

CREDIT RATING AND CAPITAL RAISING UPDATE

13 August 2009

Pyne Gould Corporation Limited (PGC) today announced that its subsidiary MARAC Finance Limited (MARAC) had been downgraded to a BB+ rating with negative watch following an annual review by international ratings agency Standard & Poor's.

PGC's chairman, Sam Maling, said the rating adjustment of MARAC by Standard & Poor's was both unexpected and disappointing. However, it was not all bad news.

Standard & Poor's noted in its report: "We retain our view that MARAC is one of the stronger finance companies in New Zealand, despite the company's recent asset-quality pressures. Other factors that remain supportive of the rating include MARAC's sound business profile, underpinned by its market position as one of the largest domestically owned finance companies in New Zealand. Also supporting the rating is MARAC's sound funding and liquidity positions, and its parent's financial flexibility as a public listed company."

Mr Maling said MARAC, like others and as highlighted in the Standard & Poor's report, was active in the property development financing sector, which has been particularly hard hit in recent times. Whilst representing less than 20% of MARAC's total book, property development financing has now ceased. Last month PGC announced an impairment of the MARAC property development loans of approximately \$65 million after tax. The final level of impairment will be confirmed as part of the 30 June year-end audit process, which is currently being completed.

"Steps have been being taken to strengthen MARAC's position. The recent appointment of Jeff Greenslade as CEO brings extensive banking experience which will be invaluable to MARAC."

At the operational level MARAC had tightened its credit process and refocused its operation on the core business that the company had been built on – plant and equipment, and vehicle financing, which continue to perform exceedingly well, Mr Maling said.

At the group level PGC has embarked on a range of structural initiatives that are designed to drive performance and deliver value to shareholders.

As advised last month, PGC intends undertaking a capital raising in support of its banking and asset management strategy as well as the creation of a new asset management company, Perpetual Asset Management. Perpetual Asset Management intends to develop a real estate credit fund, Torchlight Credit Fund, which will acquire the property development loans of MARAC that are subject to the impairment.

PGC will release full details of the capital raising as soon as practically possible. An announcement is expected to be made in mid September following the release of PGC's annual result on 28 August 2009.

"The Directors currently anticipate it is likely that all shareholders will have an opportunity to participate in the capital raising. George Kerr has reiterated to the PGC board his strong support for the capital raising. A number of other longstanding shareholders have also indicated their strong support in principle. PGC has mandated First NZ Capital as adviser in respect of any capital raising.

Where required under the NZSX Listing Rules, shareholders will have the opportunity to vote on key aspects of the proposal at a special general meeting to be held in early October.

The credit rating change provides MARAC's banking syndicate with the right to review MARAC's existing bank facilities. MARAC is in discussions with the banks regarding this and the overall capital and structural initiatives that intend to be taken.

PGC and MARAC CEO Jeff Greenslade said: "We know what we need to do to earn back the investment grade credit rating for MARAC and to ensure that it is not put in this position again.

"We are well advanced with a range of operational and structural changes to rectify our performance. Once the capital raising process is completed it should have a positive impact on the outlook and any future rating for MARAC."