

## Chairman's Report



**Darryl Somerville**  
**Chairman**

On behalf of your Board, I am pleased to report to you on the results and activities of Devine Limited for the year ending 30 June 2007. An after tax profit of \$21.367M was reported for the 2006/07 year which was a 13.2% increase on the previous year's result. This was earned on revenues of \$547.972M.

The 2006/07 year was a milestone year for Devine. In addition to progressing the diversification strategy that the company embarked on just over two years ago, the year saw a 40% interest in the company being acquired by Leighton Holdings. I will comment on this in more detail later in my report.

### Results

The \$21.367M after tax profit for the 2006/07 year reflected a strong result from the company's Property Development activities but was partially offset by a disappointing result from the Housing & Land Division. Under the new accounting standards, the typically cyclical nature of the property industry is, to a degree, magnified by the timing of revenue and profit recognition on major projects. The 2006/07 year saw two of our large CBD developments settle and contribute profits for the year but the timing of land developments and settlements in the Housing & Land division together with a generally weak new Housing market contributed to the poor result for this division.

Basic earnings per share were 14.3 cents for the year (2005/06, 14.4 cents) and Directors have declared a final dividend of 4.0 cents per share fully franked maintaining the full year dividend at 8.0 cents per share fully franked (last year 8 cents fully franked). The final dividend will be paid on 18 October 2007.

Other key ratios were a net tangible asset backing per share of 73.3 cents at year end (last year, 45.8 cents). The return on shareholders funds on a weighted average basis taking into account the significantly increased equity and shares on issue was 24.8% (last year 28.8%).

Further details of the company's operational activities and results for the year are included in the Managing Director's report.

### Key Activities and Initiatives

The past year saw further diversification of the company's activities and geographic reach. The Housing & Land division increased its land holdings by 51% over the year and increased its sales of land to other builders. It also entered the Townsville market with the acquisition of a large parcel of land in December 2006 and has been successful in acquiring a number of large residential land holdings in key growth areas for future development.

The company commenced its first office tower in the Brisbane CBD in January of this year. This followed the pre-sale of the building to a third party property trust. Leasing of the office space has gone very well with all floors either let or under negotiation. The development is expected to be completed in mid 2008. A number of strategic future development sites were either purchased or secured under the company's control during the year in both Brisbane and Melbourne. This has added substantially to the pipeline of work that the company has and will make a material contribution to revenue and profits over the next few years.

As had been previously communicated, and following an earlier strategic review, a decision was taken to sell Devine's mortgage loan origination and securitisation business, First Permanent. A sale of the business to Merrill Lynch was completed in February 2007 and generated a profit and returned substantial cash to Devine. Devine has no ongoing exposure to the performance of the mortgage loans associated with the business.

In May 2007, Directors announced the further diversification of the company with the proposed acquisition of the Body Corporate and Property Management company, Stewart Silver King and Burns (SSKB). This is an exciting initiative and over time will see a growing source of recurring income as the business expands.

### Capital Structure

At the company's 2006 AGM, I advised shareholders that action was being taken by your Board to address the under capitalisation of Devine. The capital structure of the company was imposing constraints on its growth and resulting in it being less than optimally geared. Following lengthy negotiations and a review of various alternative options, an announcement was made in February that Leighton Holdings Limited would acquire a 40% stake in Devine.

Following shareholder approval, 94.7 million new shares were issued to Leighton in May 2007 and this saw an injection of \$95.6M of new equity into the company.

This was a significant initiative for the company and I am confident that this will usher in a new and exciting period of growth for Devine.

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## Board and Governance

Following the investment by Leighton, the Board was pleased to have two new directors join it in April 2007. Mr Vyril Vella, formerly Managing Director of Leighton Properties and Mr Graeme McOrist, a former senior executive with Leighton and currently a director of Thiess Pty Limited were nominated by Leighton to represent their investment in the company. Both men bring a range of experiences in construction, property development and finance to the company and are valuable additions to the Devine Board.

