategy of exit of non-core assets and building a long term business from distressed assets was compelling.

The evidence of value obtained from the exit of non core assets is largely complete. The material residual receivable is approximately NZD22m which arose from the exit from Perpetual Trust Limited (PTL). This result has been valued independently at NZD21.18m. This is slightly higher than the value attributed by Grant Thornton (GT) – who once the role of Auditor became theirs were no longer independent.

The other metric by which to judge the strategy in 2021 is value created by reinvesting funds. The core strategy in this area is continued commitment to the growth of the Torchlight Fund LP (TFLP).

Accounting Treatment of TFLP

For the 2015 year, TFLP has been treated as an associate for accounting purposes. PGC started the year at 25% voting power in TLP. At this level, PGC and its auditors agree it had sufficient votes with external investors to still be considered as an associate and, therefore, not a subsidiary for the 30 June 2015 year.

Over the course of the year TFLP executed substantial buybacks. The effect of this is that all other Limited Partners increased their relative percentage in TFLP.

By the beginning of the 2016 financial year PGC held sufficient votes within TFLP to eliminate any reasonable likelihood of loss of control. This, combined with the completion of the TFLP audit, means that PGC has elected, under IFRS 10, to consolidate TFLP as a subsidiary for the financial year to 30 June 2016.

Residential Communities Limited (RCL) Co-investment

PGC, through Torchlight Group Limited, also held a RCL co-investment on the Statement of Financial Position as at 30 June 2015 of AUD27m. As previously advised to market, this was held for conversion to TFLP limited partner interests on TFLP audit completion and PGC election of TFLP as a subsidiary. The RCL co-investors in the acquisition of debt from Bank of Scotland all swapped direct RCL interests for TFLP interests on the same, or substantially the same, economic terms.

These factors have now been resolved. PGC, after satisfying itself it has 50% or greater economic interests in assets and income of TFLP, has therefore approved the conversion of the RCL co-investment to TFLP interests.

TORCHLIGHT FUND LP UPDATE

Torchlight focuses on maximising long-term returns by specialising in distressed assets. Initial activities focused on credit. It was a "heads we win, tails we win" strategy; if borrowers repaid we would get a high cash return. If they failed we would exchange debt for long-term assets.

In South Canterbury Finance, Torchlight Fund LP 1 and its co-investor, received a payout of NZD106m representing a return of 26% annualised. Torchlight was lauded as a "winner on the day", however, it would have been happy if not repaid and it appointed the receiver.

The focus on credit led assets continued with RCL - albeit with a desire to achieve a long-term outcome rather than just a high return over the short term.

RCL - Credit Bid

In 2011/12 Torchlight Fund LP Number 1 and co-investors acquired senior debt in ASX listed RCL from the Bank of Scotland – and in due course appointed a receiver.

We considered a lower risk, lower return work out strategy where we mandate the receiver to build and sell sites and pay us off as debt holder.

However, to maximise shareholder value, we preferred a credit bid where our own land development company acquires 100% of RCL assets in exchange for debt. Then we consolidated all RCL co investors into a single new fund Torchlight Fund LP which prepares for and executed a credit bid for 100% of assets of RCL

The credit bid took a frustrating amount of time to complete and the hangover was a very slow audit process. It was complicated and expensive with more than AUD9m paid in stamp duty and legal and accounting expenses.

The value created is expected to become apparent over time as an excellent management team monetise a very large land bank and recycle the proceeds into creating what we believe will be one of Australia's largest private real estate investors and developers.

The aim is to build a land bank of 7500 to 10,000 sites from retained earnings. At the end of the fund we expect a land bank of this size to attract a generous earnings multiple. We expect long-term investors in Torchlight to be well rewarded for their investment horizon.

Local World

There are four reasons why we were excited about our investment in UK regional news publisher Local World: timing; price; capital structure; and management.

When Torchlight acquired its stake in Local World in late 2012, the UK economy was in the doldrums, the pound sterling was trading near record lows against the Australian dollar, Rupert Murdoch was facing a select committee on phone hacking allegations against the News of the World and double-digit declines in print advertising had many pundits predicting the imminent death of the newspaper industry. These conditions enabled us to pay - alongside some significant industry operators – an attractive entry price: just three times cash flow for the business.

