Pyne Gould Corporation

NZX ANNOUNCEMENT

3 November 2014

PGC Annual Report - NPAT $26.6m to June 30, 2014

Pyne Gould Corporation (PGC) has today released its annual report and financial statements for the year to June 30th 2014. The full report is attached to this release and is available on the PGC website.

MANAGING DIRECTOR'S REPORT

PGC has recorded an audited Net Profit After Tax (NPAT) of $26.6m (16.6 cents per share) in the year to June 30, 2014. This compares to $44.4m (20.5 cents per share) in the previous financial year.

The result is ahead of previous NPAT guidance, however it is consistent at a Net Tangible Assets (NTA) level. This is due to non-cash accounting adjustments, in particular the foreign exchange translation of foreign associates and subsidiaries. The net outcome was a 14% gain in NTA from 64 cents per share ($137m) to 73 cents per share ($153m).

As noted by the Chairman, the audit of RCL is not yet complete, which in turn has delayed the completion of the Torchlight Fund audit. Therefore, PwC has advised that it will issue a qualified audit opinion. The qualification is specific to the completion of the Torchlight Fund audit. Once the audit of RCL has been completed, this will allow the completion of the Torchlight Fund audit. The impact of those results - if any - on PGC's balance sheet will be released to the market.

Commentary

PGC's focus over the year to June 30, 2014 was to further simplify the group by selling non-core assets and reinvesting in the core business in Australia and the United Kingdom.

The combination of a profitable core fund management business and substantial realised and unrealised gains delivered NPAT of $26.6m. PGC's Group NPAT results were boosted substantially by the sale of Perpetual, the revaluation of Equity Partners Infrastructure Company No.1 Limited (EPIC), and reduced by the impact of legal and other costs associated with transactions, regulatory compliance and migration.

The balance sheet continues to strengthen and simplify. The 14% gain in NTA per share to 73 cents ($153m) follows a 48% gain in the previous financial year. At June 30, PGC held total assets of $158.2m, total liabilities of $5.9m and a net position of $152.3m. PGC has no bank debt. Current assets are $42.2m ($42.1m last year), with $5.9m current liabilities ($14.1m last year), giving net current assets of $36.3m (up from $29.3m last year). PGC held long-term assets of $116.0m and no long-term liabilities.

Consistent with our previously announced strategy, PGC continued to increase its cornerstone holding in Torchlight Fund LP, and as of June 30, 2014, held $52.3m of Limited Partnership interests and $33.7m of co-investments.

Over the course of the financial year, Torchlight Fund LP acquired ownership of almost 100% of the assets of residential land investor and developer Residential Communities Limited (RCL). Melbourne-based RCL holds a land bank of about 6,000 sites on a consolidated basis spread across 17 projects, and develops and sells approximately 10% of these in any single year.

Torchlight Fund LP is also the cornerstone shareholder of ASX-listed Lantern Hotel Group. Lantern is a major Sydney-based freehold hotel group with NTA of more than AUD100m. Torchlight supports Lantern's strategy of creating long-term value by acquiring and operating freehold pubs.

Torchlight Fund LP's other assets include an 11% stake in United Kingdom newspaper group Local World. This was acquired in late 2012 for AUD12m (or GBP7.5m) and since then the UK economy, the newspaper sector and pound sterling have recovered strongly, leading to a positive outlook for the investment. Local World is creating value through both cost cutting and growth in digital advertising.

PGC, at balance date, held approximately 27% of EPIC. EPIC owns around 17% of Moto, the largest motorway service area owner and operator in the UK. PGC announced on October 22, 2014 it had sold its entire 41.89 million shares in EPIC for GBP0.30 per share or GBP12.6m. This is approximately equivalent to 60 cents a share or NZD25.4m. The price of 60 cents is ahead of PGC's carrying value and the gain on sale of $9.4m is reflected in the results to June 30, 2014. Following the recent takeover of EPIC by United Kingdom interests, PGC no longer has the opportunity to control EPIC and, therefore, made a pragmatic decision to sell its stake to EPIC Investor LLP.

PGC also agreed a settlement deed with EPIC to create a clean break between the companies. The key terms of the Deed are that PGC has been repaid the GBP525,000 advance previously made to EPIC, and EPIC has waived its claim for NZD2.6m. In addition, PGC has paid NZD380,000 to EPIC, which is the amount PGC had previously accrued for legal costs in litigation.

London Listing

Over the course of the year, PGC completed the migration from New Zealand to Guernsey. This was an important step as it reflected an appropriate jurisdiction to prepare for a listing on the London Stock Exchange. PGC is now reviewing its timetable for listing in London. It is currently the intention to prepare for a first quarter 2015 listing in London. To this end, PGC have completed the transition of the group's accountants from New Zealand to Guernsey and it is intended the 2015 accounts are to be prepared in Sterling. The first Sterling accounts are planned to be as at December 31, 2014. These consolidated accounts will bring together the accounts of PGC and Torchlight Fund LP and where appropriate, the underlying subsidiaries, such as RCL.

Share Buybacks

The group bought back about 4% of the shares on issue over the course of the year. This was executed at a cost of $3.85m and PGC believes it is a rational strategy to acquire shares when they trade at a discount to NTA. Since migration to Guernsey, PGC has announced it will continue to buy back shares with a current target of a little over 30 million shares, or 15% of the stock on issue.

Final Comment

With this simplification process nearing completion, it is easier to understand how PGC has evolved after five years of transformation. With the exception of Local World, the principal investments are, at their core, large and valuable real estate businesses. Each has a strong real estate-based business model and a high quality management team.

In Australia, Torchlight's RCL has a significant land bank that is being continuously developed, sold and restocked. The investment — made via distressed debt, consolidated and converted into equity ownership — has become a material engine for free cash flow.

Similarly, the cornerstone shareholding in Lantern Hotel Group was built up in distressed market conditions and now has strong earnings prospects from a large freehold pub portfolio nearing the end of a major refurbishment cycle.

In the UK and Europe, we intend to reinvest all or part of the proceeds from the exit of EPIC, which was simply a shareholder in a large operating real estate business (Moto), into further operating real estate investments.

PGC is ahead of its restructuring objectives and is confident in both the financial strength and strategic direction of the company. As a consequence, PGC is considering the restoration of a policy of regular dividend payments within the next year. Our philosophy on dividends will be to pay out up to 50% of consolidated sustainable NPAT. Where we own less than 100% of a business we are unlikely to include its profits in calculating the sustainable NPAT. This means that each business will have access to retained earnings to grow and strengthen, with cash flow returned to shareholders in a transparent manner.

George Kerr
Managing Director