During the year, the company's Corporate Governance principles were again reviewed and updated. Directors continue to place importance on having clearly defined corporate governance policies and ensuring adherence to these policies and procedures.

## Outlook

Australia's economy has remained robust over the last few years and looks set to continue to grow at an acceptable level into the medium term. One area that has however suffered despite the strong economy is housing affordability. This is now a major issue that confronts all first homebuyers and at last State and Federal governments are exploring possible solutions that can make home ownership more affordable.

The outlook for the company's housing and land business is, to a large degree, tied to the health of the new home market. As indicated earlier in my report, Devine has taken a number of initiatives to broaden its product and geographical base to counter the current soft market conditions. Growing the company's land bank and increasing housing sales to investors and land sales to other builders is a key part of this.

The company has established a sound pipeline of future property development activities and this division will benefit from this over the next three to five years as these projects are advanced to sale and completion stage. These future projects include offices and residential, hotel and mixed-use developments.

Given the company's balance sheet constraints, the possibility of joint ventures, land syndications and external equity participation structures are being considered in relation to a number of future developments and residential land acquisitions.

The expansion into the Body Corporate and Property Management sector through the acquisition of SSKB is another exciting development and will contribute revenue and profits from a different but yet related source to traditional property development.

A significant deficiency in available housing stock is emerging in most major markets in Australia but it is anticipated that some solutions will flow from governments to ease the housing affordability crisis and see the housing market improve over the next year. This, together with the exciting range of property development projects that the company is progressing, is contributing to a positive outlook for Devine over the next few years.

## Conclusion

The company has made significant progress over the last year in the implementation of its growth and diversification strategy. I am confident that the capital injection through the investment by Leighton and the potential future opportunities that this relationship may bring will make a positive contribution to the company's future performance.

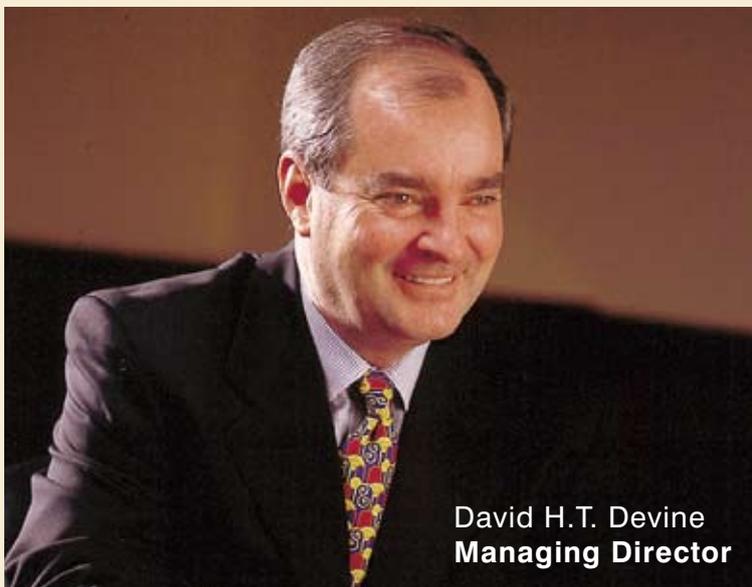
In closing, I acknowledge the contribution made by the company's team of dedicated managers and employees and I extend on behalf of the Board and Shareholders our appreciation for their efforts. I also take this opportunity to acknowledge the excellent contribution made by my fellow Directors and thank them for their commitment and support over the last year.



**Darryl Somerville**  
Chairman  
Devine Limited

# MANAGING DIRECTOR'S REPORT

## Year Ended - 30 June 2007



The performance for the 2007 year was pleasing with earnings up 13.2% to \$21.367M although revenue was down marginally from \$550.8M to \$547.9M.

As well as the improved financial performance, there were a number of positive initiatives taken and future development opportunities secured that will contribute to the company's growth over the next few years. During the year there were challenges for the Housing Division with housing affordability a major issue in all markets.

The positive result for the Property Development Division more than offset the difficult condition's experienced in the Housing Division.

