



**ASX
ANNOUNCEMENT**



17 May 2017

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 move to the formal part of the meeting, I would like to provide an overview of our current position and update you on our performance during 2016.

At the AGM last year, I advised that a Strategic Review of Devine's operations was initiated early in 2016 by the Board and management.

The aim of the Review is to preserve shareholder value for the medium to long term.

We have made progress:

- We have secured funding with ANZ, reduced debt and met the cash flow needs of the business through asset sales.
- We have also made changes to the focus and cost base of our operations.

Reducing debt and a complete business refocus were essential steps.

Whilst we were able to meet these objectives, I reiterate my comments from last year's AGM – in Devine's present situation there is still a lot to do.

First, let's review our progress in 2016.

Operational review of 2016

Our 2016 financial results were in line with the guidance we provided.

They comprised:

- A profit after tax of \$1.3 million from discontinued operations which included our detached housing, medium density and wholesale housing businesses which have been closed or were in the final stages of being wound down;
- An overall loss after tax of \$37.9 million; and
- Importantly, reduced gearing at 31 December 2016 of 6.2%.

I want to focus on the three key parts of our business operations last year that contributed to this result notably Constructions, the Communities business and our program of asset sales.

Devine Constructions completed its external client workbook, handing over more than 570 apartments to our development clients.

These included:

- Westmark Milton for Walker Corporation;
- High Street Apartments for Serra Property Group; and
- Vida Apartments for Pointcorp Developments.



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In addition, there was continued construction on Mode apartments; a joint venture project with Daikyo Australia.

This 157-apartment project reached practical completion during 2017 and the first settlements are scheduled to commence next week.

The Communities business achieved approximately 450 residential land sales and 460 residential land settlements.

In addition, we completed all contracted housing commitments, which included 270 housing completions and settlements. This was an important step in de-risking the company's operations.

We subsequently entered the final phase of the housing business, being warranty and maintenance obligations.

We have now centralised the warranty and maintenance operations across Queensland, Victoria and South Australia, significantly increasing operational efficiency in this final phase of the housing business unit.

Overall through the strategic review process we have streamlined Devine Group's operations and made a proportionate reduction in our overheads and resourcing needs.

By applying disciplined cost control across the Group, we have generated a 50% reduction in 2017 annual overheads compared to 2015.

Asset sales

Turning now to asset sales.

I said last year that the Strategic Review would include a review of our assets to identify opportunities to improve liquidity, with sale proceeds to be used to provide working capital and reduce debt.

We did so in an orderly manner co-operating with our major lender, ANZ.

Before we made a decision to sell, each asset was assessed against the requirement to ensure the sustainability of the company and preserve value for all shareholders.

We achieved five asset sales, generating more than \$50 million in proceeds. These were:

- The sale of the Townsville Southbank Project to the Townsville Council;
- The sale of the Eden's Crossing communities project at Redbank Plains;
- The sale of the Tribune apartment project at South Brisbane; and
- The sale of JV interests in Woodforde in Adelaide and Pennyroyal in Victoria.



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Aside from Townsville, which was a negotiated outcome following a compulsory acquisition order, the sales were achieved at or close to book value.

The sales proceeds were used to reduce our debt level as well as helping us meet the necessary cash flow needs of the business – requirements which we have considerably reduced through a rigorous cost management program.

Funding arrangements

The asset sales assisted us to address our funding arrangements with ANZ.

The successful outcome of these negotiations was critically important to the ongoing viability of Devine.

We concluded the re-engagement and maintenance of the capital and financing programme, consisting of both the continuity of the ANZ Multi Option facility as well as specific financing for individual projects.

As announced in March 2017, ANZ has agreed to extend the expiry date of the Multi-Option Facility, and testing of the relevant covenants, by one year, to 31 March 2018.

This moves the company away from the multiple facility extensions experienced in 2016 and provides certainty for a full 12 months.

The ANZ facility also provides us with the capacity to manage movements in our total debt during the year.

Focus for 2017

That brings me to the focus for the balance of 2017.

Having reached practical completion on all four of our existing construction projects, our attention is now on maximising Devine's working capital as we pursue our entitlements to funds which are owed to us.

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 material and resolution of these matters will have a meaningful impact on our 2017 financial performance.

As we manage the business's cash flow needs to finalise the Devine Constructions outflows, and before we receive reimbursement from a number of insurance and legal claims, we expect that debt will be higher at the half year. Debt levels are expected to return to a normalised level by year end subject to the satisfactory resolution of our construction claims.



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Resolving the claims is the absolute priority of the management team.

We are taking a proactive approach to claim documentation and client negotiations and management is systematically working through all that is required to achieve a positive outcome.

The claims have either been submitted or are in final preparation and will be executed over the next months, with outcomes to be achieved during the next six to 18 months.

The Board is also focused on resolving the claims, and is closely monitoring the situation.

Whilst the resolution of outstanding claims will be the main focus in 2017, we will also be continuing existing projects in the Communities business.

We will continue to review opportunities in the Communities business to capitalise on the inherent strength of the company.

We will do so by taking a low-capital intensive approach, working in partnership with land owners.

Conclusion

Coming now to our future.

Devine has a pipeline of more than 6,000 lots which will become future dwellings across our communities and apartments businesses.

We are progressing land opportunities and joint venture relationships that will assist us to deliver existing projects.

We continue to focus on stabilising Devine Constructions and, as I noted earlier, we are pushing ahead to resolve all possible claims.

Given this present position, it is not appropriate to provide guidance for our 2017 full year result.

I hope today I have provided a useful report on what we have achieved to date, and the further steps we are taking to improve the company's longer-term position.

We remain committed to providing a sustainable platform and preserving the value of the Devine business, and we have made progress towards this aim. However, there is more to do.

I would like to thank you, our shareholders, for your support, and also thank our employees for their continued diligence and focus.

ENDS