While we had no special insight into the longevity of print newspapers, we believed the prospect of their demise had obscured several attractive features of Local World's business.

First was the asset-light nature of company's balance sheet. When Daily Mail General Trust and Iliffe News & Media spun out their regional titles to form Local World, the printing presses stayed with the parent companies. Local World incurred the cost of outsourcing the printing of its newspapers, but there would be no maintenance capital expenditure to spend on rapidly depreciating printing plants. This was a structural advantage over the peer group as the cost of printing was falling after 50 years of readership decline.

The advantage of this business model was proved in Local World's recent tender for the printing contract in the South-East of England. News UK, whose state-of-the-art printing and production facility won the 'Printer of the Year' award for five of the past six years, was awarded the tender after further reducing its already competitive rates.

With no major CAPEX costs, Local World's net operating profit after tax is essentially all free cash flow, after accounting for changes in net working capital.

Another benefit of Local World's capital structure is that the vendors assumed responsibility for the regional papers' unfunded pension liabilities. Local World's high free cash flow conversion is thus available to pay dividends and invest in the growth of the digital business.

The final point was management. In Northern Irishman and former News of the World editor David Montgomery, we had a chief executive and co-investor with the experience to aggressively cut costs and execute a bold transformational plan to grow Local World's digital audience and revenue. Local World is working to become a fully digitised transactional platform for self-served content and commerce, effectively keeping its shopfront open 24/7, 365 days a year, like every other e-commerce site.

All this adds to deliver a particular insight – that declining print will almost inevitably be offset by rising digital advertising – a "Digital Tipping Point" that will see major rerating of the sector.

The value of our initial investment was fully returned by the way of dividends earlier this year.

As other media companies have strengthened their balance sheets, some have come to appreciate the structural advantages of Local World's business model. As a result, several suitors have approached Local World, including Trinity Mirror, an existing shareholder and the biggest regional newspaper group in the UK, as reported in *the Financial Times.*

Lantern Hotels

Due to pending court action it is inappropriate to comment on this asset at this stage.

Other Matters

Some shareholders might be familiar with the 'matching principle' - the idea that financial risk is minimized by matching the time period of an asset to the time period of a liability, such as your funding.

Torchlight was established to invest in long-term assets. Therefore the correct structure was a vehicle where liquidity was set by the asset strategy, not by investors' needs or demands. The limited partnership vehicle was chosen as this did not allow partners to withdraw capital until the end of the partnership. Other vehicles such as hedge funds or retail unit trusts have liquidity dictated by investors. On a daily, weekly or annual basis capital can be withdrawn without warning.

Torchlight's assets are perfectly matched to its structure. Torchlight has invested about AUD250m in long-term assets such as RCL, Lantern and Local World. We believe, for sound reasons, that at the end of the TFLP's life these assets will be worth substantially more.

George Kerr
Managing Director

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Name of Listed Issuer:	**Pyne Gould Corporation Limited**

Preliminary unaudited results for announcement to the market

Reporting Period	12 months to 30 June 2015
Previous Reporting Period	12 months to 30 June 2014

	Amount £'000	Percentage change favourable / (unfavourable)
Revenue from ordinary activities (including interest income)	2,970	(29%)
Profit from ordinary activities after tax attributable to security holders (excludes discontinued operations)	38	101%
Net Profit attributable to security holders	38	(99%)

Final Dividend - The Company does not propose to pay a final dividend.	Nil

These are unaudited results.