## Highlights of the Year

A number of key initiatives have been taken and material events have occurred during the 2006/07 year and these include:

- Leighton Holdings' acquiring a 40% stake in Devine for \$95.6 million. The transaction has enabled Devine to fast track its

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A summary of the full-year's results:	Year Ended	
	June 2007	June 2006
	\$000's	\$000's
Revenue	547,972	550,816
Profit Before Tax	30,895	26,930
Net Profit After Tax		
Attributable to Shareholders	21,367	18,870
EPS Basic	14.3 cents	14.4 cents
EPS Diluted	13.8 cents	14.1 cents
Final Dividend - (Fully Franked)	4.0 cents	4.0 cents
Full Year Dividend - (Fully Franked)	8.0 cents	8.0 cents

diversification program and undertake further geographic expansion in the medium term. In addition to the equity investment in the company, Leighton and Devine are committed to exploring joint venture development opportunities.

- Settlement of all units in the company's *Festival Towers* residential project in the Brisbane CBD (401 units).
- The completion in April 2007 of Devine's *Charlotte Towers* residential development in Brisbane's CBD. The project was the first large-scale CBD project constructed by Devine's construction division, Devine Constructions, and was completed ahead of schedule and with costs below budget.
- Settlements achieved on 92.7% of the 416 units in *Charlotte Towers* as at 30 June 2007, with settlement of all remaining units expected to be achieved in the December 07 half.
- The commencement by Devine Constructions of the company's first CBD office tower in Brisbane at 333 Ann Street. All floors in the building have been either pre-leased or are under negotiation well ahead of the building's forecast completion in mid-2008.
- The sale of Devine's finance division, First Permanent Financial Services Pty Ltd, to Merrill Lynch settlement of which occurred on 23 February 2007.
- The securing of final development approval in November 2006 on Devine's \$500M *Hideaway @ Currumbin* project on the Gold Coast. Devine is now considering the possible sale of the site following several off-market approaches from other developers and, at the time of writing, expressions of interest have been lodged and are under consideration.
- The securing of control by either acquisition or option of a number of exciting future development sites in Brisbane and Melbourne.
- A 51% increase over the 12 months to June 2007 in the company's national land bank for the Housing & Land Division to total 4,580 equivalent lots either owned or under control. Subsequent to this, a number of additional exciting acquisitions have been finalised.
- The announcement in May 2007 of further diversification by the Devine Group via the proposed acquisition of the Body Corporate and Property Management company, Stewart Silver King and Burns (SSKB).

## Property Development Division

This division reported a profit before tax of \$37.614M for the year (2005/06 year: \$21.703M profit).

Devine's **Festival Towers** development in the Brisbane CBD was completed in July 2006 and settlement on all 401 residential units in the project has now occurred.

The market's recognition of the quality of the Company's **Victoria Point Docklands** project in Melbourne and the value that the remaining inventory represented has resulted in only 2% of the units in the project remaining unsold. It is expected that all remaining stock should be sold and settled in the period to December 2007.

The company's **Charlotte Towers** project was completed in April 2007, 4.5 months ahead of schedule. Final costs on the project were well within budget. Sales of the remaining inventory and settlements on the 416-unit project have progressed well with only 4 units currently available for sale. The management rights for *Charlotte Towers* have been pre-sold to a leading Australasian hotel and resort operator, Oaks Hotels and Resorts Limited, for \$7 million and settlement occurred in September 2007.

The tight office market in the Brisbane CBD has seen the total lettable area in the **333 Ann Street** commercial office development either committed or under negotiation. This has been achieved at leasing rates that are on average in excess of budgeted rates. Construction of the 25 level tower which is being undertaken by Devine Constructions, commenced in January 2007 and completion is scheduled for June 2008. This office building has been pre-sold to the Domaine Property Trust for \$119.5 million.

With current and forecast growth remaining strong in Brisbane, a number of additional future development sites are either owned or controlled and work is progressing on these to secure development approval and subsequently commencement to occur. **Hamilton Harbour**, adjacent to the new cruise ship terminal at Hamilton, an inner suburb of Brisbane, is one such project with work on this \$400M mixed-use development expected to get underway in early 2008.

