Pyne Gould Corporation

NZX ANNOUNCEMENT

30 September 2016

PGC Annual Report to 30 June 2016

Pyne Gould Corporation ("PGC") has today released its annual report and financial statements for the year to 30 June 2016. The full report is attached to this release and is available on the PGC website.

DIRECTOR'S REPORT

PGC's financial results for the 2016 fiscal year saw Net Tangible Assets (NTA) end at £54.2 million (down from £55.2 million last year) or NZD102.5 million (NZD128.4 million last year). On a per share basis this was down in GBP terms from 26.61p per share at 30 June 2015 to 26.11p per share at 30 June 2016 (in NZD terms 61.90 cents per share to 49.40 cents per share).

The NTA impact was predominantly due to the negative impact that accepting Torchlight Fund LP Limited ("TFLP") Partnership interests in exchange for the Residential Communities Limited ("RCL") Participations and satisfaction of loan amounts owing by TFLP had on the balance sheet. This is reflected in the increase in Non-controlling interests from £39.7m to £47.2m.

We remain confident in our core long term strategy of patiently executing the exit and realisation of non-core assets and building a sustainable long term business. As we have previously outlined, the commitment to the growth of TFLP is central to this strategy and is expected to deliver significant long term value to our shareholders.

Variance against preliminary full year announcement

The material variances from the preliminary full year announcement predominantly related to a change in accounting treatment for listed equity investments. Consistent with prior reporting periods the quoted price was not considered to be reflective of the appropriate basis for determining fair value of the investment.

Following further discussions and deliberation with Grant Thornton, the Directors concluded that an active trading market exists in the current year as there were sufficient volumes traded at levels that would meet the definition of an active market in accordance with NZ IFRS 13. As a result the Company adopted the traded market price as at 30 June 2016.

The variance between the preliminary full year announcement and these consolidated financial statements is a decrease of GBP3.0 million in NTA from £104.4 million to £101.4 million, before accounting for Non-controlling interests, at 30 June 2016. Losses for the financial year increased from £0.007 million to £2.556 million for the year ended 30 June 2016.

Long Term Focus

Our long term focus remains unchanged, as is the patience and discipline required to successfully execute this strategy.

The near term focus is on finalising the successful exit of the remaining non-core assets, including the realisation of the outstanding receivable from the sale of Perpetual Trust Limited ("PTL").

We recently announced that PGC and Bath Street Capital ("BSC") have agreed to the immediate, and unconditional, discontinuance of their respective High Court claims, without costs, concerning PGC's demand for payment of further consideration due to PGC from its sale of PTL to BSC in January 2014. BSC is currently proceeding towards a float of Complectus, which owns PTL. The agreement means court action has been withdrawn, and the parties are in the process of finalising the terms of a settlement. Once those terms have been finalised, a further announcement will be made.

Operating Performance

At an operating level PGC delivered a Loss after tax of £2.556 million for the 2016 financial year. This compares with a Loss after tax of £6.789 million for the same period last year. After allowing for non-cash items, Total Comprehensive Income for the 2016 financial year was £6.464 million. This compares with a Total Comprehensive Loss of £22.216 million for the 2015 financial year.

The result was dominated by non-cash movements in foreign currency reserves. In the 2016 financial year, PGC recorded a £9.158 million unrealised gain from the foreign exchange translation of foreign associates and subsidiaries (compared with a £15.028 million unrealised loss from foreign exchange translations for the 2015 financial year).

At 30 June 2016, PGC held a deficiency in Net Current Assets of £3.736 million (down from £30.609 million last year).

Deterioration in net current assets is due to debt within an RCL subsidiary of the Group maturing within the next 12 months and shifting to a current liability. Subsequent to balance date the RCL subsidiary received an offer from a third party lender to extend the facilities for a further term of 3 years, although negotiation of final terms is still underway. This offer includes additional acquisition funding to support restocking of the Australian portfolio.

Adjusting for the timing difference for extension of this debt, current assets are £38.462 million.

Total Group assets held of £152.172 million with total equity of £101.404 million (up from £94.940 million in the prior financial year).

After allowing for non-controlling interests of £47.233 million (up from £39.741 million in the prior year), net equity attributable to PGC was £54.171 million (down from £55.199 million in the prior year). As previously outlined, this deterioration was due to the impact of the company accepting TFLP partnership interests for its RCL participations and as part satisfaction for loans owing by TFLP.

