Pyne Gould Corporation

NZX ANNOUNCEMENT

28 September 2018

PGC Annual Report to 30 June 2018

Pyne Gould Corporation ("PGC") has today released its annual report and financial statements for the year to 30 June 2018. The full report is attached to this release and is available on the PGC website.

DIRECTOR'S REPORT

Pyne Gould Corporation Limited's ("PGC" or "the Company") recorded a Net Profit attributable to security holders of GBP 8.94 million for the year to 30 June 2018 (compared with a Net Loss of GBP 19.74 million for the year to 30 June 2017).

As a result Net Tangible Assets ("NTA") attributable to security holders increased to £41.76 million (up from £36.08 million last year) or NZD81.48 million (NZD63.83 million last year).

On a per share basis this was 15.7% higher, rising from 17.39 pence per share to 20.13 pence per share (after allowing for non-controlling interests and other comprehensive income).

Variance against Preliminary Full Year Announcement

The variance between the preliminary full year announcement and these consolidated financial statements is an increase of £0.7 million in NTA (before adjustment for non-controlling interests ("NCI")) from £73.5 million to £74.2 million at 30 June 2018. Consolidated Group losses for the financial year decreased from £6.4 million to £5.7 million for the year ended 30 June 2018.

Long-Term Focus

The long-term strategy of exiting non-core assets and building a sustainable long-term business from distressed assets remains unchanged.

The near-term focus is on finalising the successful exit of our remaining non-core assets, including the realisation of the outstanding receivable from the sale of Perpetual Trust Limited ("PTL"). This, in our view, remains recoverable. We had hoped that litigation could be avoided, but this has not been possible.

On 18 September 2018, PGC announced that it has recommenced High Court proceedings against Bath Street Capital Ltd ("BSC") and its director, Andrew Barnes, over the consideration payable to PGC from the sale of PTL in 2013.

PGC has lodged proceedings in the Auckland High Court against BSC and Mr Barnes seeking damages of not less than NZD22 million, together with interest and costs. The claim concerns the sale in 2013 by PGC to BSC (then called Coulthard Barnes Capital Ltd) of PGC's shareholding in PTL. The amount of the claim represents unpaid consideration in respect of carry rights that were vested in PGC.

Consistent with our approach we will only comment on this as outcomes occur.

This follows the conclusion of the major litigation in the Cayman Islands involving PGC's partially-owned subsidiary, Torchlight Fund LP ("TFLP"), and Aurora Funds Management and two government agencies - Crown Asset Management Limited and the Accident Compensation Corporation (the "Petitioners").

The impact on PGC of the settlement is:

- PGC retains 100% ownership of Torchlight GP Limited (TFLP's General Partner);
- PGC's direct limited partner interests in TFLP have increased from 44.2% to 70.3% as at 10 July 2018 without PGC investing additional capital. All other Limited Partners, with the exception of those involved in the litigation, likewise see a pro rata increase in their interests without investing additional capital. The change in limited partnership interests occurred through the Petitioners agreeing to immediately redeem their limited partnership interests. The consideration paid by TFLP is a fixed redemption payment of AUD25.5 million, which Torchlight Fund has 30 months to pay from the net proceeds of sale from certain New Zealand residential property sales by TFLP subsidiaries over that period; and
- The net outcome of the litigation is a material increase in NTA for PGC, as the redemption payment of AUD25.5 million is expected to be substantially below the book value for the Petitioners' limited partnership interests.

Operating Performance

At an operating level PGC delivered a Net Profit attributable to security holders of £8.94 million (compared to a Loss of GBP 19.74 million for the same period last year.

On a consolidated basis (before allowing for non-controlling interests), the result for the 2018 financial year was a loss after tax of £5.66 million. This compares with a loss after tax of £20.93 million for the same period last year.

After allowing for non-cash items, the consolidated Total Comprehensive Loss for the 2018 financial year was £11.26 million. This compares with a consolidated Total Comprehensive Loss of £15.92 million for the 2017 financial year.

Following adjustment for non-controlling interests, the Total Comprehensive Income attributable to PGC shareholders was £5.68 million (compared to a Total Comprehensive Loss of £18.09 million for the same period last year).

The result was dominated by outcomes flowing from the settlement of the Wilaci litigation and consequent reversal of the Wilaci litigation expense, ongoing costs associated with the Cayman Litigation within TFLP, and unfavourable non-cash movements in foreign currency translation.