Other key development sites that have been secured over the past year in Brisbane and in Melbourne which will provide Devine with future development opportunities include:

- **96 Albert Street** in the Brisbane CBD - plans to eventually construct a combined residential and office tower on the site.
- **99 Mary Street** in the Brisbane CBD – plans currently being progressed for a strata titled office building.
- **ICB Central (Butterfield Street Herston)** Brisbane near city – site works have commenced on a commercial office building.
- **Carrington & Camelot Sites** – situated on the corners of Alice, Albert and Margaret Streets in the Brisbane CBD opposite the Botanical Gardens. The amalgamation of a total of 48 existing residential units in two older style low-rise unit developments provides an exciting future redevelopment opportunity. Plans have already been announced for a 6 star boutique hotel and residential apartment tower on the Alice St and Albert Street corner site.
- **Bourke Street** in Melbourne - earmarked for a 444-room hotel.
- **145 Ann Street** in the Brisbane CBD – plans for a \$300M 35 level office tower were announced in September 2007 with work on the site expected to begin mid 2008.

## Housing Division

The Housing Division suffered on a number of fronts during the year. Housing affordability is a major issue but fortunately the company has broadened its target market and developed new products and expanded into new markets to offset this in the future.

Delays experienced in the delivery and registration of land and the consequent deferral of housing commencements were major influences on the year's result. For the year, the company's housing

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sales were up 37% and land sales were up 17% and housing margins were in line with budget however the delays, caused mainly by processing problems through local authorities, have resulted in revenue being down 17% and an operating loss of \$6.205M (last year a \$13.796M profit) being reported for the division.

In light of the significant undersupply of housing stock that is emerging in the markets in which Devine operates and the continuing shortage of developable land, the company's strategy remains on track to build up its land bank and to diversify both its product range and geographical reach. This latter point was highlighted by the company's expansion into the North Queensland residential market during the year.

In the 2006/07 year Devine increased its national land bank by 51% to total 4,580 equivalent lots across Queensland, Victoria and South Australia at the end of June 07. Subsequent to June the company has announced a number of significant additional land acquisitions and is on track to achieve its goal of exceeding control of 10,000 lots by mid 2010.

## Devine Constructions

During the year Devine Constructions completed the company's major CBD project, Charlotte Towers, ahead of the forecast delivery time and below the budgeted cost which helped contribute to an outstanding result for the Property Development Division.

We commenced the company's first commercial development at 333 Ann Street in January 07 and construction is proceeding ahead of forecast time and on budget.

Having a construction capability provides Devine with a competitive advantage when considering new development opportunities. There are no plans for this division to tender for third party work.

## Company Outlook

With the new development sites either acquired or controlled as detailed above, the outlook for the company remains positive. A number of new projects are set to contribute revenue and profits over the next three to four years.

One area that remains uncertain is the timing of a recovery in the Housing market. As the Chairman has stated in his report, responses by the Federal and State Governments to the current housing affordability crisis will have a large bearing on this. Devine is well positioned to participate in the upturn when this ultimately occurs via the current and planned growth in the company's land bank and product and geographic diversification strategy.

Leighton Holdings' 40% stake in Devine will continue to enable Devine to fast track its diversification program and undertake further geographic expansion in the medium term. In addition to the equity investment in the company, Leighton and Devine are committed to exploring joint venture development opportunities.

Further diversification of the Devine Group is set to occur with the pending acquisition of the body corporate and property management group, Stewart Silver King and Burns (SSKB) due to be completed in September 2007. The \$13.5 million transaction includes the acquisition of 100% of SSKB and its subsidiary Silver Energy and will provide a growing source of recurrent income for the company.

I take this opportunity to thank my fellow senior executives and dedicated employees and our many suppliers and sub-contractors for their contribution and ongoing support of the company.



David Devine  
Managing Director  
Devine Limited

# Set to meet record fringe city office demand

Devine's latest commercial development is a \$75 million A grade commercial development at Herston, Brisbane.

