

## Devine Limited – Transitional 2013 Annual General Meeting

### CEO and Managing Director's Address

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Thank you Peter, and I also extend my welcome today to everyone, and in particular welcome you to Hamilton Harbour, one of our projects that we are proud to have developed over the last few years.

Peter has outlined the financial results for the six month Transitional Reporting period, and I will now provide insight to the Company's response to that performance. As we have already highlighted, it was a disappointing result and one that needed decisive action.


I will provide an update on the trading performance of the business for the initial four (4) months of the Calendar Year 2014, update you on the activities we have undertaken in initiating the capital recycling strategy and reviewing the Group's broader business strategy, and provide an outlook for the balance of Calendar Year 2014.

### **TRADING PERFORMANCE**

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**Enquiry and conversion results provide solid basis for CY2014 result**

- Pipeline of CY14 Land Settlements Secured: 60%
- Land Sales (January to April): 275 allotments (\$55.3 million)
  
- Pipeline of CY14 Home Site Starts Secured: 70%
- Home Site Starts (January to April): 200 starts (\$36.6 million)
  
- Pipeline of CY14 Apartment Settlements Secured: 80%
- Apartment Sales (January to April): 87 apartments (\$48.0 million)



## TRADING PERFORMANCE

The Company's trading performance for the first four months of the year reflects a general uplift in property markets across Australia. We recorded strong enquiry for our home and land businesses across Queensland and Victoria which have subsequently transitioned into sales. The South Australian results have been impacted by a strong pull-forward of activity late in 2013 due to the cessation of that State's home construction grant. The positive from this bring forward is a healthy pipeline of home site starts for 2014 in South Australia.

As at the end of April, the Company had secured 60% of its land settlement target for 2014; with 70% of its home construction starts also secured.

Apartment sales have also delivered a strong performance with 80% of target settlements for the year also now secured.



The Company's Hamilton Harbour project has now sold 98% of all current apartment stock, with only 6 apartments still available for sale.



Our DoubleOne3 apartment project in Teneriffe has now reached nearly 90% sold, with settlements in this project commencing in June 2014, with the balance of the project expected to be sold and settled prior to year end.



A strong trading performance has also occurred following the initial release of the Company's new 157 apartment project, Mode in Newstead - here in Brisbane. We secured purchasers for more than 60 apartments, with a further 30 reservations in the current pipeline expected to convert to sales shortly, without formally commencing a public sales campaign.



Other trading highlights have included the release of the final stage of allotments at the Edenbrook Community in Victoria, the release of the new Cottage homes across all markets in January, and the launch of the new Evolution Home to the Victorian market in March this year.

However, some challenges still remain in selected markets, with uncertain job security impacting on consumer confidence, and some regional markets currently enduring cyclical lows. We are carefully monitoring these areas and continuing investment is based on appropriate levels of pre-sales before construction commitment is made.

<b>CAPITAL RECYCLING PLAN</b>		
<b>All transactions achieving prices at or above book value</b>		
Category	Sale Price	DVN Share
<b>Apartments</b>		
• Camelot Development Site (Brisbane CBD)		
• Turramurra Development Site (Sydney mid-north)		
<b>Commercial</b>		
• Hamilton Harbour Commercial (Brisbane North)		
<b>Communities</b>		
• Sandstone Lakes (Brisbane North)		
• Redbank Plains Englobo (Ipswich)		
<b>Total</b>	<b>\$110.0m</b>	<b>\$74.0m</b>

Since the end of 2013 the Company has initiated a capital recycling plan. This plan was devised to ensure the Company had ready access to capital to reduce debt and also to pursue higher margin opportunities and projects with shorter term earnings horizons.

In the six months since announcing the plan we have made significant progress, with all transactions achieving prices at or above book value.

In December last year we announced the sale of a Brisbane CBD development site – Camelot for \$18.75 million, with settlement occurring in March this year.

Further, the Company successfully negotiated the sale of an apartment project site at Turramurra in Sydney after having secured the relevant development approvals.

In April, the Hamilton Harbour joint venture settled the \$62 million sale of the project's KSD1 Commercial Building and Central Retail Buildings.

It was also pleasing to announce recently that the Company has contracted the sale of its remaining land holding in its Sandstone Lakes Community in Ningi near Bribie Island north of Brisbane. The sale at \$14million to a private Queensland developer has enabled the Company to achieve an accelerated exit from this long-term project.

We are continuing to work with other parties interested in some of the Company's other development assets and will continue to look to transact on these should they represent value to shareholders.

There also remains a continuing focus on accelerating the 'trade-out' of projects that have been impaired. It remains important that sales continue on these projects, and where possible improving margin outcomes.

The resultant impact of these activities is that the Company's gearing is expected to be in the range of 20% to 23% at June 2014.

On the other side of the capital recycling 'ledger' are the re-investment opportunities. We are currently at varying stages of investigation and negotiation on a number of opportunities that will be announced as they progress. This re-investment will underpin the future of the business, and on that note I would like to touch on the outcomes of a recent strategic review exercise.



## STRATEGIC REVIEW UPDATE



The Company has recently revisited its long-term growth strategy. The review examined short and long term growth prospects across all parts of our operations examining the relevance, future and potential of our communities, homes, apartments and construction businesses. In the context of the existing markets we presently operate in, changes in housing demographics, affordability and the evidential changes in the way people are choosing to live; the Group has established a clear plan for investment; divestment; growth and profitability into the future.