At 30 June 2018, PGC held Net Current Assets of £65.87 million (up from £51.67 million last year). The improvement in net current assets is due to settlement of the Wilaci litigation claim. Cash cost associated with this was partially offset by a lift in inventories resulting in an overall improvement.

Total Group assets held were £139.15 million with total equity of £74.22 million (down from £85.48 million in the prior financial year).

After allowing for non-controlling interests of £32.46 million (down from £49.41 million in the prior year), net equity attributable to security holders rose to £41.76 million (up from £36.08 million).

Consistent with our previous advice, we remain committed to creating value within TFLP, which is central to our strategy of building a long-term sustainable business from distressed assets. This, together with focusing on optimising value from the realisation of non-core assets, is expected to deliver long-term value to our shareholders.

NZ/Guernsey Listing

In November 2013, PGC announced its intention to migrate its jurisdiction of incorporation to Guernsey, in preparation for a listing on the London Stock Exchange in 2014. PGC was subsequently re-domiciled to Guernsey in 2014. PGC has previously stated its intention to keep its NZX listing under review.

The Board has given this matter additional focus in recent months, following the Guernsey Committee for Economic Development's decision to decline to extend the waiver allowing Grant Thornton NZ to act as the Company's statutory auditor.

After considering a wide range of options, the Board considers it to be in shareholders' best interest to pursue a listing on The International Stock Exchange (TISE) and a de-listing from the NZX. TISE is headquartered in Guernsey. PGC is domiciled in Guernsey and outsourced administration service providers are also Guernsey-based.

TISE is a recognised stock exchange by both ASX and LSE. TISE hosts more than 2,000 listed securities and has a market capitalisation of more than £300 billion. The Board considers that TISE will provide a more liquid market for PGC's shares and access to a wider pool of potential investors. This will make it easier for shareholders to sell shares.

We will provide additional updates on this as we progress this initiative.

Share Buyback

Capital management remains an ongoing focus for the Board. PGC has no debt and generates surplus capital from both its core business and from divestment of non-core assets. It is therefore in a position to consider returning surplus capital to shareholders. The mechanism for returning capital will be reviewed on a case by case basis but is likely to be by on- or off-market share buybacks. On-market share buybacks make economic sense for PGC as shares trade at a discount to NAV and buying them back from time to time is consistent with unlocking value. Off-market buybacks are likely to be utilised for larger returns of capital events.

Russell Naylor
Director

MANAGING DIRECTOR'S REPORT

Overall, it has been a very satisfactory year for PGC.

While the history of PGC dates back to 1887, long-term shareholders will be well aware the Company was fundamentally restructured as a result of the Global Financial Crisis ("GFC"). Out of the crisis, PGC created two substantial businesses, Heartland and Torchlight.

Heartland was in-specied to shareholders in 2011 and became Heartland Bank. It is pleasing to see Heartland Bank proving itself to be a solid performer - and immensely more secure than its predecessor Marac, which was on the cusp of complete meltdown in 2008.

PGC focused on Torchlight

Torchlight's role was to make counter-cyclical investments at a time of low liquidity in the banking and investment sectors. We said then that the prevailing investment climate provides considerable opportunity for investors with access to capital and the focus and skill-set to deploy this capital. In the aftermath of the GFC, we said its focus will be on situations where banking capital was restricted, and which present significant economic opportunities for investors.

Torchlight is set to deliver excellent long-term returns to PGC and its Limited Partners from patiently executing our strategy of investing in distressed assets.

Torchlight Fund No. 1 LP generated a return of over 15.2% per annum over its 3 year life. Its most significant investment was a super senior debt position in South Canterbury Finance, which generated a return of over 26% per annum for the period it was held.

The successor fund, Cayman-based Torchlight Fund LP ("TFLP") is on track for comparable returns as it nears maturity. It is notable that this financial success has been achieved with significant headwinds, in particular the hijacking of its investment strategy with Lantern and the significant distraction (both management time and expense) of the Cayman Petition.

Each of TFLP's material investments, Local World, Lantern and RCL have been highly successful.

As we have previously reported, the Local World investment was extremely profitable, executed very swiftly and returned over 5x money and an 82% internal rate of return. The fund's liquor and gaming focus came via a significant stake in the Lantern Hotel Group, which returned the fund over 2.5x initial investment. Lantern held a portfolio of pubs across Sydney and New South Wales. For a period, TFLP was the largest shareholder in Lantern and dominated Lantern's board. Our preferred approach was, as always, a long-term one. As a result of changes at the board level, however, another strategy was implemented by the new management, which resulted in Lantern divesting all of its assets.

