



**ASX
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22 May 2018

CHAIRMAN'S ADDRESS TO SHAREHOLDERS

Attached, in accordance with listing Rule 3.13.3, is a copy of the speech to be delivered by Devine Chairman, David Robinson, at the company's Annual General Meeting today.

ENDS

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Introduction

Before we commence the formal part of the meeting, I would like to provide an overview of our position and update you on our performance during 2017.

At the AGM last year, I advised you of our progress on preserving Devine's value and stabilising the business for the medium to long term.

In 2017 we took further steps towards this aim including:

- Securing funding with ANZ;
- Completing the progressive wind down of the medium density and wholesale housing business;
- Actively progressing our operational objectives and our business planning for the next phase of our development; and
- Finalising a number of contractual and insurance claims.

Whilst it was pleasing to be able to continue to meet these objectives, my comments made in prior years remain true today also: with Devine's present situation, there is still a lot to do.

First, let's look at the progress in 2017.

Operational review of 2017

Our 2017 financial results comprised:

- Revenue from continuing operations of \$46.6 million,
- A loss from continuing operations before tax of \$27.5 million, and
- Debt of \$46.6 million.

Contributing to this result was our performance in Devine Constructions and the Communities business.

Devine Constructions

Devine Constructions completed building all of its current residential apartments, having handed over more than 733 apartments to our clients during 2016 and 2017.

These included:

- Westmark Milton for Walker Corporation;
- High Street Apartments for Serra Property Group;
- Vida Apartments for Pointcorp Developments;
- As well as completing construction of our own joint venture development, the Mode Apartments at Newstead in Queensland in May of last year.



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This enabled us to sell 152 of the 157 residential apartments as at today, as well as the management rights of project's leased premises. It also facilitated the repayment of the \$42 million construction funding facility specific to the project.

Communities

The Communities business achieved approximately 361 residential land sales and 209 residential land settlements during 2017.

At the Stonehill Community project, in Bacchus Marsh Victoria, we introduced new joint venture financing of all project facilities.

This allowed us to accelerate the construction of a number of stages of the project, to take advantage of the strong residential market conditions in greater Melbourne.

We sold 213 residential allotments and settled 31 residential allotments. And we achieved price growth, which improved returns.

We have released five new stages at the project, positioning us to deliver up to 250 residential allotments during 2018.

In Wallan, in Victoria, construction was the primary focus of the Newbridge Joint Venture project.

Stage 1 was finished during the year, enabling the completion and settlement of 59 residential allotments and three multi-dwelling sites.

The market demand and resultant sales activity at the project remains high and 90 new sales in Stages 3 and 4 were secured. Stages 5 and 6 are now in marketing phase, with these initiatives underpinning the next phase of construction.

In addition, the joint venture has sold the remaining englobo lot (equivalent to 450 sub-divided lots) which will enable the earlier completion of the project and the pay down of the land funding facility.

Like the Stonehill project, additional funding has been gained to accelerate the construction of the infrastructure parks and roads that are required to settle Stages 2, 3 and 4 during the current year.

In contrast to the housing market in Victoria, the regional markets in Gladstone and Townsville remained subdued.

These markets, and likewise our projects within them, have been dependent on the strength of the resources and infrastructure sectors.

While a number of significant projects have been mooted for both areas, none have materialised to date. As a result, sales rates were well below historic levels.



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In South Australia, Mawson Green at Meadows and Orleana Waters at Evanston Gardens continued to produce stable turnover, with sales rates in line with the current residential market in Adelaide.

With the completion of infrastructure works on Stage 9 at Mawson Green we commenced settlements on the project late last year, and we are progressing well.

Medium density and wholesale housing

As foreshadowed last year, we wound down the medium density and wholesale housing businesses between May 2016 and June 2017, with the last medium density housing contracts from these businesses completed and settled during the period, thus de-risking the company's operations.

Funding arrangements

Turning now to our funding arrangements.

In March this year, ANZ agreed to provide a new, two-year \$70 million facility, expiring on 29 March 2020.

Whilst this facility is secured by a guarantee provided by our majority shareholder, CIMIC Group, the successful extension of this funding was critically important to our ongoing business.

Importantly, the extension provides certainty for a full two years and the capacity to manage movements in our total debt during the two-year period.