STATEMENT OF FINANCIAL PERFORMANCE

	Unaudited** 12 months to 30 June 2015	Audited 12 months to June 2014 (restated)*	Percentage change favourable / (unfavourable)
	£'000	£'000	
Continuing operations			
Management fees revenue	2,165	2,251	(4%)
Other income	22	647	(97%)
Total fees and other income	**2,187**	**2,898**	**(25%)**
Interest income	783	1,268	(38%)
Interest expense	(26)	(62)	58%
Net interest income	**757**	**1,206**	**(37%)**
Investment Income	**499**	**4,929**	**(90%)**
Net operating income	**3,443**	**9,033**	**(62%)**
Selling and administration expenses	(4,910)	(1,888)	(160%)
Foreign exchange gains/(losses)	1,487	(2,010)	174%
Impaired asset expense	(588)	(5,866)	90%
Operating loss	**(568)**	**(731)**	**22%**
Share of equity accounted investees' profit/(loss)	606	(4,099)	115%
Profit/(loss) before tax from continuing operations	**38**	**(4,830)**	**101%**
Income tax benefit	-	-	N/A
Profit/(loss) after tax from continuing operations	**38**	**(4,830)**	**101%**
Discontinued operations			
Gain on disposal of discontinued operation	-	11,285	**(100%)**
Profit from discontinued operations	**-**	**11,285**	**(100%)**
Income tax expense	-	-	N/A
Profit for the year	**38**	**6,455**	**(99%)**
Other comprehensive income			
Change in fair value of available for sale financial assets	(399)	-	N/A
Foreign currency translation reserves	(7,988)	(3,550)	**(125%)**
	(8,387)	**(3,550)**	**(136%)**
Total comprehensive (loss)/income for the year	**(8,349)**	**2,905**	**(387%)**
Earnings per share	**Pence**	**Pence**	
Basic & diluted earnings per share	0.02	3.10	

*Restated following the completion of the annual audit of Torchlight Fund LP (an associate) for the year ended 31 March 2014 and Presentational currency restated to Sterling from New Zealand Dollar.

**Preliminary results are unaudited, as such, they may differ from final audited results due to be released by the end of September 2015.

STATEMENT OF FINANCIAL POSITION

	Unaudited** At 30 June 2015	Audited At 30 June 2014 (restated)*
	£'000	£'000
ASSETS		
Current assets		
Cash and cash equivalents	164	91
Advances to associates	13,703	5,204
Finance receivables - Other	14,035	2,147
Current tax asset	4	7
Assets held for sale	-	540
Prepayments	10	104
Trade and other receivables	342	13,549
Investments - Fair value through profit and loss	248	-
Total current assets	**28,506**	**21,642**
Non-current assets		
Available for sale financial assets	9,104	-
Finance receivables- Other	-	17,312
Investment property	2,321	2,468
Property, plant and equipment	-	8
Investment in associates	24,824	19,786
Investments - Fair value through profit and loss	-	12,894
Total non-current assets	**36,249**	**52,468**
Total assets	**64,755**	**74,110**
LIABILITIES		
Current liabilities		
Bank overdrafts	-	56
Borrowings	-	82
Other liabilities	2,132	2,884
Total current liabilities	**2,132**	**3,022**
Total liabilities	**2,132**	**3,022**
EQUITY		
Share capital	151,941	152,057
Retained earnings and reserves	(89,318)	(80,969)
Total equity	**62,623**	**71,088**
Total equity and liabilities	**64,755**	**74,110**
	Pence	Pence
Net tangible assets per share (pence)	**30.19**	**34.16**

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STATEMENT OF MOVEMENT IN EQUITY

	Unaudited** 12 months to June 2015 £'000	Audited 12 months to June 2014 (restated)* £'000
Equity at the beginning of the year	**71,088**	**70,117**
Profit for the year	38	6,455
Other comprehensive loss	(8,387)	(3,550)
Buy back of share capital	(116)	(1,934)
Equity at the end of the year	**62,623**	**71,088**

STATEMENT OF CASH FLOWS

	Unaudited** 12 months to June 2015 £'000	Audited 12 months to June 2014 (restated)* £'000
Cash at the beginning of the year	**35**	**70**
Net cash applied to operating activities	(2,831)	(2,996)
Net cash from investing activities	1,445	5,524
Net cash applied to financing activities	(498)	(2,534)
Effect of foreign exchange on cashflows	2,013	(29)
Total cash inflow/(outflow) for the year	**129**	**(35)**
Cash at the end of the year	**164**	**35**

Details of associates:

Name	**% owned**
Torchlight Fund LP	30.56%

There were no entities over which control has been gained or lost during the period.

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