Russell Naylor
Director

Pyne Gould Corporation

MANAGING DIRECTOR'S REPORT

PGC remains focused on patiently executing on its long-term strategy of exiting non-core assets and building a long term business from distressed assets. The exit of non-core assets is largely complete. The material residual receivable arose from the exit from Perpetual Trust Limited. This receivable has been independently valued at NZ$20.88 million.

Torchlight Fund LP

The core strategy of commitment to the growth of TFLP is expected to deliver long-term value from its two principal investments now that we have exited Local World; ASX-listed Lantern Hotel Group and Residential Communities Limited.

We have discussed previously the exit of Local World in late 2015 at over four times the purchase price. Cash consideration from the sale was repatriated from GBP into Australian dollars in TFLP at the time. Since then, due to Brexit, the Australian dollar has risen approximately 20 percent against the pound, from £0.47 to £0.56 by 30 June 2016.

Lantern Hotel Group

TFLP is the largest shareholder in Lantern Hotel Group. Lantern has a valuable portfolio of freehold gaming pubs in Australia. These pubs require time and expertise to unlock full potential.

For a period, Torchlight was the largest shareholder and dominated Lantern's board. Our preferred approach was a long-term one. As a result of changes at the board level, however, another strategy is now being implemented. While we maintain the Torchlight-led approach would have delivered the highest gains over time to shareholders, the current Lantern board is making progress towards achieving positive results for its shareholders. This was demonstrated over the past year with a cash distribution and unrealised gains over the year.

RCL

The largest investment of TFLP is RCL. This is very long term in nature and value is only realised as blocks of land are converted to actual cash sales over time. RCL is continuing to unlock value in the underlying real estate portfolio.

The most significant event during the course of the past financial year has been the positive outcome in progressing a plan change at Jacks Point in Queenstown. The first stage of this project was recently released to the market with all 100 sections selling in line with list prices on the day of release. The near term focus within RCL remains on continuing to progress this project.

The near term focus within RCL remains on continuing to progress this project and optimize planning outcomes from existing Australian projects. RCL also has a number of opportunities to restock the Australian portfolio and expects to execute one or more of these over the next 12 months.

Litigation

PGC and subsidiaries have been involved with a number of large and complex litigations over the course of the financial year. This is an unwelcome, but necessary, requirement of defending the balance sheet of PGC. We devote considerable resources to this part of the business and fully expect our position to be validated by the courts in all cases.

A small number of limited partners are seeking early exit from the Torchlight Fund partnership and liquidity for their investment. They are petitioning to have the Fund wound up prior to the fund termination date. Torchlight's general partner believes this is an ill-considered and meritless action which has no prospect of success.

As was outlined in the Director's Report, the legal actions concerning PGC and Bath Street Capital over the sale of Perpetual Trust Ltd has been discontinued. The parties are in the process of finalising the terms of a settlement. Once those terms have been finalised, a further announcement will be made.

Torchlight Fund No.1 LP ("Torchlight"), an associate of PGC, is awaiting the outcome of an appeal lodged by Wilaci, an entity connected with Australian businessman John Grill, contesting a High Court ruling over a case between the two entities. Torchlight considers that the High Court's decision was correct and in accordance with long-established legal principles, and that the appeal is without merit.

We will only comment in detail on proceedings as the results are made available.

PGC Board

The past year saw some changes at the PGC board level. Long-time director and chairman Bryan Mogridge stood down. Mr Mogridge made a significant contribution to the company as a director and then chairman. He was part of the difficult restructuring period beginning in 2009, which saw PGC rescued through a recapitalisation and led to the formation of the Heartland Bank and the Torchlight Group. His contribution was notable.

His position as an independent Director was taken by Paul Dudley. Paul was appointed to the Board in May 2016. Based in London, Paul is a co-founder of HD Capital Partners Limited, a FCA regulated corporate broking and advisory business to growth companies and management teams. HD Capital Partners is a Member Firm of the London Stock Exchange. He is also a Chartered Accountant.

Final comment

Having been through a period of restructuring, PGC is now evolving and transforming into a venture with a very positive outlook ahead for our resolute shareholders. We still have challenges ahead but we have made good progress on a number of fronts over the past year and is well poised to deliver value to shareholders over the coming years as our long term investment strategy approaches maturity.

As our shareholders understand, our style of value investing requires patience in order to reap the rewards. We are a long term investor and, in that, we differ from the focus of most listed companies. We have, however, been consistent in the explanation of this so that shareholders and other investors will not be misled into believing there may be early value and liquidity opportunities.

Essentially, we buy quality assets when their value is low and realise them when the time is right and value is restored, usually at a considerable premium. PGC's Financial Position is well placed to continue this path with a focused implementation strategy.

George Kerr
Managing Director

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