In our annual report it was noted that the Group was reviewing its position in relation to the new AASB15 accounting standard. We have reassessed the impact on total receivables and applied the requirements of AASB 15 resulting in a further reduction of opening retained earnings of \$9 million to give a total of \$26million.

Focus for 2018

And this brings me to 2018 and our focus for the year ahead.

As you may have seen, this morning we announced the appointment of John Campbell as Chief Executive Officer and Executive Director effective from 9 July this year.

John has more than 27 years' experience in the construction and development sectors, including leading large scale residential and mixed-use developments.



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He joins us from a senior role within CIMIC Group's Leighton Properties, most recently responsible for delivering residential and mixed-use development projects in Queensland.

John will succeed Andrew Cooper, who will leave Devine in July to return to a role within the CIMIC Group. This is a natural CEO transition following Andrew's role in stabilising the business.

I want to thank Andrew for his contribution. He has succeeded in leading our business as we reduced our debt and cost base, secured longer-term funding, completed the wind-down of non-performing businesses and finalised a number of contractual claims.

Thank you, Andrew.

As Devine moves to its next phase, it is our view that John has the expertise and experience to lead our operations. He has joined us recently and will transition into the role of CEO and Executive Director following a handover with Andrew. Andrew will depart in July and will continue to be available to the business, as required, during July and August.

As I mentioned at the outset, we have been making solid progress on finalising a number of contractual and insurance claims, and this will continue to be a priority this year.

We want to maximise Devine's working capital by pursuing our entitlements to funds which are owed to us.

A number of contractual and insurance claims in the construction business remain.

These are expected to result in either a commercial resolution during 2018 or, if a suitable commercial resolution cannot be concluded, the initiation of a full legal process by Devine.

Details of the claims, including the amounts and the debtors, are commercially sensitive.

As the outcomes may be negotiated or taken through a court process, we cannot be sure of the final position.

However, the amounts involved are significant and resolution of these matters will have a meaningful impact on our 2018 financial performance.

As we manage the business's cash flow needs for Devine Constructions outflows, and the reimbursement from the claims, debt has increased from last year.

Our debt levels are expected to return to a normalised level subject to the satisfactory resolution of these construction claims.

The Communities and land business also remains a key focus and we will continue to review opportunities in this area to capitalise on what is the inherent strength of the company.



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We will endeavour to do so by taking a low-capital intensive approach for future development opportunities, working in partnership with land owners.

Conclusion

Coming now to our future.

Market conditions

Market conditions in our various Communities and land markets are mixed.

The market in Melbourne, and its outer urban areas, is currently experiencing strong conditions, with good sales volume results and price growth.

This is positive for our Stonehill and Newbridge projects.

In Queensland, the markets for our Gladstone and Townsville projects, as mentioned before, remain somewhat challenging albeit Townsville has a number of planned infrastructure projects not dependent on mining and resources. These are expected to improve market sentiment and confidence in the land and housing market.

In South Australia, the new home market remained subdued last year, with dwelling approvals ending the year near flat.

However, recent surveys indicate an improved outlook for business conditions and growth.

Outlook

Given our more stable position, we are now better placed to execute our plans for the future.

This is principally in the Communities land development business where we can accelerate stages within our projects.

We continue to seek to position Devine for the purchase of new development sites, to supplement our pipeline but within the constraints of challenging financial markets for Devine.

We have a current pipeline of nearly 6,000 lots across our business that will be developed over time into future homes across our communities and apartments businesses.

We also continue to monitor the commercial opportunities for our land holdings and focus on keeping our costs down.

We will actively progress the development of the KSD2 site here in Hamilton, Queensland, which is held in joint venture. We propose to fast track a new commercial development and seek pre-commitments in order to facilitate a successful development, following on the heels of our other successful developments here in Hamilton.



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However, there is more to do to improve the company's position.

In the short term our financial outlook remains dependent on the successful resolution of the contractual and insurance claims within the Construction division.

We are pushing ahead to resolve these as quickly as possible to preserve shareholder value and maintain business liquidity.

Given this present position, it is not appropriate to provide guidance for our 2018 full year result.

We remain committed to working towards achieving a sustainable platform for the Communities, apartments and Devine Constructions businesses, and to maximise the value of the business.

I would like to thank you, our shareholders, for your support.

I would also like to thank our employees and acknowledge the time they dedicate to our company's success, away from their friends and families.

Thank you.

ENDS