Pyne Gould Corporation

2015 Annual General Meeting
Chairman's Address

The 2015 financial year saw PGC continue to focus on transforming its business.

As set out in the annual report, the Group's investment in Torchlight Fund LP was accounted for as a subsidiary from 30 September 2014.

Historically the Group had accounted for its investment in Torchlight Fund LP as an associate. The Company had announced that Torchlight Fund LP would be treated as a subsidiary for the 2016 financial year however it was subsequently determined that as a result of a hypothetical ability to gain control of Torchlight Fund LP via future potential voting rights, that under IFRS10, the Company gained control of Torchlight Fund LP on 30 September 2014.

As the Group, has outlined historically its focus is long term. The directors remain confident in the long run plan that is being executed on.

Whilst the history to date is set out in the annual report, I believe it is worth recapping again.

In 2009 PGC was, and still is New Zealand's oldest investment company in its 90th year of business with a market capitalisation of approximately NZD$400 million. Its financial position was challenging with the accounts revealing very large property loan losses had been sustained by its finance subsidiary, Marac.

Like many of its peers, PGC faced imminent failure – South Canterbury Finance, Hanover, Lombard, Strategic, Nationwide and Equitable are just a handful of the over 50 finance company failures of that period.

Uniquely, PGC moved to take advantage of the situation, led by newly appointed non-executive director George Kerr and newly appointed Managing Director, Jeff Greenslade, PGC embarked on a successful NZD$272 million rights issue to recapitalise Marac and create a registered bank.

Following completion of the capital raising PGC moved quickly to execute its strategy.

Proceeds from the capital raising were used to retire debt and recapitalise Marac, effectively creating two businesses. Marac became the "good bank" which ultimately became Heartland.

The Marac bad loan book was progressively recovered and the proceeds deployed into Torchlight.

PGC then merged Marac with CBS and Southern Cross and inspecied its 216 million shares in what is now Heartland Bank. PGC shareholders who have retained their Heartland Bank shares have enjoyed dividends and capital growth.

Following the in-specie of Heartland, PGC was left with an NTA of approximately NZD$100 million and a diverse asset mix – a start-up distressed asset manager together with bad loans from Marac and a struggling trustee company. PGC also held shares in EPIC, Heartland and PGW, but it also still had substantive debt that needed to be retired.

After divesting liquid securities to repay bank debt, PGC advised in August 2012 it would divest non- core assets. Proceeds from real estate and other residual assets would be reinvested in the growth of Torchlight.
The primary non-core asset remaining is the residual receivable from the sale of Perpetual Trust Limited.

The Board remains confident that the long-term plan is on track and continues to focus on executing against this strategy.

There is no doubt this style of value investing requires patience that is not generally the focus of other listed companies. We have, however been consistent in the explanation of this to shareholders and other investors to ensure they are not misled into believing there may be early value and liquidity opportunities.

Time and a focussed implementation strategy is required to ensure that value creation is optimised and not compromised by short term value destructive decisions.

During the year London based Michelle Smith was appointed to the board and we thank her for her valuable contribution to date.
I will now hand over to the Managing Director, George Kerr to comment on the strategy and where the long-term value for patient investors lies.

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