Pyne Gould Corporation

NZX Announcement
29th August 2012

Managing Director's Report

These are the first annual results since the completion of the AEP takeover on April 2nd 2012.

We also believe they are the first accounts in the 93 year history of PGC to be completed and managed by an external accounting firm. In April we replaced the internal accounting team at PGC with Deloitte.

PwC were appointed as auditor for the 30 June 2012 year-end. The audit will be completed during September with the final audited accounts dispatched to shareholders within the annual report on or about 30 September 2012. It is anticipated that the net loss and total equity in the audited financial statements will not vary materially from those presented today but reclassification between line items and changes between corresponding balances are possible. The accounts presented reflect a restatement of the 2011 financial position to appropriately recognise MARAC financial assets and liabilities of $121 million pursuant to the management agreement with Real Estate Credit Limited (RECL), which were previously not recorded. This restatement is to ensure compliance with the financial asset de-recognition rule, under NZIAS 39.

Year to June 30 2012

The year ending June 30 2012 produced an unaudited after tax loss for PGC of $47.7m.

The loss was non cash and largely attributed to $46.1m of non cash write downs, the largest being $20.7m from increased expected claims under the RECL management agreement for Marac assets and $25.4m from mark to market of securities, of which PGW represented $14.4m.

In addition Perpetual Group, after accruals for increased legal and restructuring costs made a loss of $5.1m.

At an operating level in its core business of Torchlight GP, PGC made a profit of $1.6m.

Core Business

Torchlight Investment Group owns 100% of Torchlight GP No 1 Limited. It also owns 17% of, Torchlight Fund No 1 LP.

Torchlight GP made an operating profit of $1.6m. This represents annual management fees from Torchlight Fund No. 1 LP.

Torchlight Fund No. 1 LP began in October 23rd 2009 and has raised and now invested $150m. While it made a high profile investment in South Canterbury Finance in late 2009, today its principal assets are in Australia. The largest position is a senior debt position Torchlight acquired and subsequently placed in receivership from a major international bank's 'bad book'. The underlying assets held as security represent many thousands of residential sites spread across Australia and New Zealand. Torchlight investments are very long term and like other contrarian investors, who are investing in residential development sites we believe we are buying real estate assets at the bottom of the market. We are investing at a fraction of peaks from 2006, and expect to realise a substantial premium to our cost, over the next decade.

This is the OPPOSITE from the finance companies – who helped create the peaks of 2006 and funded clients to acquire land banks at record prices.
Another major Torchlight Fund No 1. LP investment is a cornerstone investment in ASX listed IEF Real Estate Entertainment Group, which is one of the largest freehold pub owners in NSW.

Torchlight Fund No. 2 LP is incubated as a "house fund" and is 100% owned by PGC at this stage. It is focused on financial services. In Australia it has a cornerstone holding in well-regarded Australian asset manager and research house van Eyk. In New Zealand it has, since early 2010, focused on finishing Project New Tulip, the "third leg", of the finance company strategy

The finance company sector in New Zealand was one of the great tulip bubbles in market history. Over $4 bn of national savings was invested in finance companies. Most lost forever by mum and dad New Zealanders.

Behind this national tragedy there was a rational business model required. At a big picture level we saw this as an opportunity to execute a coherent strategy to protect and create value for shareholders and deliver a private sector solution to an industry that had failed its investing and borrowing clients.

The first leg of the strategy, which became Heartland, was to create a magnet for the "good books" under high quality management.

The second leg of the strategy, as part of, Torchlight Fund No 1 LP, was to create a magnet for "bad books" and acquire debt of distressed borrowers.

The third leg of the strategy, as part of, Torchlight Fund No 2 LP, was the logical next step, once all the assets had gone. This was Litigation Funding - holding to account those responsible at the time the losses were incurred. This is a "mid cycle" opportunity, but such was its importance that in early 2010 we began investing in litigation funding specialists.

Heartland was the clear winner in the "good bank" space. Torchlight 1 a significant winner in the "bad bank" space (both in New Zealand and Australia) and now operates internationally. We intend Torchlight 2 to be successful, in a quieter way, by working with very experienced litigation funders on both sides of the Tasman. Clearly, this is first a business opportunity. However, we believe it is important that investors, small and large, who lost by depositing with finance companies, access justice.

We place great reliance on expert litigation funders, to win back depositors' money from failed finance companies via carefully researched and resourced, sustained litigation.

EXIT OF NON-CORE ASSETS: UPDATE ON SALE OF PERPETUAL GROUP AND RETURN & REDEPLOYMENT OF CAPITAL CURRENTLY INVESTED IN NEW ZEALAND

On 30th July PGC announced that it was considering offers for Perpetual Group. That process is on-going.

Since balance date PGC has sold all its shares in HNZ and PGW, leaving the holding company with a totally debt free balance sheet and access to sufficient cash flow. PGC is still evaluating its domicile and will advise the market when it has completed its assessment.

We can say that as the majority of future PGC investment will now only be investing offshore or via the funds it manages, we intend to return to shareholders the proceeds of the sale of Perpetual in the form of a capital return.

