



Directors' Comments

Year Ended 30 June 2012

23 August 2012

The Directors of Devine Limited (Devine) announce the following results for the year ended 30 June 2012 (FY12):

- Total statutory revenue from operations of \$314 million. In addition, revenue of \$99 million representing Devine's share of the settlement of apartments at the Hamilton Harbour joint venture project is not included in the statutory revenue;
- An underlying operating profit after tax and before impairments of \$11.1 million;
- A statutory net loss after tax of \$12.9 million (includes impairments of \$24.0 million after tax);
- Positive operating cash flow surplus of \$27.5 million;
- A strong balance sheet, with gearing of 28% (net debt / total assets less cash) and core debt facilities extended out to October 2014;
- Declaration of a final dividend of 2.0 cents per share fully franked, bringing the total FY12 dividend to 4.0 cents per share fully franked

Given the difficult market conditions and results for the Company, remuneration for the senior executive team for the 2012/13 year has been frozen at FY12 levels and no bonuses in relation to FY12 will be paid to senior executives.

Market conditions and operating highlights

FY12 was another challenging year for the property development and housing sectors with weak demand, falling property prices in most markets, and low consumer confidence. Contributing to these macro settings were the uncertain economic and employment conditions in Australia and ongoing concerns about the economic conditions overseas. As noted in the report to shareholders for the December 2011 half-year, banks and valuers have remained cautious and this has put added pressure on margins and on securing finance for customers.

These external market factors are reflected in Devine's FY12 trading figures for housing, land and apartments summarised below:

- 754 residential lots settled;
- 486 housing starts and
- 425 apartments settled from the first two residential towers at Hamilton Harbour

Whilst trading conditions were difficult over the past 12 months, Devine had a number of operational achievements that reflected the Company's focused strategy and long term strength:

- Devine Constructions commenced construction on the first commercial building at Hamilton Harbour in May 2012 following the award of a \$25.6 million contract for this stage of the mixed-use development and is scheduled to complete construction of the third residential tower in November 2012;
- Securing development approval for a \$1.4 billion master-planned residential community in Gladstone. The project is forecast to house approximately 7,500 people in up to 3,000 dwellings over the next 12 to 15 years. Marketing commenced in February 2012 with the first two stages being sold out within 2 months. This project will contribute profits in FY13;
- Strategy of securing "wholesale build" contracts to build houses and retirement units for corporate clients gained momentum with a total of 490 houses and retirement units being contracted over the past 12 months with these to be delivered over the next 1-2 years;
- Marketing commenced in March 2012 on the Company's 111 apartment development at Teneriffe, an inner suburb of Brisbane. Sales to date have been secured on approximately 40% of all apartments and construction is programmed to commence in early 2013; and
- Devine's development pipeline totalled approximately 14,500 equivalent lots at the end of June 2012. This puts Devine in a strong position to capitalise on an upturn in the residential sector expected over the next few years. Any future growth in the pipeline will be undertaken in a capital efficient manner ensuring a strong balance sheet is maintained.

Results summary

A summary of the FY12 financial results is provided below:

(\$ millions unless otherwise stated)	Year Ended 30 June	
	2012	2011
Revenue from operations	313.9	425.2
EBITDA (before impairments)	23.7	42.0
Statutory Net Profit/(Loss) after Tax	(12.9)	20.2
Underlying Operating Profit after tax	11.1	19.5
Net Tangible Assets per share *	\$2.00	\$2.15
EPS *	(8.1)c	12.7 c
Full Year Dividend (Fully Franked) *	4.0c	8.0c

* June 2011 numbers adjusted to reflect the 4 to 1 share consolidation that occurred in November 2011

Board update

In early June 2012, Mr Doug Ridley advised that it was his intention to step down from the role of Chairman effective 30 June 2012. Mr Peter Dransfield was elected to the role of Chairman effective on that date.

It is with much sadness that Directors advise that Mr Peter Ferris AM, who retired from the Board after the 2011 AGM after serving 18 years as a Director, passed away on 1 May 2012. Condolences were extended on behalf of the Company to Peter's wife and family.

Strategy

The Board and senior management undertook their annual review of the Company's Strategic Plan in March 2012.

Growth priorities will be focused on innovative product offerings in the Company's Housing business, continuing to capitalise on "wholesale build" opportunities, replenishing land stocks in a capital efficient manner in key growth corridors, re-entering the Sydney market and diversifying the Devine Constructions business by securing selected building contracts for external customers.

Outlook

Whilst still early, there are some tentative signs that the housing market is improving in south-east Queensland. However, following the withdrawal of the additional state government first homebuyer "boost" in Victoria and its reduction in South Australia, market conditions in those two States remain soft. Demand in the Gladstone market remains robust and there has been a noticeable lift in the Townsville housing market in the first half of this calendar year.

The Company had a strong carryover of pending housing starts and land settlements at year end together with a strong level of pre-sales in the third residential tower at Hamilton Harbour. Completion of this tower is scheduled to occur in late 2012 with settlements starting in December 2012. While competition remains strong in the apartments market in the inner Brisbane suburbs, Devine is confident that the remaining unsold stock at Hamilton Harbour and the Company's new project at Teneriffe will be absorbed over FY13.

Directors expect Devine's core markets in Queensland, Victoria and South Australia to start showing improvement through 2013 as the combined impact of lower interest rates, improved housing affordability and historically low unemployment help to improve sentiment towards residential property. However, until the timing and strength of the expected recovery is confirmed, it is very difficult to provide profit guidance for FY13 with any degree of certainty.

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