Notwithstanding the hijacking of the Lantern investment strategy (disappointingly enabled by a number of TFLP's own Limited Partners) this has also been a successful investment for the Fund. While we maintain the TFLP-led approach would have delivered significantly better long-run returns to shareholders, returns from the sales of assets have still resulted in a positive investment outcome.

RCL

The largest investment of TFLP is RCL, which independent valuers have assessed as being worth double TFLP's purchase price. As we have previously outlined, this investment is very long-term in nature and value is only realised as blocks of land are converted to cash sales over time.

We continue to see excellent progress from TFLP's investment in RCL, which has a series of residential land development projects located across Australia (Victoria, New South Wales and Queensland) and New Zealand (Queenstown). RCL's approach is to effectively manage its portfolio through the successful, timely and efficient re-zoning, construction, development and sale of each project.

Improving yield outcomes from existing projects and vertical integration to enable the introduction of internally-built product within the Australian portfolio are both expected to positively contribute to future growth (the first internally-produced built form project is currently being successfully marketed in Victoria).

A new 33 hectare site for residential development in Victoria was also successfully acquired (on favourable deferred consideration terms) during the course of the 2018 financial year, with a number of other opportunities currently under consideration to restock the Australian portfolio.

RCL's largest project is Hanley Farm at Jacks Point in Queenstown, where it is developing in excess of 1,700 sites. This project continues to progress well, with the first stage largely settling during the financial year.

An additional two stages comprising another 103 lots have recently been released and sold. The first five stages within this project are now fully sold with in excess of 250 pre-sales still to be delivered. RCL's near-term focus remains on continuing to progress site works and deliver pre-sold stock within this project.

Cayman Litigation

Most shareholders will be aware that in early July 2018 a settlement was reached in the Cayman Islands proceedings involving TFLP and Aurora Funds Management, Crown Asset Management Limited and the Accident Compensation Corporation (known as the Petitioners). In the settlement announcement, the Petitioners stated they believed that all parties' interests would have been better served had the proceedings not been commenced.

This litigation was, quite rightly given the results, a major focus for TFLP's General Partner, which is wholly owned by PGC. While the terms of the settlement were confidential, other than the details released in the announcement and outlined in the Directors' report, it was a clear vindication for the strategies and management of the General Partner. The result was excellent for PGC and its shareholders.

Subsequent to that settlement, the Court directed that it would proceed to publish its judgement in those proceedings. In explaining the Court's decision, the trial Judge said:

> *"Mr George Kerr and Mr Russell Naylor have been heavily criticised in the course of these proceedings and their professional standing has been consistently impugned. Not only are Mr. Kerr and Mr. Naylor entitled to know that they have been exonerated but the public is entitled to know it as well. This is a matter of human rights as much as it is a matter of commercial law, and in this context public access to justice is paramount."*

The Court also directed that, notwithstanding the submissions of the Petitioners, there was no reason for the judgement to be anonymised.

Since then, the Petitioners continued to contend that publication should not ensue. The trial Judge rejected the Petitioners' arguments at a recent hearing and handed down his judgement setting out his reasons on 13 September 2018. This decision confirmed that the judgement should be published and noted that *"the Court considers the merits of publication to be overwhelming".*

Having failed to prevent publication of the judgement before the trial Judge, the Petitioners have indicated that they may now attempt to appeal this decision. The trial Judge has indicated, however, that he sees no merit in any appeal:

> *"Finally, in light of the clear governing legal principles the Court considers that there are no arguable grounds of appeal and no realistic prospects of an appeal against this decision succeeding. Nonetheless, the Court shall grant a stay of 14 days before publication as requested by the Petitioners."*

The General Partner notes that the judgement was subsequently published on 25 September 2018 and we will make a separate announcement on this in due course.

Final Word

Overall, it has been a very satisfactory year for PGC. We are still only part way towards our goal of realising significant value from all the distressed assets acquired over the past decade, but considerable progress has been made. With TFLP having successfully defended the Cayman litigation and agreed settlement on terms favourable for the remaining limited partners, its full focus is now on maximising returns for its investors and PGC.

George Kerr
Managing Director

For more information, please contact: David Lewis +64 21 976 119