'ICB Central' has floor plates of 3,279 sqm, each capable of accommodating almost 300 people, and a total of 11,000 sqm over its four levels.

The development is 2.2km from the Brisbane CBD, directly opposite Queensland's largest hospital, the Royal Brisbane and Women's Hospital.

The company believes the project – which aims for a 4.5 Australian Building Greenhouse Rating – is well placed to meet record demand for near-city office space in Brisbane.



# First commercial building to be environmentally friendly

The total lettable area of Devine's debut commercial high-rise development '333 Ann Street' is either leased or under final negotiation.

When completed in mid 2008, the \$120 million building will have 16,500sqm of space offering lessees an environmentally friendly building including a 4.5 star Australian Building Greenhouse rating.

This involves introducing important measures to promote healthy work spaces, and produce energy efficient accommodation for those occupying the building.

The Devine Construction Division is replacing 20% of usual cement requirements with industrial by product and all reinforcing steel is made from 60 per cent recycled steel. More than 60% of construction and demolition waste is being recycled or reused.

The building will not have cooling towers, eliminating the risk associated with this type of airconditioning.

A delicate balance of essential natural light, and fixed shading, will reduce heating loads and greenhouse gas emissions while still maintaining sweeping views over Brisbane city.

Bike spaces, showers and change rooms within the 25-level building are also planned, to encourage regular exercise and healthy living.

The building also retains the heritage-listed façade of the RS Exton and Co building that once stood on the site. That company was a painting, decorating and stained glass business responsible for work on many of Queensland's outstanding 19th and early 20th century buildings.

*Representation of Devine Limited's 333 Ann St Project in the Brisbane CBD - Due for completion mid 2008*



## Plans for a 35-storey CBD office tower

Devine plans to develop a \$300 million, 35-storey commercial tower at '145 Ann Street' in Brisbane's central business district.

It has entered into a heads of agreement to lease the site for 120 years from the trustees of the Presbyterian Church, which is subject to development approval being received.

The heritage-listed Presbyterian Church, constructed in the mid 1850's, will be carefully preserved and the tower designed to complement the church's distinctive appearance.

Devine's construction division is expected to start work in mid 2008 on the office tower which will have 33,000sqm of lettable space and 174 car parks. Completion is expected in 2011.

# New home designs showcased in Melbourne

Devine has six stylish new display homes at its 'Moorookyle' community in Tarneit and 'Cardinia Grove' development at Pakenham.

Each is designed for open plan living with spacious family, dining and living rooms and alfresco entertainment areas. A choice of three levels of fit-out and finishes – Freedom, Executive and Designer – is available.

There are in excess of 50 home designs available, providing buyers with selections to suit most budgets and tastes.



# North Queensland community for 1000 families



'River Parks', the eventual home to 1000 families, is Devine's residential development in the greater Townsville area.

The 72ha project at Kelso is just 20kms from the Townsville CBD, and is close to all amenities.

The State Government expects Townsville and neighbouring Thuringowa to attract 26,000 more residents over the next 20 years as it builds on an existing diverse community embracing defence, education, minerals processing and exports, tourism, medical services, tropical research, manufacturing and aviation services.

'River Parks' features a major central park and several smaller reserves in a Devine master planned community.



# 'Oakwood' a new South Australian drawcard

The latest Devine community in South Australia is 'Oakwood' at Munno Para, one of the last available regions in the City of Playford that is available for development.

It is just 30 minutes drive north of the Adelaide CBD in a suburb that market analyst Resolution Research and Marketing says will undergo a 150% growth in population to more than 9,300 in the next decade

Munno Para house prices increased more than 70% between 2002 and 2004 – 23.4% average rise a year – while weekly rents have increased about 8% a year since 2003.

The region has a residential vacancy rate of just 1%.



## 'Riverwood' opens at fast-selling Coomera

Devine has begun marketing 'Riverwood', which is the third precinct in its Nautical Edge community at Coomera, one of Australia's top 10 growth areas.