Return on Equity

The Group, from its actions in the past financial year and events subsequent to balance date, is now in a position where it holds over $100m NTA at book value equivalent to 43 cents a share and the holding company is now debt free.

Our target is growth on book value over a 10-year period exceeding 15% per annum.

This cannot be achieved off inherited bad loans from Marac. They need to be patiently realised and reinvested in the core Torchlight business.

The challenge is that these assets are earning low returns relative to size and in the case of property create cash losses while these assets are turned to cash. The objective is for all assets to be in a single operating business of Torchlight and the cost streamlining for 2013 reflects that strategy. Torchlight, once scale is achieved, is expected to exceed 15% pa from a combination of asset returns from Limited Partner positions and management fees.

This can only be achieved by concentrating on a single profitable and highly focused business. Hence all of our activities are about exiting non-core assets and redeploying capital for greater long-term returns.

George Kerr
Managing Director

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

Preliminary unaudited results for announcement to the market

Reporting Period 12 months to 30 June 2012

Previous Reporting Period 12 months to 30 June 2011

	Amount $NZ'000	Percentage Change
Revenue from ordinary activities (including interest income)	30,167	39%
Profit (loss) from ordinary activities after tax attributable to security holders	(47,703)	66%
Net Profit (loss) attributable to security holders	(47,703)	66%

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 June 2012 $NZ'000	Audited 12 months to June 2011 $NZ'000	Percentage Change
Management fee and trustee fees revenue	26,666	20,707	29%
Other income	2,829	2,811	1%
Total fees and other income	**29,495**	**23,518**	
Interest income	2,065	1,661	24%
Interest expense	(1,393)	(3,517)	60%
Net interest income	**672**	**(1,856)**	N/A
Net operating income	**30,167**	**21,662**	39%
Selling and administration expenses	(35,623)	(33,598)	(6%)
Impairment of assets	(14,393)	(26,121)	45%
Write-down investment in PGW	(11,074)	(37,317)	70%
MARAC management agreement provision	(20,669)	(9,331)	(122%)
Operating profit /(loss)	**(51,592)**	**(84,705)**	
Share of equity accounted investees' profit / (loss)	(749)	(1,215)	38%
Profit /(loss) before tax from continuing operations	**(52,341)**	**(85,920)**	39%
Income tax	4,638	(10,662)	N/A
Profit /(loss) after tax from continuing operations	(47,703)	(96,582)	51%
Discontinued operations			
In-specie loss on distribution of BSHL shares	-	(52,929)	N/A
Profit from discontinued operations, before tax	-	12,490	N/A
Income tax expense	-	(4,087)	N/A
Profit / (loss) from discontinued operations	**-**	**(44,526)**	N/A
Profit/ (loss) for the year	**(47,703)**	**(141,108)**	66%
Earnings per share	(22 cents)	(13 cents)	

Statement of Financial Position

	Unaudited Current at 30/06/2012 $NZ'000	Restated Previous at 30/06/2011 $NZ'000
Cash	1,459	18,830
Receivables and prepayments	53,003	23,536
MARAC financial assets	94,000	* 121,000
Investment properties	25,339	87,266
Investments	91,599	39,655
Property, plant and equipment	3,216	3,907
Intangible assets	5,216	13,292
Total assets	**273,832**	**307,486**
Bank overdraft	9,209	2,200
Bank debt	21,512	10,700
MARAC financial liabilities	122,500	* 130,331
Other liabilities	23,102	19,212
Total liabilities	**176,323**	**162,443**
Share capital	358,114	358,040
Retained earnings and reserves	(260,605)	(212,997)
Total equity	**97,509**	**145,043**
Net tangible assets per share	**43 cents**	**60 cents**

* This reflects a restatement of the 2011 financial position to appropriately recognise MARAC financial assets and liabilities of $121 million pursuant to the RECL management agreement which were previously not recorded.

Statement of Movements in Equity

	Unaudited Current Ended 30/06/2012 $NZ'000	Audited Previous Ended 30/06/2011 $NZ'000
Equity at the beginning of the year	**145,043**	**466,621**
(Loss) for the year	(47,703)	(141,108)
Other comprehensive income	95	3,004
Transactions with owners	74	(183,474)
Equity at the end of the year	**97,509**	**145,043**

Statement of Cash Flows

	Unaudited Current Ended 30/06/2012 $NZ'000	Audited Previous Ended 30/06/2011 $NZ'000
Cash at the beginning of the year	**16,630**	**98,610**
Net cash (applied to) / from operating activities	(52)	16,950
Net cash (applied to) investing activities	(35,335)	(867)
Net cash from/ (to) financing activities	11,007	(98,063)
Total cash inflow/ (outflow) for the year	**(24,380)**	**(81,980)**
Cash at the end of the year	**(7,750)**	**16,630**

Details of associates:

Name	**% owned**
Van Eyk Research Pty Limited	38.2%
Equity Partners Infrastructure Company No.1 Limited	26.9%