The strategic review identified a number of core competencies and strengths within the Devine business. It equally highlighted a number of challenges which have been and continue to be addressed.

The outcomes and focus for the Devine business will be:-

- a clear portfolio and capital management plan and focus;
- a faster, lighter capital management investment strategy;
- a continued focus on core eastern seaboard markets and key regional markets;
- a focus on land and housing capabilities that enable build out on smaller projects;

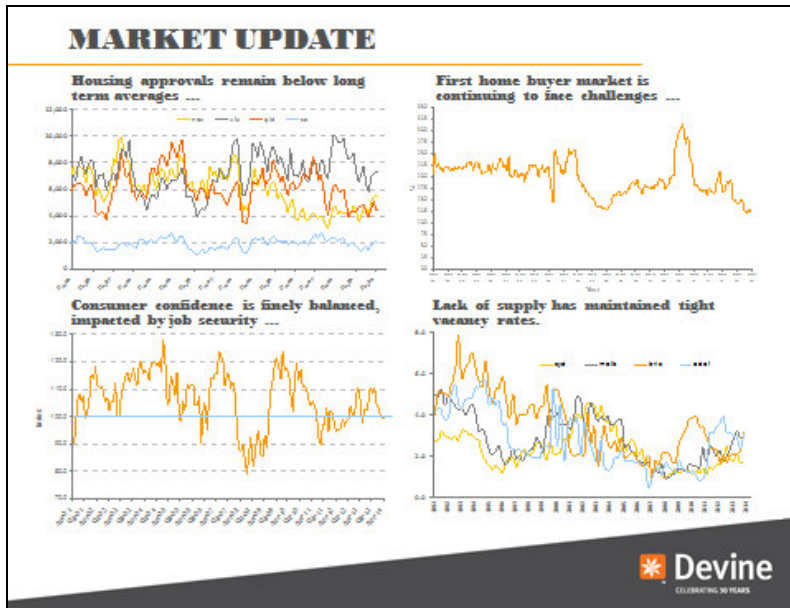


- investment in more apartment and mixed use projects of varying scales; and
- continued expansion of our construction business to service both Devine projects and projects for external clients.

This strategic review and its implementation will be a catalyst for improved outcomes in this Company.

Our divestment of long dated acquisitions that have failed to deliver appropriate returns, coupled with re-investment into new opportunities, will see a return to overall profitability this year.

## MARKET UPDATE



Turning now to the markets we operate in and trading conditions.

It has been well conveyed that the recovery in residential markets has begun, with the sector benefiting from low interest rates and an increasing appetite from the investment market. The first home buyer market remains clearly challenged, however further stimulus is needed to drive increased activity in this area of the market.

Consumer sentiment continues to be finely balanced between a level of pessimism and optimism; with the job security concerns continuing to weigh heavily in some locations.

That stated, we are of the view that the general property market remains undersupplied with an emerging swell of activity in some locations. Vacancy rates remain low across most capital cities as the supply of new homes and apartments has continued at diminished levels.

The price discounting we saw in the market last year has now arrested, and there are examples of solid price growth emerging as the demand for land and apartments returns.

We are expecting a steady and sustained improvement in the property markets over the foreseeable future.



## OUTLOOK AND EARNINGS UPDATE



**OUTLOOK AND SUMMARY**

**2014 is a year of recovery; positioning the business for a sustainable profit result.**

- Full year profit before tax forecast of \$7m - \$10m.
- The Company's immediate focus is applied to:
  - returning capital to the business for redeployment into opportunities with shorter return horizons;
  - focusing on our strength in servicing the residential investment market;
  - increasing our apartment development pipeline;
  - refining our housing operations to best service selected markets; and
  - securing further external business for our commercial construction business

 Devine  
CELEBRATING 30 YEARS

2014 will be a year of recovery for the Company. We are focused on returning the business to a position to deliver a sustainable profit result, this year and beyond.

While our trading volumes are strong, the focus is to accelerate the trade-through of the Company's impaired projects. This return of capital does not provide the profitability we would otherwise expect, and will dampen our profit outcomes as we trade out of low margin assets.

We have indicated that the Company will deliver a profit before tax of between \$7m to \$10m for the full year ending December 2014.

As I have mentioned; our strategy is immediately focused on:

- returning capital to the business for redeployment into higher margin opportunities with shorter return horizons;
- focusing on our strength in servicing the residential investment market through house and land packages;
- increasing our apartment development pipeline;
- refining our housing operations to best service selected markets only – including medium density opportunities; and
- securing further external business for our commercial construction business

I would like to conclude by assuring all shareholders that we remain committed to delivering improved outcomes and performance in this Company. The past six months has seen the Company adopt significant change, and we accept that it had to change and we will continue to evolve the business to pursue results, both we and all shareholders expect.

In closing I would like to acknowledge our retiring Directors, Rick Parris, Vyril Vella and Travis Young and thank them for their personal support over many years.

I would also like to acknowledge and thank the staff of Devine who continue to work tirelessly for the Company and its shareholders.

Thank you

David Keir  
Managing Director & CEO