'Riverwood' covers 6.56ha and offers 107 dwellings, including 60 detached homes and 47 attached residences.

About 40 minutes from the Brisbane CBD and just 20 minutes from Surfers Paradise by motorway, the Nautical Edge development is close to a proposed billion dollar Town Centre redevelopment that will see Coomera become the community hub for the region's expected 65,000 residents over the next 20 years.

The other two Nautical Edge precincts are:

- 'Edgewater', covering 10ha and offering 134 allotments - 111 for detached and 23 for attached housing; and
- 'Sea Green' with 149 dwellings in its area of 9.25ha that offers 149 dwellings, 87 detached and 62 attached.

Construction is now underway, or completed, on more than 120 homes and about 75 medium density dwellings.



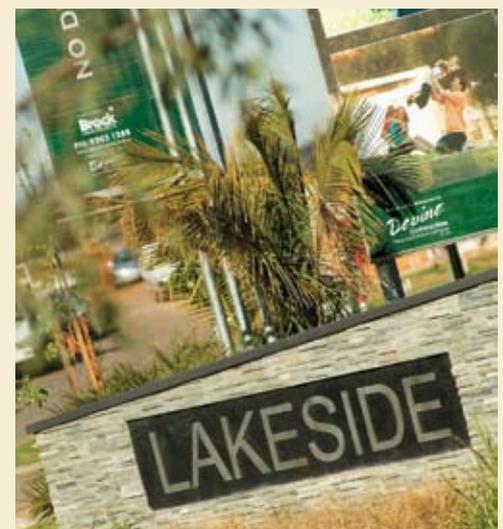
## Buyers snap up Adelaide's 'Lakeside'

Strong demand has resulted in Devine's 'Lakeside' community, 28km north of the Adelaide CBD being sold out well in advance of expectations.

The community contains 201 allotments at Andrews Farm in the City of Playford, one of South Australia's prime economic centres.

Hectares of lakes, playgrounds, and bike and walking trails surround the development which is just 16km from the famed Barossa wine region.

With Devine's Battle of the Builders co-operative marketing campaign having its Australian debut here, 'Lakeside' also became a must-see community for South Australians wanting to buy a home or to invest in the area.



# 'Cardinia Grove' launches its Battle of the Builders displays



Victoria's first Battle of the Builders display of 14 homes at 'Cardinia Grove' opened recently with fanfare and a big response from prospective homebuyers.

Seven prominent builders are participating in this Devine marketing co-operative, which offers a smorgasbord of innovative housing choices side-by-side at Wild Cherry Avenue, Pakenham.

Through the concept, homebuyers and investors are able to compare designs from participating builders, layouts, features and prices, choose land and investigate home loan options in this single location.

More than 200 people attended day one, taking advantage of a local country fire authority barbecue, and a live to air radio broadcast by Nova.

The \$60 million 'Cardinia Grove' development by Devine will become home to 450 people over its three years of development.



# 'Central Park' homes, parks now under construction

Construction work continues to progress quickly at Devine's sought-after 'Central Park' community at Deer Park in Melbourne.

Home building work is underway within stage 1 together with landscaping and the community parklands. Civil works are complete for stage 2 and well advanced for stage 3, while roads are being built in stage 4.

Just 20km from the Melbourne CBD, 'Central Park' is a \$250 million development on 43.46ha, and will become home to 750 families over four years.

Landscaping to the entrance of the development and within the 'Central Park' is underway with a combination of evergreen, eucalypt and deciduous trees and native vegetation.

Additionally, construction has commenced on the Battle of the Builders display village consisting of 32 display homes by 14 Melbourne builders.



## FINANCIAL CALENDAR\*

*\*Dates are subject to change*

Ordinary Shares Begin Trading ex-Dividend	27 September 2007
Books close for entitlement to Final Dividend on Ordinary Shares (“Record Date”)	4 October 2007
Final Dividend paid on Ordinary Shares	18 October 2007
Annual General Meeting	8 November 2007
December 07 Half-Year Results Released	27 February 2008